STATE OF NEW YORK

ELIOT SPITZER
GOVERNOR

January 31, 2007

Dear New Yorker:

States from California to New Jersey have acted aggressively in recent years to get their fiscal houses in order and their economies on a path toward stability and prosperity. People were uncomfortable with these actions at first, but later saw that change was necessary and beneficial.

We must do the same thing in New York, but it will be harder than in other states because we have put off tough decisions for too many years. Our budgeting often has been driven by politics instead of common sense.

My Executive Budget for Fiscal Year 2007-08 seeks to change this.

To help fund strategic investments in education and health care and to provide overdue property tax relief, this Budget reduces the runaway spending growth that has occurred in some program areas. By making hard choices to begin the restructuring of our health care system, this Budget takes important strides to make health care more affordable while increasing access to high quality care.

These actions have been designed to avoid harmful effects on people in need. In fact, overall, our Budget proposals moderate spending growth instead of making outright cuts.

Nevertheless, some powerful interests will oppose this plan and do everything possible to protect the status quo that benefits them. But New York cannot afford more of the same. We must do what competing states have done and rein in expenditures that have grown out of control, and we must make wise investments that lay a foundation for the future. This Budget proposal does just that.

While I am interested in working with all concerned to ensure that we are acting in the most intelligent and well-conceived manner, I am going to insist on fundamental change.

We can do better for our children and we can turn our state around – but we must first summon the courage and will to make the tough decisions that have been delayed too long.

Sincerely,

ELIOT SPITZER

EXECUTIVE CHAMBER STATE CAPITOL ALBANY 12224
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A Message from the Director

Governor Eliot Spitzer's first Executive Budget reflects the choices and priorities that he set forth in his first State of the State message.

These choices include policies that reflect his belief that we must make significant changes in the way the government supports the health care delivery system to make health care more affordable and accessible to all New Yorkers.

These priorities include the need to provide substantial new funding, reform and accountability to public schools in high needs districts where graduation rates and other measures of educational performance are shockingly low. These priorities also address the need to provide significant new property tax relief targeted at middle class homeowners and to develop a coordinated program to help revitalize the Upstate economy.

The Fiscal Challenge

This Budget is presented at a turning point in the State's fiscal position. The State will finish the current fiscal year with a substantial surplus. However, government actions taken in prior years that reduce next year's revenues and increase its costs – combined with the natural growth of government programs – mean that the State faces a significant structural deficit before accounting for any new spending initiatives. This structural deficit will grow substantially in subsequent years. In numeric terms, the State faces a structural budget gap in the General Fund that is projected at $1.6 billion in fiscal year 2007-08, which will grow to over $5 billion by 2010-11 if left unaddressed.

This fiscal challenge is presented against the backdrop of a series of conditions facing the State:

- An economy that is expanding but has chronically underperformed the nation, with employment growth ranking among the worst of all states. And, an economy divided by wide gaps in performance between the downstate region, which is generally doing well, and most of the rest of the State, which is suffering stagnant or real declines in economic growth.
- A health care system that is among the most expensive in the nation, but too often fails to deliver adequate care – and that still leaves nearly 2.6 million New Yorkers without health insurance, including 400,000 children.
- A school funding system that fails to send adequate aid to the districts that need it most, leaving a substantial gap in resources between the State's wealthiest and poorest districts and failing to provide many students with the education they need to compete in the 21st century economy.
- A growing property tax burden that falls disproportionately on the middle class, but still does not generate enough revenues in many places to fund schools and other services adequately.
- A budget process that too often has been characterized by gridlock and dysfunction, and that has failed to adequately present the underlying purpose and true cost of much of our spending.

Governor Spitzer's Response

New York did not arrive at this point overnight, and one budget will not bring about all the change and reform that is needed. But the Executive Budget for 2007-08 clearly makes difficult choices among competing priorities, deciding which spending practices we should continue and which we should change to help drive different policy goals; what we can afford to do today, and what must be part of a multiyear plan to restructure services and costs. It will take much of the next four years to complete the changes and reforms that are needed for the State to be placed on a firmer financial footing while meeting the needs this Budget seeks to address.

The 2007-08 Executive Budget will total $53.3 billion on a General Fund basis, an increase of 4.2 percent over projected spending in the current year. The rate of growth in the General Fund – the part of the Budget that most directly affects the State's fiscal decisions – is less than half the projected 10 percent rate of growth in the current year.

This Budget proposes major investments in schools and higher education, tax relief and infrastructure. This Budget also proposes significant savings in health care. These savings do not reflect arbitrary decisions designed to produce a specific level of budget savings. Rather, these decisions reflect a strategic decision that the State must restructure its health care delivery system and the way in which the Government supports health care to develop a system that is more affordable and accessible.

An important theme that runs throughout the Budget is the need for more accountability in government spending. For example, reductions in the growth of health care spending are focused on areas that do not directly contribute to the quality of care for patients requiring government assistance or the availability of needed services. Increased funding for education includes a revamped education aid formula that more clearly targets increases in aid to high needs districts and ties these increases to spending on measures that have been demonstrated to improve educational performance. Increased aid to distressed municipalities is tied to financial planning measures designed to enhance performance.

To protect our fiscal stability, we propose maintaining reserves at a level of over 5 percent of the General Fund.

Carefully Constructed Revenue Estimates

This Budget applies a sophisticated approach to revenue forecasting based on a detailed analysis of both the national and State economy and its critical linkage to the revenue base. The accompanying Budget documents provide a comprehensive description of the revenue forecast. The Division website (www.budget.state.ny.us) provides even more detail on the methods used to derive the receipts forecast.

Overall, tax receipts are expected to grow by 8.7 percent in 2006-07 and 4.5 percent in 2007-08. These growth assumptions are consistent with the economic forecast detailed in the accompanying volumes and the estimated impact of policy actions proposed with this Budget.

No New Taxes

Consistent with Governor Spitzer's commitment, this Budget does not increase taxes. The Budget does reflect an increase in revenues from closing certain tax loopholes and tax shelters that allow certain taxpayers to reduce their tax obligations. All of these provisions have been carefully reviewed to determine that the actions proposed do not represent tax increases, but rather limit the ability of certain taxpayers to take advantage of unintended provisions in law to reduce their tax exposure through sophisticated tax planning techniques.

Many of the tax loopholes eliminated by this Budget have already been addressed by other states and the federal government. The proposed changes include:

- Clarifying provisions so that corporate and bank taxpayers cannot shift to other states income properly taxable in New York.
- Eliminating the unintended benefit utilized by corporate and bank taxpayers to avoid taxes by participating in Real Estate Investment Trusts (REITs).
- Eliminating anachronistic tax provisions conveying benefits for certain taxpayers that create an uneven playing field or an unintended benefit to a small group of taxpayers.
- Requiring the add-back of certain federal deductions that are leading to unintended benefits for a few taxpayers.

Investments in Our Future

This Budget provides more money for school districts that need it most, greater tax relief targeted at middle class homeowners and improved access to health coverage for all children and many adults.

- Over the next four years, school aid will increase by $7 billion. Over three-quarters of the new aid will go to high needs districts that have the greatest resource demands and the least ability to raise local taxes. In 2007-08 alone, aid will increase by over $1.4 billion.
- Over the next three years, the State will finance an aggregate total of $6 billion in property tax relief above the level of existing STAR exemptions and related Personal Income Tax credits for New York City.
- This year, every child in New York will be provided access to affordable health care coverage, and important steps will be taken to ensure the enrollment of over 900,000 uninsured adults and children eligible for government health programs who are not currently enrolled. These measures represent the first phase of an effort to improve access to health care coverage for all New Yorkers.

Multiyear Savings

The savings plan recommended in this Budget accomplishes two essential goals: it will pay for the new initiatives in their entirety and it will begin to reduce the State's structural budget deficit. The Executive Budget proposes a set of health care, local aid, and operational reforms that will provide over $2.8 billion in savings in 2007-08. The value of the savings proposed this year grows to $4.7 billion in 2010-11. In total, the 2007-08 savings plan will reduce the State's cumulative budget imbalance by approximately $2 billion, while funding new commitments for school aid, property tax relief, and child health coverage. The savings proposed, which increase in value in future years, will help hold the annual growth in spending to a reasonable level.

The structural deficit is too large to be closed all at once without careful reflection on the potential impact to State programs. Accordingly, we expect to advance an even more far-reaching reform package with our next Budget with the goal of substantially reducing, if not fully eliminating, the structural gap by 2010-11.

The Executive Budget maintains nearly $3 billion in reserves, equal to 5.6 percent of General Fund spending. The Budget finances a $250 million deposit to the debt reduction reserve that will be used to pay off high-interest debt. It also makes the first deposit to the State's new flexible rainy day reserve ($125 million) enacted this month as part of a package of budget reforms. The other reserves consist of $1.2 billion from the 2006-07 surplus which will be used to help lower multiyear budget gaps, $1.025 billion in the Tax Stabilization Reserve, which can be used only to cover a year-end deficit, $351 million in the Community Projects Fund to finance existing spending commitments, and $21 million in the Contingency Reserve for litigation risks.

The Reform Agenda

The 2007-08 Executive Budget advances a range of reforms that touch on virtually all aspects of government.

Budget Reform

This Budget was prepared consistent with the recent reforms passed by the Legislature and with Governor Spitzer's goal of expanding the amount of financial information available to the Legislature and the public. For the first time, this Budget provides a clear picture of the impact of budget recommendations on local governments. It also provides information about the use of contractors by State agencies.

These documents initiate an improved process that sharply restricts lump sum appropriations, and requires the identification of intended recipients of State funding wherever it is known. The reforms accelerate consensus revenue forecasting, direct the State Comptroller to issue binding revenue forecasts when the Executive and the Legislature cannot agree, require the use of budget conference committees, and the adoption of a balanced budget by the Legislature.

Of equal significance, this Budget restores the appropriate balance between the Executive and Legislature in budgetmaking, by including statutory amendments in Article VII legislation, rather than in appropriation bills which are difficult for the Legislature to amend. In addition, prior to the completion of its action, the Legislature will explain the fiscal implications of its changes to the Governor's Budget.

Education

A new Foundation Aid formula will provide $982 million in additional aid to school districts, primarily targeted to districts most in need, as part of the proposed $1.4 billion increase in State support in school year 2007-08. This new Foundation Aid formula replaces a myriad of categorical aid formulas that have failed to direct the distribution of school aid in a rational manner. The substantial increase in school funding is tied to significant reforms and accountability, which are essential to ensuring that increased funds produce real improvement in educational performance. The Budget also supports the philosophy of greater educational choice by increasing the cap on Charter Schools (accompanied by transitional aid for districts with high Charter School enrollment) and a $25 million Tuition Tax Deduction for parents of students in non-public and public schools who pay tuition.

Health Care System

The 2007-08 Executive Budget represents the first step in a multiyear plan to reform the State's health care system to make it more affordable and to increase access to care for all New Yorkers. Recommended savings total $1.2 billion and include: freezing rates paid to providers as part of a strategy to develop a more rational reimbursement system that more appropriately aligns payment to health care providers with services rendered; controlling the cost of prescription drugs by using the State's considerable purchasing power to obtain fair and competitive prices and by ensuring that we take advantage of available federal programs; improving the management of high-cost beneficiaries; and enhancing the State's ability to fight Medicaid fraud.

Property Taxes

Governor Spitzer's Property Tax Relief Plan, advanced in this Budget, will provide $6 billion in additional property tax relief over the next three years. The majority of the savings will be realized by those homeowners with incomes at or below $60,000 ($80,000 in the New York City metropolitan area), who will receive an 80 percent increase in their STAR exemption in the first year of the program rising to a 100 percent increase in the third year of the program. New York City residents will receive an increase in the refundable credit against their Personal Income Tax that is tied to the STAR program.

Economic Development

This Budget advances comprehensive proposals to make New York State more competitive by investing in an economic future based on innovation. It establishes a new $2.1 billion Stem Cell and Innovation Fund to encourage the development of new enterprises in this burgeoning field of scientific research and continues our investments in nanotechnology. The Budget also supports the creation of a new Upstate Co-chair for the Empire State Development Corporation (ESDC), who will be charged with focusing exclusively on revitalizing the Upstate economy. The Budget will establish a more rational way of delivering economic development funds by tying allocation decisions to specific economic criteria embodied in a new Investment and Job Creation Program. The Budget also proposes expanded investments in affordable housing and transportation infrastructure.

State Programs and Institutions

This Budget makes State agencies catalysts for change. The use of performance contracts, shared services and incentive-based funding is encouraged. Select agency budget stories are presented in a format that clearly highlights their strategic objectives and ties funding to performance goals. Where possible, the use of outside consultants will be reduced, with work performed by qualified State employees.

This reform agenda must also include greater scrutiny of our public authorities. This Budget provides increased funding for the Authority Budget Office to oversee public authority compliance with the principles of sound corporate governance, to analyze and report on their budgets and debt practices, and to identify opportunities to reform these institutions.

Funding will also support the development of a consolidated information and reporting system in cooperation with the Office of the State Comptroller. This joint system will provide the public with a single source of standard comprehensive data on public authorities and their financial and management practices.

Local Governments

Through the Aid and Incentives to Municipalities (AIM) program, the Budget redirects an additional $200 million in aid over four years that will be targeted primarily to distressed municipalities as part of a multi-year plan to revitalize Upstate New York. Local governments would be required to meet fiscal accountability requirements as a condition for receiving these funding increases. Because New York City will receive an amount of revenue from tax provisions aimed at closing loopholes that is roughly equivalent to the amount of money it currently receives under AIM, the Budget eliminates funding for New York City under the AIM program. The Budget also advances Wicks Law reform, along with other local mandate relief measures, that will positively affect New York City and other local governments.

Conclusion

The first Budget of a new Governor is an opportunity to translate into concrete actions what previously have only been rhetorical statements of intention. This Governor was elected with a record mandate for change and reform. This Budget reflects the Governor's priorities and the hard choices he promised to make. The Governor and the Division of the Budget look forward to working with the Legislature and the public to explain these choices and priorities—and to emerge with an Enacted Budget that sets the State on a better path that benefits all New Yorkers.

Fiscal Overview

Financial Plan Summary

"Our government should have no higher priority than standing up for New York State's economic future."

The State's economic expansion entered its fourth year in September 2006, with employment, personal income, and wages all experiencing solid growth. The short-term budget forecast has shown commensurate improvement, benefiting especially from the extraordinary revenue growth generated by the financial services industry. The Division of the Budget (DOB) now projects a current-year surplus of $1.5 billion, up from the $1.1 billion estimate in the Mid-Year Financial Plan.

Despite this significant surplus in the current year, the State faces a structural deficit of $1.6 billion in 2007-08 in the absence of Executive Budget actions. This shift is attributable to a reduction of revenue resulting from tax law reductions and increased disbursements on a "current services" basis. The table below shows these factors in detail.

2007-08 General Fund Current Services "Zero-Based" Budget Gap
Savings/(Costs) Before Recommended Actions
($ in Millions)

	2007-08
RECEIPTS	**1,635**
Constant Law Growth	3,812
Child Tax Credit	(675)
Phaseout of Temporary PIT Actions	(425)
Other Existing Tax Reductions	(279)
Extraordinary Audit Collections	(438)
Non-recurring 2006-07 Receipts	(242)
All Other	(118)
DISBURSEMENTS	**(3,482)**
Local Assistance	**(3,297)**
Medicaid (incl. admin)	(1,438)
School Aid	(932)
All Other Local Assistance	(927)
State Operations	**(401)**
General State Charges	**(226)**
Transfers to Other Funds (Use of $250M DRRF/$120M VLT in 2006-07)	**442**
Change in Reserves Used for Operations	**239**
"CURRENT SERVICES" BUDGET GAP FOR 2007-08 (before Executive Budget Recommendations)	**(1,608)**

The Executive Budget eliminates the entire potential $1.6 billion imbalance in 2007-08 with $2.8 billion in recommended actions that are sufficient to both balance the Budget and fund several new initiatives. Key gap-closing actions will restrain spending in many of the fastest-growing programs in the State Budget, particularly Medicaid. In addition, revenue collections will increase as a result of closing a number of tax law loopholes in the interests of fairness and equity. While available surplus money from prior years will also be used to help close the imbalance, the Budget maintains $3 billion in total reserves, with roughly $1.2 billion planned to reduce future budget gaps. To improve the State's reserves, the Budget includes deposits of $250 million to the Debt Reduction Reserve and $125 million to the new Rainy Day Reserve.

New initiatives proposed in the Budget include: (1) significant new aid for schools, targeted to high need districts, (2) increased property tax relief targeted especially for middle class taxpayers, and (3) strategic investments in health care, including reforms to provide access to health insurance coverage for all children in New York. The table below summarizes the multiyear fiscal impact of the 2007-08 Executive Budget recommendations.

General Fund Budget-Balancing Plan
($ in Millions)

	2007-08	2008-09	2009-10	2010-11
Executive Budget Current Services (Gaps)	**(1,608)**	**(2,995)**	**(5,089)**	**(5,359)**
Savings Plan:	2,810	3,383	4,460	4,659
Medicaid/Health/Mental Hygiene	1,299	958	1,924	1,738
All Other Savings	1,062	1,858	1,999	2,384
Revenue Loophole Closures	449	567	537	537
New Initiatives	(1,873)	(3,097)	(4,271)	(5,961)
Revised Surplus/(Gaps) Before Use of Reserves	**(671)**	**(2,709)**	**(4,900)**	**(6,661)**
Multiyear Use of Reserves	671	401	401	401
Executive Budget Surplus/(Gaps)	**0**	**(2,308)**	**(4,499)**	**(6,260)**

The Executive Budget recommendations result in annual spending growth of 4.2 percent in the General Fund, 7.8 percent in State Funds and 6.3 percent in All Governmental Funds. When adjusted to exclude State-financed local school tax relief through the School Tax Relief (STAR) program, the State cap on local government Medicaid costs, and the full takeover of the Family Health Plus program, spending increases by 3.8 percent in the General Fund, 6.3 percent in State Funds and 5.2 percent in All Funds.

Total Disbursements
($ in Millions)

	2006-07 Revised	2007-08 Proposed	Annual $ Change	Annual % Change	Annual % Change*
General Fund	51,127	53,262	2,135	4.2%	3.8%
State Funds	77,522	83,557	6,035	7.8%	6.3%
All Funds	113,536	120,633	7,097	6.3%	5.2%

*Excludes $952 million for the STAR Property Tax Relief program and $204 million for the Medicaid Cap/Family Health Plus Takeover.

A review of proposed spending growth by program makes clear the Governor's commitment to investing in education and reducing the property tax burden. The Budget proposes an historic increase in school aid totaling $1.4 billion, representing growth of 8 percent. At the same time, total Medicaid spending is constrained to growth of only 1.7 percent, reflecting the first step in a strategic restructuring of the way in which the State supports the health care delivery system.

Growth in Major Programs
(State Funds)

	Current 2006-07	Rec'd 2007-08	Annual Change Dollar	Annual Change Percent
School Aid*	17,744	19,157	1,413	8.00%
STAR	3,996	4,948	952	23.80%
Medicaid	16,714	16,994	280	1.70%
State Ops	14,730	15,331	601	4.10%
GSC	4,936	5,190	254	5.10%
Debt	4,250	4,390	140	3.30%
Capital	3,364	4,803	1,438	42.80%

*School Year

The State will end the 2007-08 year with a General Fund balance of $3.0 billion if the Budget is enacted in its entirety. This balance includes $1.2 billion in undesignated reserves and $1.8 billion in designated reserves to finance existing or planned commitments.

2007-08 Year-End General Fund Estimated Reserves
($ in Millions)

	2007-08
Year-End Fund Balance	**2,975**
Undesignated Reserves	1,171
Tax Stabilization Reserve Fund	1,025
Rainy Day Reserve Fund	125
Contingency Reserve Fund	21
Designated Reserves	1,804
Debt Reduction Reserve Fund	250
Remaining 2006-07 Surplus	1,203
Community Projects Fund	351

Economic Backdrop

The national and New York economies continue to grow, but the pace of economic growth has slowed. Most economists now agree that the economy in 2007 will grow at roughly 2.5 percent, a rate significantly below recent trend growth. The New York State economy, already lagging the nation, is also expected to experience a slowdown in growth in the coming year.

Revenue growth over the past fiscal year was strong, largely as a result of the same factors that have supported economic growth in New York City. With a slowing economy and a cooling real estate market it is anticipated that revenue growth will slow commensurately. This Budget relies on sophisticated economic and revenue assumptions, which are consistent with the views of private sector economists and governmental watchdog groups.

The National Economy

The U.S. economy lost substantial momentum over the course of 2006, precipitated by the Federal Reserve's recent cycle of monetary tightening. The Division of the Budget currently projects a decline in real U.S. GDP growth from 3.3 percent in 2006 to 2.3 percent for 2007. The forecast assumes a return to trend growth for 2008 through 2010.

- The primary causes of the current economic slowdown are:
  - The effects of the Federal Reserve's past interest rate hikes.
  - A correction in the nation's housing market.
  - An inventory correction stemming largely from weakness in the manufacturing sector, particularly the domestic auto industry.
- Consistent with the slowdown in the national economy, employment growth is projected to fall to 1.1 percent for 2007, following growth of 1.4 percent for 2006. The unemployment rate is expected to increase slightly to 4.9 percent for 2007 from 4.7 percent in 2006.

The New York State Economy

Consistent with the national slowdown, the New York State economy is slowing as well. State private sector employment growth is projected to fall from 1.0 percent in 2006 to 0.8 percent for 2007.

- New York State personal income growth is projected to slow from 6.8 percent in 2006 to 5.6 percent in 2007, with growth in its largest component, wages and salaries, slowing from 7.5 percent in 2006 to 5.7 percent in 2007.
- The major factors slowing the U.S. economy pose unique risks to New York:
  - As the world's financial capital, the New York economy may be particularly sensitive to the effects of the Federal Reserve's past interest rate increases.
  - Production cuts within the domestic auto industry represent a particular risk to Upstate's already weakened manufacturing sector.
  - The continued slowdown in the State's real estate market, following several years of strong growth, could negatively affect both household wealth and the State's construction industry.

Promoting Tax Equity

"The Budget I will submit
on January 31st
will not raise taxes."

The 2007-08 Budget contains no tax increases. Measures are included to ensure that taxpayers are properly reflecting New York taxable income and that unintended and anachronistic tax statutes are changed to eliminate corporate tax loopholes. Many of the loophole eliminations this Budget recommends have already been addressed by other states and the federal government.

Eliminated Loopholes

- **Partnership Tax Abuse.** The Commissioner of Taxation and Finance would have authority similar to that now provided to the Federal Secretary of Treasury to end practices used by New York partnerships to close a loophole that allows nonresidents to avoid New York tax by having their share of New York partnership income paid to an out-of-state entity.

- **Taxpayer Use of Corporate Status to Avoid Personal Income Tax.** A proposal would close a loophole that allows resident individuals to place assets into New York C corporations and avoid the personal income tax. This would apply to Federal S corporations with investment income that is more than 25 percent of their federal gross income. It would require these corporations to be S corporations for New York purposes.

- **Sales Tax Itemized Deduction.** This Budget advances a proposal to conform the treatment of taxpayers who itemize state and local sales and compensating use taxes to the treatment of taxpayers who itemize state and local income taxes. New York does not allow a deduction for state and local income taxes but it does allow the elective deduction for sales taxes. As a result, persons who choose the sales tax deduction because it benefits them more at the Federal level also receive a benefit at the State level that taxpayers who deduct income taxes do not. Conforming the treatment of the sales tax deduction to the income tax deduction results in equivalent treatment of taxpayers.

- **Extension/Restructuring of Fees for Limited Liability Companies (LLCs).** The Budget would restructure the fees imposed on limited liability companies to clearly reflect a company's level of New York activity. The fees due New York are restructured so that entities will pay fees that are commensurate with their New York presence. The restructured fees will continue to provide the Financial Plan with the same level of receipts as in each of the previous three fiscal years.

- **Tax Shelter Reporting.** The Budget would provide the Department of Taxation and Finance with permanent statutory tools to address the increasing use of abusive tax shelters. Current tools are scheduled to sunset July 1, 2007, including:

  — Requiring the disclosure of information related to transactions that present the potential for tax abuse. These transactions included, but were not limited to, those identified by the Internal Revenue Service as listed transactions.

— Authorizing New York to promulgate regulations which would require the reporting of New York reportable transactions, including specifically identified transactions (referred to as New York listed transactions).

— Providing substantial penalties for nondisclosure and the underpayment of taxes due to the participation in such transactions.

— Extending the statute of limitations for assessments relating to these transactions.

- **Corporation Tax Combined Filing.** This proposal would require corporations that conduct substantial intercorporate transactions with affiliated companies to file a combined, rather than separate, corporate franchise tax return.

These affiliates or subsidiaries are created to leave little income or profit in the corporation that is subject to State tax.

- **Qualified Production Activities Income (QPAI) Decoupling.** This Budget would conform New York to the practices of 18 other states that have decoupled from the federal deduction related to qualified production activities and require taxpayers to add back this deduction for New York tax purposes.

The deduction was originally intended to provide a tax incentive to manufacturers by preserving and promoting domestic manufacturing jobs and domestic production. However, the deduction is now allowed on a vast array of activities which go beyond the familiar concept of manufacturing. It is possible that a multi-state firm could use the deduction to reduce its New York taxes without having a single production employee in the State.

- **REITS and RICS.** A proposal would eliminate the deduction for certain subsidiary dividends received by a parent company from a real estate investment trust (REIT) or regulated investment company (RIC) to ensure that the shareholders of the REIT or RIC pay tax on the income earned by the REIT or RIC. The current Tax Law excludes from taxable income:

— 100 percent of the dividends derived by a corporation or insurance company from a REIT or RIC subsidiary;

— 50 percent of the dividends received by a corporation or insurance company from a minority interest in a REIT or RIC; and

— 60 percent of the dividends received by a bank from a REIT or RIC subsidiary.

Other states, including California, Connecticut and Massachusetts, have recognized the problems posed by permitting corporate shareholders to exclude REIT or RIC distributions from their income, and have passed legislation requiring such distributions to be included in the taxable income base.

- **Grandfathered Corporations.** The Budget would close a loophole that allows banks that use certain subsidiaries to shelter income. The proposal would revoke the election for companies that meet certain conditions, such as those that have become inactive, cease to be a taxpayer under the business corporation tax, or are part of a corporate reorganization. Some banking corporations have placed large portions of their investment portfolios in these corporations so that this part of the banking business is subject to less tax under the corporation franchise tax.

- **Bad Debt Deduction.** This deduction would conform New York to federal rules and the practices of other states that allow certain banks to deduct only bad debts that have been actually written-off rather than amounts placed in reserve. The amount placed in reserve to cover such debt is based upon the historical bad debt experience of the taxpayer. Currently, a bank is allowed to take deductions based on an estimate of debts that are expected to become worthless in the future – providing a deduction for debts before they actually become "bad" or uncollectible. This approach generally inflates the amount of the deduction and thereby reduces taxable income.

- **Bank Subsidiary Capital.** The Budget would require the add back of expenses related to subsidiary capital under the bank tax, and eliminate the 20 percent reduction in the wage factor portion of the apportionment formula to ensure the bank tax appropriately reflects a bank's presence in New York. Eliminating this discounting of the wage factor would ensure a bank's tax liability appropriately reflects that bank's level of activity and presence in New York.

  Under current law, bank taxpayers are allowed to deduct 17 percent of interest income from subsidiary capital, 60 percent of dividend income and net gains from subsidiary capital, and 22.5 percent of income from government obligations from income subject to tax. However, unlike corporate taxpayers that are allowed similar deductions, bank taxpayers are not required to add back to income the expenses related to these deductions.

  In addition, banks use a three-factor formula of wages, deposits and receipts to apportion income to New York. However, under current law, the wage factor is discounted such that only 80 percent (rather than 100 percent) of the bank's total New York wages are included in the apportionment formula.

- **Cooperative Insurance Companies.** This proposal would limit the exemption under the insurance tax for cooperative insurance companies.

  This proposal would ensure that insurance companies that provide the same types of services are treated equally under the Tax Law. It would also deny the insurance tax exemption to companies that have expanded their activities beyond those intended for eligibility for the tax exemption and remove the unfair advantage afforded to these companies under current law.

- **Tax Full Cost of Remote Booking of Hotel Occupancy.** The Budget would require travel companies that rent hotel rooms online or by telephone to collect the sales tax on the markups and service fees charged to customers.

  When the travel company books the room, it pays the hotel for all applicable taxes based on this discounted price and the hotel remits the sales tax to the State. The travel company then places additional service fees and markups on top of this discounted price and bills its customers. No State or local tax is collected on these fees or markups.

Reforming the Budget Process

> *"The drive to improve accountability in State government begins with the Budget."*

For too long, New York State has tolerated a dysfunctional budget process, one that has led consistently to the late adoption of budgets and to frustration for those who depend on State funding for essential programs and services. That tolerance ended with this month's agreement with the Legislature on a package of significant budget reforms, which Governor Spitzer signed into law on January 24.

Consistent with the recently enacted reforms, the introduction of this Budget marks a new beginning for New York State's budget process. This Budget initiates a budget process that promotes accountability, provides more detailed information, invites greater public scrutiny of budgetary decisions, and requires enactment of a balanced budget. Within this new framework, the Governor will work, in close cooperation with the Legislature, to enact a 2007-08 Budget that meets the needs of New Yorkers, generates sufficient savings to achieve budget balance, provides targeted property tax relief and does not raise taxes.

A More Timely Budget

On-time State Budgets should be the rule, not the exception. These reforms will start the budget process earlier and give lawmakers and the Executive more time to reach agreement:

- Budget discussions will be "quick-started" in November continue throughout the fiscal year. These regular discussions will afford the Executive, Assembly and Senate the opportunity to share assumptions on key fiscal issues and on the performance of the State's economy and revenue and spending projections.
- The Governor will propose any amendments to the Executive Budget within 21 days of its submission – nine days ahead of the Constitutional deadline, allowing additional time for the Legislature to enact a final Budget.
- The consensus revenue forecasting process will be accelerated and concluded each year by March 1, to provide an early answer to the crucial question of how much money is available for the fiscal year. The State Comptroller will be invited to participate in these discussions.
- If no agreement on revenue estimates is reached by March 1, the State Comptroller will issue a binding revenue forecast by March 5. This independent estimate will provide an objective assessment of projected revenues to guide the ensuing budget negotiations.

A More Transparent Budget

These reforms will make the budget process transparent and accountable to the State's citizens and taxpayers. Legislative deliberations will be more public and the purpose of individual appropriations will be clearly stated:

- Appropriations will be itemized in greater detail to help the Legislature and the public understand clearly how the State plans to allocate funds.
- Within ten days of the Governor's Budget submission, the Legislature will issue a schedule that sets dates for actions to be taken by the Legislature on the Budget, including dates for public hearings and release of joint budget conference committee reports.
- The meetings of the joint conference committees to consider and reconcile budget bills will be held in public.
- "Lump sum" legislative additions to the Budget will be eliminated. Any appropriation that cannot be itemized at the time of enactment may only be allocated with a subsequent itemized list of recipients and the amounts they will receive. These allocations must be approved in public by a majority vote in each house.
- The Legislature will provide a written report on the fiscal impact of proposed legislative changes <u>before</u> any vote on the Budget.
- These reforms also place additional reporting requirements on the Executive, including:
  - — Detailed multiyear financial plans and monthly cash flow projections that must be updated quarterly.
  - — A multiyear assessment of the Budget's impact on local governments.
  - — A detailed summary of the Budget's impact on State workforce levels, and quarterly updates of workforce measures.
  - — More information on the management of State debt, including affordability measures.
  - — Detailed reporting on planned technology projects that are estimated to cost in excess of $10 million.

A Balanced Budget

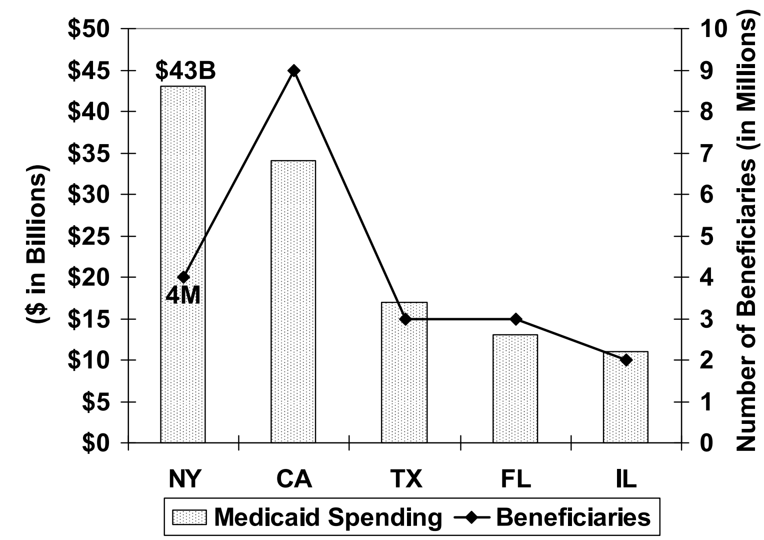
Under these new reforms, the Legislature is required by law to enact a balanced budget. To ensure that the Budget remains in balance, a new "Rainy Day" fund is authorized at up to 3 percent of General Fund spending and can be used in the event of future economic downturns, natural disasters, or other catastrophic events. This is in addition to an existing reserve fund of 2 percent that can only be used for an unplanned mid-year shortfall. Together, these reserves will total 5 percent of General Fund spending, the level recommended by fiscal monitors to guard against risk and to respond to unforeseen events.

Program Overview

Turning the Corner on Health Care

"The challenges facing reform of the health care system are great, but we really don't have a choice; without fundamental reforms in our approach to providing health care, the system will collapse under its own weight."

New York's Total Medicaid Spending Compared to Other Large States



Source: CMS 64 FFY 2005 & Beneficiary FFY 2003

New York's total Medicaid spending exceeds that of other large states. It is approximately $10 billion more than California, despite New York having less than half the number of beneficiaries.

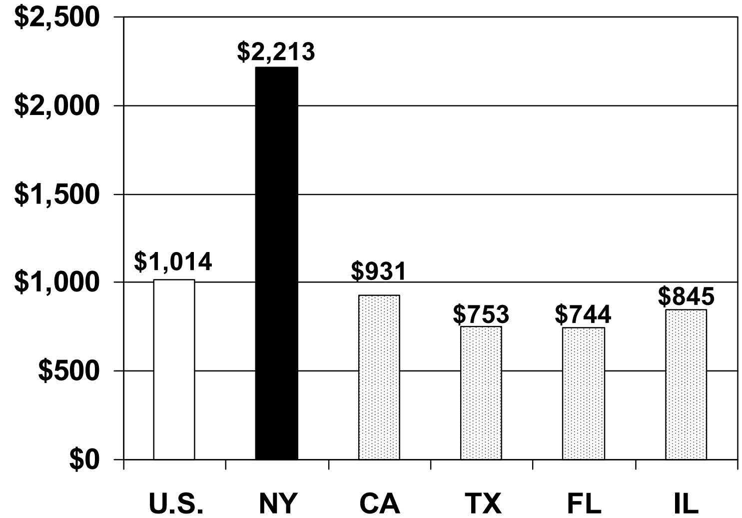
New York's health care system is fragmented and inefficient. Too many services are provided in institutional settings rather than in primary care and community-based settings. The system relies on outmoded Medicaid reimbursement methodologies that create excess institutional capacity and the unnecessary duplication of services, rather than offer incentives to provide the care that patients need in the most appropriate clinical setting and at an affordable cost.

The State's Medicaid program is the most expensive in the nation. If no action is taken to curb costs, total Medicaid spending in New York will reach $48.7 billion in 2007-08, or nearly 35 percent of the proposed State Budget. Although New York's Medicaid spending far exceeds that of any other state, an estimated 2.6 million New Yorkers are still without health insurance coverage.

With this Budget, Governor Spitzer takes the first steps toward restructuring our health care system to make it more affordable. This Budget generates State savings of more than $1.2 billion in 2007-08 from what it would be in the absence of such changes, including $1 billion in Medicaid savings and over $220 million in Health Care Reform Act (HCRA) savings. The Budget advances a comprehensive health care reform agenda. It will:

- Expand access to health care coverage for uninsured children and simplify the process for maintaining coverage through Medicaid and Family Health Plus.
- Freeze the trend factors in reimbursement rates for hospitals, nursing homes, Child Health Plus, Family Health Plus and managed care plans as part of a strategy for a more rational reimbursement system that more appropriately aligns payment to health care providers with services rendered.

New York's Per Capita Medicaid Spending Compared to Other Large States



Source: CMS 64 FFY 2005 & US Census 7/1/05

New York's per capita Medicaid spending, $2,213 per person, is more than double the national spending rate.

- Improve the management of care provided to high cost Medicaid beneficiaries.
- Enhance the State's ability to fight Medicaid fraud.
- Improve the administration of the State's health care programs.
- Protect the fiscal stability of HCRA.
- Make needed investments in Public Health and Aging programs.

Addressing the Needs of the Uninsured

The Governor's Budget advances critical reforms to expand access to health insurance coverage for the uninsured:

- **Child Health Plus.** Subsidized coverage under the Child Health Plus program will be expanded from 250 percent to 400 percent of the Federal Poverty Level – with cost sharing increased on a graduated basis. As a result of this initiative, all of the nearly 400,000 uninsured children in the State will be provided with access to comprehensive affordable health care coverage.
- **Streamlined Recertification Process.** To ensure that the more than 900,000 uninsured adults and children who are eligible for Medicaid and Family Health Plus are able to get and keep their coverage, the recertification process will be streamlined to eliminate unnecessary documentation requirements, and anti-fraud controls will be put in place. Further, gaps in health insurance coverage will be reduced by providing 12 months of continuous coverage for adults; continuous coverage is already in place for children.
- **Public Education and Outreach.** Efforts will be enhanced to ensure that eligible individuals take advantage of the State's Medicaid, Child Health Plus and Family Health Plus programs.

- **Managed Long Term Care.** This program will be expanded by removing the cap on the number of plans and enrollees that can participate, thereby allowing more individuals access to this health care option.

Bridging to a Rational Reimbursement System

An essential element of health care reform is a reimbursement system that pays for the high-quality care that patients need and offers incentives to providers to deliver that care in the most cost-effective manner. The 2007-08 Executive Budget begins to address New York's antiquated health care reimbursement system in furtherance of this goal. The following actions related to reimbursement generate State savings of $423 million:

- Trend factors will be frozen for hospitals, nursing homes, Child Health Plus, Family Health Plus and managed care plans as part of a strategy of moving to a more rational reimbursement system.
- Graduate Medical Education (GME) reimbursement will be revised, removing a hold harmless provision that paid hospitals more than their costs.
- Service Intensity Weights, the component of the hospital reimbursement methodology that measures patient resource consumption for each category of service (i.e., Diagnostic Related Group), will be updated to reflect current medical practices and costs.
- Nursing home rates will be modified to appropriately reflect their actual Medicaid case mix rather than including in the reimbursement base high cost Medicare patients whose care is paid for separately by Medicare.
- Last year's State Budget enacted a significant increase in nursing home reimbursement – called "rebasing" – which is being phased-in over three years. As a result of that action, opportunities exist to eliminate subsidies to the industry that are no longer programmatically justified. For example, nursing home workforce recruitment and retention funding will be phased-out over three years because the updating of payment rates through last year's rebasing initiative properly pays nursing homes for these costs.
- The reimbursement methodologies for certain hospital funding streams (e.g., GME and workforce recruitment and retention) will be modified and reallocated based on facilities' Medicaid case mix, rather than indices, such as the number of workers or statutory hold harmless provisions, not directly tied to the provision of care for Medicaid recipients. This approach will mitigate the impact of the inflationary trend freeze on providers with high Medicaid patient volumes.
- The allocation of indigent care payments to hospital and diagnostic and treatment centers will be rationalized to more accurately reflect care to uninsured patients.

Appropriately Paying for Pharmaceuticals

New York spends almost $2 billion on prescription drugs through the Medicaid and Elderly Pharmaceutical Insurance Coverage (EPIC) programs. The Governor's Budget advances a series of initiatives that produce State savings totaling $240 million:

- Pharmacy reimbursement rates will be reduced from 13.25 percent to 15 percent below the industry list Average Wholesale Price (AWP) for brand drugs, and from 20 percent to 30 percent below AWP for generic drugs, in both the Medicaid and EPIC programs to more closely reflect the actual wholesale costs to pharmacies. The dispensing fee paid to pharmacists for generic drugs will by increased from $4.50 to $5.50 per prescription to compensate pharmacies for dispensing costs associated with lower cost generic drugs.

- The Preferred Drug Program (PDP) initiative, which was enacted in 2005-06, will generate substantial Medicaid savings in 2007-08. The Budget will strengthen the PDP by establishing cost criteria and tightening timeframe and documentation requirements. In addition, the exemption for anti-depressants will be eliminated while HIV/AIDS, anti-psychotics and anti-rejection drugs remain exempt. To ensure Medicaid recipients receive the appropriate drugs they need, the Budget maintains the provision that a physician's decision will prevail in all instances.
- Elderly Pharmaceutical Insurance Coverage (EPIC) seniors will be enrolled in Medicare Part D except for those who do not access EPIC services, who would lose pre-existing drug coverage, or, who might suffer significant financial hardship. This initiative is structured in a manner that ensures that EPIC enrollees will have continued access to the drugs they need and that they will be "held-harmless" financially by not being required to bear any additional out-of-pocket costs.
- Implementation of a Preferred Drug Program for EPIC will be accelerated to January 1, 2008. A "physician prevails" provision is included, similar to that established for the Medicaid program.

Managing the Care of High Cost Beneficiaries

New York's Medicaid program spends 75 percent of its resources on 20 percent of its enrollees, primarily the elderly and disabled. The 2007-08 Executive Budget takes steps to more efficiently manage care and improve treatment outcomes for these populations. Savings from these initiatives will total $5 million in 2007-08, and should be greater in future years.

Executive Budget Includes $1.2 Billion in Health Care Savings

Program	2007-08 Savings
Health Reimbursement	$423M
Pharmacy Actions	$240M
Managing High Cost Beneficiaries	$5M
Anti-Fraud	$104M
Additional Medicaid Savings	$221M
HCRA	$219M
Public Health and Aging Systems	$39M
Total	**$1.2B**

- A series of demonstration projects will be undertaken to better manage the care of nursing home patients, persons with co-occurring disorders, such as mental illness and substance abuse, and other medically complicated cases and high cost users. These projects are intended to avoid the need for costly hospitalizations and institutional care while improving quality of care.
- The Office of Mental Health's Psychiatric & Clinical Knowledge Enhancement System (PSYCKES) model, a web-based tool that provides access to medication guidelines and medical information for physicians for prescribing mental health drugs, will be applied throughout the community-based mental health network to improve results and cost-effectiveness.

Strengthening Anti-Fraud Capabilities

The Executive Budget proposes comprehensive reforms to strengthen the State's ability to combat fraud, waste and abuse in the Medicaid program. State savings of approximately $400 million — an increase of $104 million — will be generated in 2007-08.

- **Office of the Medicaid Inspector General.** This Office will add 157 new staff, including 100 auditors, an increase of 30 percent, and make necessary investments in technology to better identify, prevent and combat Medicaid waste, fraud and abuse.
- **Inter-Agency Collaboration.** The Medicaid Inspector General's collaborative efforts with the Mental Hygiene agencies will be expanded to target inappropriate utilization and strengthen controls for providers serving special populations.
- **Cost Recovery.** Counties, with State guidance and administrative support, will be required to focus on the most egregious cases and pursue recoveries from individuals who use eligibility loopholes to inappropriately avoid contributing to the cost of their spouse's long-term care services.
- **New York State False Claims Act.** Legislation is proposed to improve the detection of fraud. Persons will be encouraged to bring civil (whistleblower) actions for the filing of fraudulent claims by health care programs.
- **Martin Act for Health Care.** Legislation is advanced to strengthen the Attorney General's authority to investigate and prosecute health care fraud.
- **Fraud Detection.** Needed reforms are proposed, including statutory measures to strengthen criminal penalties for health care fraud, and permitting access to records to detect fraud.

Advancing Other Medicaid Actions

The Budget recommends additional actions to improve the Medicaid program, which will generate State savings of $221 million. The Budget:

- Eliminates stand-alone Personal Care Level 1 services (housekeeping only) which are non-medical in nature. After completion of a reassessment of those currently receiving such services, eligible individuals will be transferred to Personal Care Level II (housekeeping and hands-on services).
- Reduces duplicate enrollment of children in Medicaid and Child Health Plus through modification of temporary enrollment practices, thereby ensuring children are in the correct program and avoiding federal disallowances.
- Allows counties to establish contracts through competitive procurement processes to provide more cost efficient transportation services for Medicaid clients.
- Maximizes the use of other revenues, including HCRA and federal reimbursement for the home care demonstration, to reduce General Fund costs.
- Continues the 0.35 percent assessment on hospital gross receipts for health care services enacted in 2005-06. The cap on annual assessment collections, also enacted in 2005-06, is eliminated.
- Makes permanent prior year cost containment actions and the nursing home assessment.

Improving the Administration of the State's Health Care Programs

The Budget reorganizes the Department of Health to better coordinate program administration. To achieve the goals of this restructuring, funding for an additional 75 new positions is included.

- **The Office of Health Insurance Programs (OHIP).** This new office will assume responsibility for all government health insurance programs, including Medicaid, Child Health Plus, Family Health Plus, and the Elderly Pharmaceutical Insurance Coverage Program. The Office will also be responsible for developing strategies to reduce the number of uninsured. To ensure that Medicaid pays for the right care in the right setting and at the right price, OHIP will oversee rate setting policies within the Department and also at OASAS, OMH and OMRDD. The current structure is fragmented with several agencies and offices responsible for insurance programs and financing.

- **The Offices of Information Technology and Long Term Care Services and Programs.** Two additional new offices have been established within the Department to ensure that the critical areas of information technology and long term care receive focused and coordinated attention. The Office of Health Systems Management will continue its licensure and surveillance functions and will spearhead implementation of the Berger Report.

Ensuring Fiscal Stability for HCRA

HCRA, which finances over $5 billion in annual health care costs, is scheduled to expire on June 30, 2007. The 2007-08 Budget extends HCRA for nine months — through March 31, 2008. In addition, the Budget proposes a series of measures to reduce costs and identify new revenue sources to generate savings of $219 million in 2007-08 and more than $500 million in 2008-09. These actions will ensure that HCRA is adequately funded by:

- Increasing the Covered Lives Assessment by $75 million to $850 million annually, effective April 1, 2007.

- Authorizing an additional insurance conversion with 95 percent of the proceeds – similar to Empire Blue Cross Conversion – dedicated to HCRA.

- Supplementing current HCRA audit capabilities by adding five staff to improve the timeliness of audits and ensure appropriate revenue collections.

- Eliminating discretionary lump-sum spending from the Priority Pools of the Commissioner of Health, Senate and Assembly, consistent with the recently enacted Budget Reform Act. A $3 million appropriation is available to provide emergency assistance for providers as determined by the Commissioner of Health.

- Reducing funding for the Worker Retraining Program by $20 million. Existing funding is sufficient to meet current worker retraining needs and the needs of newly displaced workers.

- Eliminating funding for the Health Facility Restructuring Program. This funding stream is no longer needed because of the availability of Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) funds.

- Eliminating funds for Nursing Home Quality Improvement. This grant program distributed over $265 million from 2002-2006 and its purposes have been accomplished. New labor costs will be recognized under the new nursing home rebasing methodology enacted last year.

Improving the Public Health and Aging Systems

The public health and aging systems play a critical role in monitoring and preventing the onset of disease, providing necessary health care and community support services and responding to emergency situations. The 2007-08 Executive Budget makes recommendations to strengthen these systems and also generates State savings of $39 million. In addition, many of these investments will avoid State costs in the future by addressing health care needs earlier, thereby avoiding the need later for services in more expensive settings. Key investments include:

- $3.5 billion in statewide spending from all sources to help combat HIV and AIDS.
- $29 million for the Department of Health's emergency response capability to stockpile necessary medications and supplies in the event of a pandemic outbreak, such as the avian flu; and increasing from $20 million to $40 million the General Public Health Work reserve fund that would be available to the State and counties in the event of a public health emergency.
- $78 million for the direct support of Roswell Park Cancer Institute.
- $95 million for anti-smoking initiatives, including $15 million for cancer research at Roswell Park.
- Continuing support for the second year of the three-year cost-of-living adjustment for various public health and AIDS programs.
- $4.5 million in additional funding for Department of Health nutrition programs.
- $6 million for the provision of health and social services to the LGBT community.
- $3.6 million in additional resources to the Department for Assisted Living surveillance efforts, Vital Records requirements and Communicable Diseases reporting.
- $5.3 million total funding for critical public health priorities which target primary care and preventative strategies. These include efforts to prevent childhood lead poisoning, expand access to cervical cancer vaccines, increase prenatal and postpartum home visits, support obesity prevention efforts and promote public education regarding the quality of mammography, colorectal screening, infection control, prenatal care and green cleaning products.
- $3 million for family planning contracts and $2.6 million for emergency contraception education, training and outreach activities.
- $2.6 million in additional funding for the State Office of the Aging Point-of-Entry initiative; $1 million for the Supplemental Nutrition Assistance Program; and $200,000 for the Family Caregiver Council.
- Enhancing audit capabilities within the Early Intervention (EI) Program by adding five new audit staff and requiring private insurance plans to reimburse EI for medical costs that are covered by such policies. Currently, only two percent of covered medical costs are paid through insurance.
- Establishing an EI approval fee of $125 for individual providers and $225 for agency providers to support the approval/reapproval of EI providers on a regular basis. Approval will be effective for five years.
- Increasing the biennial physician fee from $600 to $1,000 to ensure that there are sufficient resources to support the Physician Conduct and Profiling programs.
- Achieving total savings of $29 million from non-personal service efficiencies in Health and Aging, maximizing available revenues, and eliminating a number of non-core items funded in the 2006-07 Budget.

Investing in Education Reform

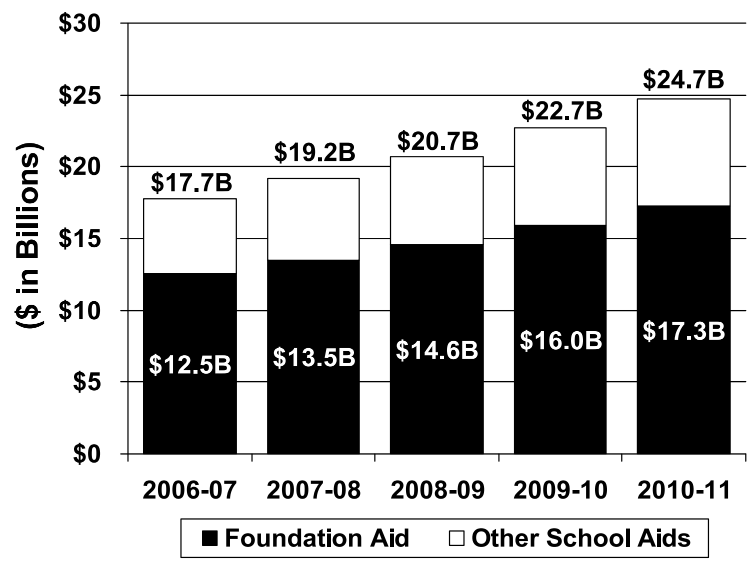
"With the reforms and the accountability we will propose in the coming weeks, and the resources we will commit, there will be no more excuses for failure. The debate will no longer be about money, but about performance; the goal will no longer be adequacy but excellence; and the timetable will no longer be tomorrow but today."

New York's strong commitment to educational excellence is demonstrated in academic standards that are among the most rigorous in the nation. In 1996, New York raised the performance expectations for all children in all grades, and now 70 percent of our graduates receive a Regents Diploma, up from 42 percent just ten years ago. But too many of our schools and too many of our children are failing to meet State learning standards – particularly in "high need" districts serving large numbers of children in poverty.

Although a myriad of existing school aid allocation formulas attempts to equalize resource disparities among school districts, they fail to adequately address the resource demands of educating children placed at risk due to poverty or limited proficiency in English. To correct these problems, the Governor is recommending:

- — A Four-Year Educational Investment Plan, including creation of a new Foundation Aid program to ensure that each district receives sufficient State and local resources to meet State learning standards;
- — Comprehensive reforms, including providing universal access to quality prekindergarten programs; and
- — Enhanced accountability for educational performance and school spending.

Multiyear Educational Investment Plan Increases Overall State Aid to Schools by $7 Billion



A new Foundation Aid program will provide an additional $4.8 billion increase as part of the Governor's Four-Year Educational Investment Plan.

Four-Year Educational Investment Plan

To provide our schools the resources needed to attain educational excellence, the Governor is advancing a Four-Year Educational Investment Plan to increase State funding for education by $7 billion annually when fully phased-in over four years.

- Overall School Aid Increase: A school aid increase of over $1.4 billion is recommended for 2007-08, bringing total funding to $19.2 billion in 2007-08. By 2010-11, overall school aid funding would grow by $7 billion from $17.7 billion in 2006-07 to $24.7 billion.
- Foundation Aid Increase: An increase of $982 million for a new Foundation Aid program for 2007-08, bringing total funding to $13.5 billion in 2007-08. By 2010-11, Foundation Aid would grow by $4.8 billion from $12.5 billion in 2006-07 to $17.3 billion.
- Universal Prekindergarten Increase: An increase of $99 million for Universal Prekindergarten (UPK), bringing total funding to $395 million in 2007-08 . By 2010-11, this funding will increase by $349 million from $296 million in 2006-07 to $645 million.
- School Facilities Funding: An increase of $135 million for EXCEL and other building aid, bringing total funding to $1.8 billion in 2007-08. By 2010-11, this funding will increase by $725 million from $1.7 billion in 2006-07 to $2.4 billion.
- Other Aids Increase: An increase of approximately $197 million in other school aid programs, such as transportation aid and BOCES funding, bringing total funding to $3.4 billion in 2007-08. By 2010-11, this funding will increase by $1.1 billion from $3.2 billion in 2006-07 to $4.3 billion.

Ensuring Educational Excellence

The Four Year Educational Investment Plan addresses the Governor's commitment to provide a statewide solution to the school funding needs highlighted by the Campaign for Fiscal Equity Lawsuit. The plan provides for $7 billion in increased annual spending on education by New York State in four years. When combined with $2.2 billion in increased annual spending on education by New York City in four years (as reflected in the City's four-year financial plan), the total amount of increased annual spending on education statewide at the end of the four-year plan will total at least $9.2 billion. This new funding will be tied to a series of new reform and accountability measures. This commitment includes:

Regional Balance

- Under the Governor's Four-Year Educational Investment Plan, all school districts will receive annual Foundation Aid increases of at least 3 percent, with proportionately greater increases for the State's high need urban and rural school districts.
- Under the Governor's Middle Class Property Tax Relief program, all homeowners with incomes of $235,000 or below will be provided additional STAR benefits, based on adjusted income brackets that recognize higher living costs on Long Island and in other downstate counties.
- Regional balance among suburban, urban and rural areas will be preserved through the combination of multiyear school aid increases coupled with multiyear property tax relief.

- Creation of a new Foundation Aid program to link school funding to the cost of a successful education. An increase of $982 million is provided in Foundation Aid in 2007-08, growing to $4.8 billion by 2010-11. This will be accompanied by $2.6 billion in increased funds for school facilities under EXCEL.
- Important reform provisions, such as Universal Prekindergarten, initiatives to enhance teacher quality, a renewed focus on special education, and initiatives to improve math and science education.
- Expanded accountability measures, including a new Contract for Excellence that will be required for all districts receiving an annual increase in Foundation Aid in excess of 10 percent or $15 million, or receiving a Supplemental Educational Improvement Plan grant. An increase of $20 million is included for the State Education Department to implement the new accountability measures.
- An increase of $3.2 billion in annual funding for New York City when fully phased in over the next four years. When combined with $2.2 billion in increased annual spending on education by New York City in four years (as reflected in the City's four-year financial plan), the total amount of increased spending on New York City schools in four years will be $5.4 billion.
- A Maintenance of Effort requirement for the Big Four City School Districts to ensure additional State school aid is used to supplement, and not supplant, local funds. Legislation will also be advanced to ensure all of the Mayors of the Big Four City School Districts have representation on the boards of their local schools.

Foundation Aid

Governor Spitzer has joined with the Regents in calling for the creation of a new Foundation Aid program that provides sufficient State and local resources to give all children the opportunity to meet New York's learning standards. Consistent with the recommendations of the Regents and phased-in over four years, the Foundation Aid formula will:

- Consolidate approximately 30 existing aid programs within Foundation Aid while holding school districts harmless against losses from the aid consolidation.
- Ensure all school districts receive a Foundation Aid increase.
- Calculate a standard local education cost based upon actual costs in successful schools, adjusted for regional cost differences.
- Allocate funds based upon enrollment rather than attendance and provide additional aid for children placed at risk by poverty.
- Include an expected – but not mandated – local contribution, adjusted to reflect district income wealth.

Although generally reflective of the Foundation Aid proposal advanced by the Regents, the Executive Budget proposal has the following notable differences:

- The minimum annual Foundation Aid increase would be 3 percent as compared to 2 percent under the Regents' proposal.

Foundation Aid = **Standard Local Cost of Education** - **Expected Local Contribution**

- The new Foundation Aid formula links school funding to the cost of a successful education and allocates State Aid in a transparent, equitable and predictable manner.
- The "Standard Local Cost of Education" is based on actual costs in successful school districts, adjusted for geographic cost differences and educational needs.
- The "Expected Local Contribution" is based on statewide average property tax rates, adjusted for district wealth measured by income.
- Nearly 80 percent of the Foundation Aid increase would go to the State's 207 high needs school districts (including New York City), with 48 percent of the Foundation Aid increase allocated specifically to New York City.

- The number of public special education students will be a weighted factor in the Foundation Aid formula, thus producing an increase in the projected need under the formula, but reducing financial incentives for placing children in special education. However, funding for high cost public special education programs and private special education programs would remain outside of Foundation Aid.
- Limited English Proficiency Aid would be consolidated within Foundation Aid with an additional weighting provided for all children with limited English proficiency.

Education Reform

The Governor's formula for achieving educational success is a simple one:

Educational Excellence = Resources + Reform + Accountability

The proposed infusion of resources for our schools must be linked to reforms and greater accountability. The reforms being proposed are research-based and data-driven – but more importantly, they represent common sense solutions to everyday problems. Ensuring early success for our children through quality prekindergarten programs is a solid investment – as is providing all children with highly qualified teachers. These and other common sense reforms are outlined below.

Universal Prekindergarten/Full-Day Kindergarten

- New Universal Prekindergarten funding will be provided via a Foundation-type formula, with grants for half-day programs ranging from $250 per child to approximately $5,750 per child reflective of varying district wealth and educational needs.
- The requirements accompanying the UPK initiative will ensure quality prekindergarten programs with a strong academic component, and will encourage use of innovative settings.
- All high need and/or low performing school districts will be required to offer full-day kindergarten programs by 2010-11. The 2007-08 Executive Budget provides $2 million in planning grants for this purpose.

Teacher Quality

- The Regents will be required to review the effectiveness of existing teacher preparation programs in developing highly qualified, successful teachers.
- The Regents will develop programs to expand alternative teacher certification programs, including experimental teacher preparation programs.
- The Regents will be required to establish minimum standards for local tenure determination that must include a review of data on student performance improvement where available, peer review by other teachers and an assessment by the teacher's principal.

Special Education

- The number of public special education students in a district will be a weighted factor in the Foundation Aid formula, thus producing an increase in the amount of the standard local cost of education under the formula, but reducing financial incentives for placing children in special education settings.
- School districts with high special education classification rates or with excessive referrals to special education by race/ethnicity will be required to address these deficiencies.
- A Taskforce on Preschool Special Education will be created to review the relationship between preschool special education and other early childhood programs as well as different financing approaches.

Math/Science Initiatives

- The Governor will recognize and reward talented middle school students in the areas of math and science and provide summer enrichment programs at college campuses throughout the State.

Educational Accountability

In exchange for new resources, our schools must demonstrate that these funds are spent wisely to produce measurable improvements in student outcomes. As a result of proposed new accountability measures, parents will be able to gauge their children's educational progress over a multiyear period. In addition, the achievements of successful schools, administrators and teachers will receive greater public recognition – while failure will be remediated through swift intervention.

Proposed new accountability measures include:

Contract for Excellence

All school districts receiving an annual increase in Foundation Aid in excess of 10 percent or $15 million, or receiving a Supplemental Educational Improvement Plan grant, will be required to develop a Contract for Excellence that indicates how they will spend new State funding on measures that have been demonstrated to improve student performance.

Such measures demonstrated to be effective include:

— Class Size Reduction

— Increased Student Time-on-Task

— Teacher Quality Initiatives

— Middle School and High School Restructuring

— Full-Day Prekindergarten.

Enhanced Accountability Plan

- By July 2008, the Regents would establish improvement targets for individual schools and school districts using measures that include State assessments and graduation rates.
- Beginning July 2008, school districts will be required to report and publish basic data on school-by-school resource allocations.
- By July 2008, the Regents will provide a student progress report that will give parents information on their child's educational progress over multiple years of testing.

- By July 2010, the Regents will establish an enhanced educational accountability system through which the educational attainment of all children can be measured based upon cumulative achievement and growth.

Higher Standards

- The Regents will review existing standards to ensure students have prerequisite knowledge and skills to succeed in employment or college.

Promoting Strong Leadership

- The Regents would be directed to identify and utilize data elements, including performance on State assessments and graduation rates, to assess the effectiveness of school superintendents and principals.
- School superintendents and principals with a strong record of educational performance would be recognized for their achievement and encouraged to assist low performing school districts.
- Beginning July 2007, the Commissioner of Education will expand the scope of the Schools Under Registration Review (SURR) process to increase the number of schools required to develop and implement a reorganization or restructuring plan.

School Efficiency Reviews

- A new $5 million School District Efficiency Review initiative is recommended for 2007-08 for school districts that volunteer to participate in such reviews, as well as districts whose participation is requested by the Commissioner of Education.

Shared Services

- School districts will receive priority consideration in the awarding of grants under the Shared Municipal Services Incentive program.

Charter Schools

The Governor's Budget provides for creation of additional charter schools, with transitional funding and expanded notification requirements provided for local school districts. Elements of the proposal include:

- **Charter School Cap.** The existing cap of 100 schools would be increased by 150 schools with SUNY, the Board of Regents and the New York City School Chancellor each authorized to approve 50 new charter schools.
- **Transitional Aid.** Approximately $15.2 million will be provided to five school districts (Buffalo, Albany, Schenectady, Roosevelt and Lackawanna) currently impacted by a concentration of charter schools.
- **Expanded Notification Requirements.** The Regents will be required to take action by March 15 of each year on the issuance of a charter in order for the charter school to open in the following September. As a result, a local school district will be notified of the opening of any new charter school prior to the adoption of its school budget.

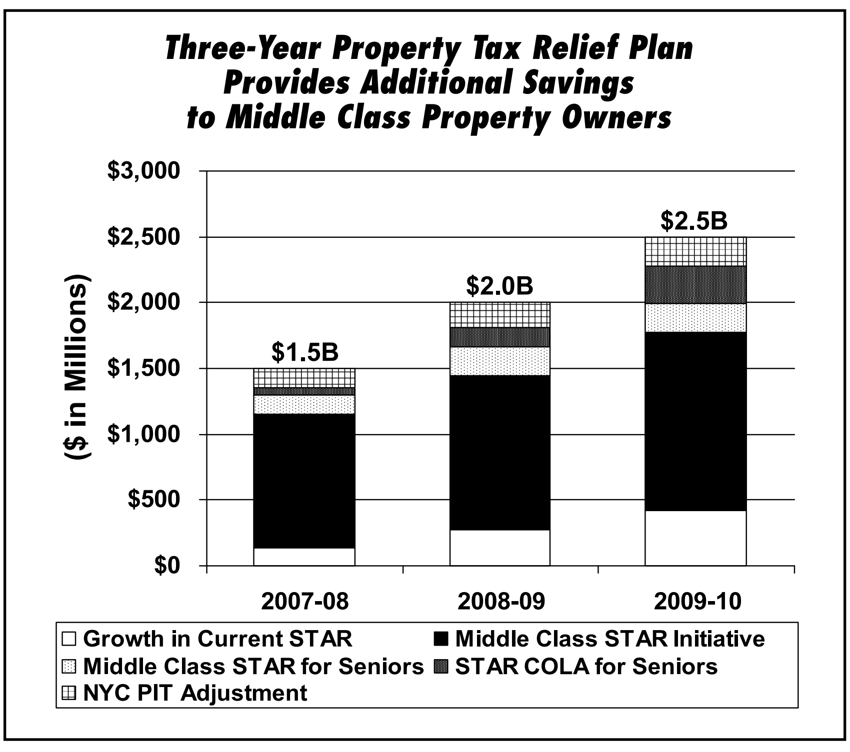
Targeting Property Tax Relief

"I believe those middle class New Yorkers, who bear the brunt of soaring property taxes and have the least ability to pay them, should be the top priority."

High property taxes are one of the most serious economic burdens facing New Yorkers. Real property taxes in New York State have risen 60 percent in the last decade and are currently among the highest in the nation—some 28 percent above the national average. Nine of the ten U.S. counties with the highest property taxes relative to home values are located in Upstate New York. This property tax burden falls most heavily on middle class New Yorkers whose property taxes are rising too fast for their incomes.

In 1997, the School Tax Relief (STAR) program was enacted to address New York's high property tax burden. The original STAR program provides the same level of tax relief to all New Yorkers, other than seniors, regardless of income.

In 2006, a property tax rebate was created to supplement the original STAR program. The goal of the rebate was to provide additional property tax relief. However, the rebate did not target relief by income. The rebate also required homeowners to pay their school tax bill first, and then wait for their rebate.



Three-Year Property Tax Relief Plan

Under Governor Spitzer's Property Tax Relief Plan, homeowners will receive property tax relief in a targeted and timely manner, with the largest increases going to homeowners with middle class incomes and below.

For 2007-08, STAR will grow from \$3.6 billion to \$5.1 billion, an increase of \$1.5 billion. The STAR rebate of \$675 million will be discontinued in lieu of the new Middle Class STAR initiative.

The Governor's Property Tax Relief Plan will provide a total of \$6 billion over the next three years in additional STAR tax relief.

Distribution of Middle Class STAR Benefits

	Homeowners Receiving Maximum 80% Increase	Homeowners Receiving Increase <80% and >30%	Homeowners Receiving Minimum 30% Increase	Total Homeowners Receiving Middle Class STAR Increase
Upstate Region	56%	33%	9%	98%
Downstate Metro Region	62%	20%	10%	92%
Statewide	60%	26%	9%	95%

Upstate Distribution of Additional STAR Benefits by Income Levels

2005 Adjusted Gross Income*	$0 - $60,000	$60,001 - $80,000	$80,001 - $100,000	$100,001 - $120,000	$120,001 - $235,000	>$235,000
2007-08 STAR Increase	80%	67.5%	55%	42.5%	30%	0
2008-09 STAR Increase	90%	75%	60%	45%	30%	0
2009-10 STAR Increase	100%	82.5%	65%	47.5%	30%	0

*Downstate Metro Region** Distribution of Additional STAR Benefits by Income Level*

2005 Adjusted Gross Income*	$0 - $80,000	$80,001 - $120,000	$120,001 - $160,000	$160,001 - $235,000	>$235,000
2007-08 STAR Increase	80%	63%	46%	30%	0
2008-09 STAR Increase	90%	70%	50%	30%	0
2009-10 STAR Increase	100%	76.5%	53%	30%	0

* *Income brackets used to determine STAR increases will be indexed in future years to reflect growth in average wages.*

***Downstate metro region consists of New York City and Nassau, Putnam, Rockland, Suffolk and Westchester Counties.*

Middle Class STAR Initiative. The centerpiece of the Governor's Property Tax Relief Plan is the creation of a new Middle Class STAR program that provides significant property tax relief for all but the wealthiest New Yorkers. Benefits are provided to taxpayers on a sliding scale based on income, with benefits declining as income exceeds $60,000 for Upstate homeowners, and as income exceeds $80,000 for homeowners in the Downstate metropolitan region (including New York City). As the first table illustrates, 95 percent of all homeowners across the State would receive additional tax relief under the Governor's Middle Class STAR program.

The other tables on the left summarize the increase in the Basic STAR property tax exemption for middle class homeowners. A separate sliding scale is used for Downstate metropolitan counties to reflect a different income profile in this region.

The table on the right displays five examples of the additional property tax relief under the Governor's Middle Class STAR program that would be provided to a non-senior homeowner with an adjusted income of $60,000, as well as a senior homeowner with an adjusted income of $67,850.

Impact of Governor's Middle Class STAR Program on Select Regions in 2007-08

	Basic STAR			Senior STAR		
	Average Current STAR Savings	Average Middle Class STAR Savings	Increase	Average Current STAR Savings	Average Middle Class STAR Savings	Increase
Albany County	$621	$1,118	$497 (80%)	$1,104	$1,435	$331 (30%)
Erie County	$526	$947	$421 (80%)	$915	$1,190	$275 (30%)
Onondaga County	$697	$1,255	$558 (80%)	$1,186	$1,542	$356 (30%)
Suffolk County	$954	$1,717	$763 (80%)	$1,683	$2,188	$505 (30%)
New York City	$212	$382	$170* (80%)	$381	$495	$114* (30%)

**Would also receive an increased PIT benefit of $70 for married individuals filing joint returns and $35 for all others.*

Other Components of Three-Year Property Tax Relief Plan

- **Middle Class Senior STAR Increase.** Senior STAR benefits will be increased by 30 percent in 2007-08 (raising the exemption to $73,800), and by 40 percent in 2008-09 (raising the exemption to $79,500).

- **Senior STAR COLA.** The cost-of-living adjustment for the Senior STAR exemption that was enacted as a one-time benefit in 2006 will be continued for 2007-08 and thereafter.

- **NYC PIT Adjustment.** STAR relief will be increased for all New York City personal income taxpayers earning $235,000 or less. For 2007, the refundable credit for married individuals filing joint returns will be raised from $230 to $300 and the credit for all others from $115 to $150.

- **Growth in Current STAR Benefits.** The current STAR program will be fully funded in 2007-08 generating an increase of $139 million.

Combating the Root Causes of High Property Taxes

To complement the additional tax relief proposed by Governor Spitzer, the Executive Budget will address the underlying causes of high property taxes by:

- Reforming Medicaid and continuing the State takeover of county Medicaid costs;

- Promoting local government efficiency;

- Providing mandate relief;

- Fixing the State's antiquated school financing system and providing substantial new school funding; and

- Employing an economic development strategy that will increase New York's local tax base.

Building the New Economy

"We must reverse the decline of our Upstate economy, sustain the economic expansion Downstate and develop new ways for communities which have been left behind to share in the prosperity."

If we are to prosper in the 21st century, we must take bold steps to transform New York into a state that can compete in the Innovation Economy, the knowledge-based economy of new businesses and new ideas that has become the driving force of job creation in the world today. The task of leading our State's economic transition will demand significant changes to the way we approach economic development, environmental protection and transportation. We must restructure our State's economic development system to make it at once more nimble and more accountable. We must provide the infusion of capital necessary to catalyze our economic transformation. We must act with greater urgency to stop environmental degradation, which is a threat to future economic growth. And we must build the housing, transportation, energy and broadband infrastructure we will need to be competitive in the decades to come.

The Governor's economic revitalization program is designed to reform the way we plan, implement and finance economic development and protect our environment. Key initiatives include:

- **New Economic Development Funding Awarded Competitively.** Funding for new programs - including $300 million for the Investment and Job Creation Program - will be administered through open, competitive procedures and with rigorous standards to ensure that New York taxpayers secure the highest possible return on their investment.
- **Strengthening Key State Agencies.** New staff resources, improved business practices, and better coordination across State agencies will ensure responsiveness to the needs of communities across the State.

State Workforce Investments

The 2007-08 Executive Budget recommends an increase of 777 staff to maintain safe roads and bridges, provide stewardship to the State's environmental resources and parks.

- The Department of Transportation will add 411 staff to improve the condition and safety of the State's roads and bridges and reduce dependence on contract consultants.
- The Department of Taxation and Finance will add 200 staff to improve audit collections.
- The Department of Environmental Conservation will add 109 staff to ensure the State's natural resources are adequately protected.
- The Office of Parks, Recreation and Historic Preservation will add 52 staff to develop and improve park and recreation facilities across the State.
- The Adirondack Park Agency will add five staff to improve the effectiveness and timeliness of the agency's operations in the park.

- **Stem Cell and Innovation Fund Bond Act.** In 2008, voters will be asked to approve a $1.5 billion Stem Cell and Innovation Fund Bond Act to ensure that New York is at the leading edge of the global innovation economy. To capitalize on the far-ranging economic and medical benefits of this promising field, the 2007-08 Executive Budget provides $100 million to support initial investments in this area. In total, the Budget would provide $2.1 billion over an eleven-year period, including the bond act and an additional $500 million in planned annual appropriations once the bond act is approved.

Stem Cell and Innovation Fund

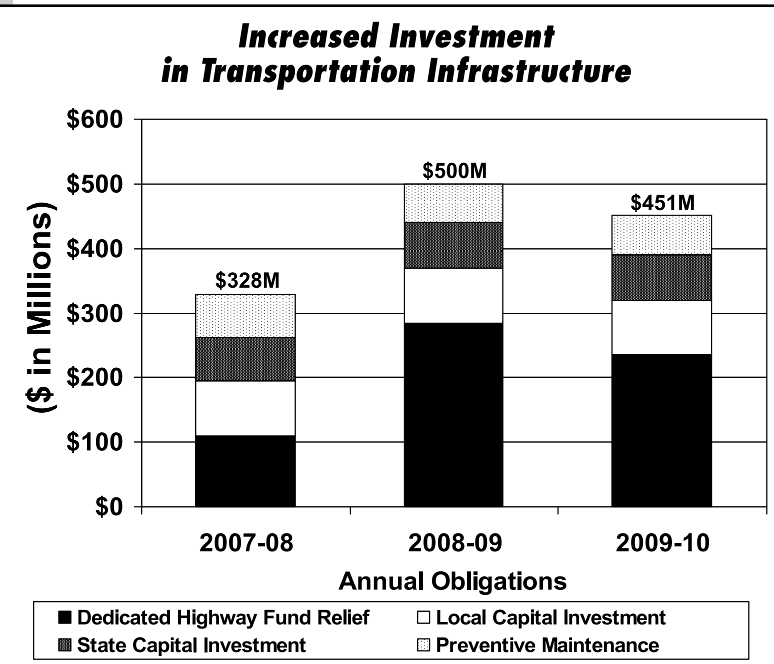
This fund will support $2.1 billion over 11 years to spur economic development and revitalization in New York State, and ensure that New York is at the leading edge of the global innovation economy.

- The $1.5 billion Stem Cell and Innovation Bond Act will be presented to the voters in 2008.
- $500 million over 10 years will be provided beginning in 2008-09 to support the research and operating needs of the Stem Cell and Innovation Fund.
- $100 million recommended in the Executive Budget will support initial investments in this area to spur investments in stem cell, life sciences and other emerging industries.

The State/Local Partnership

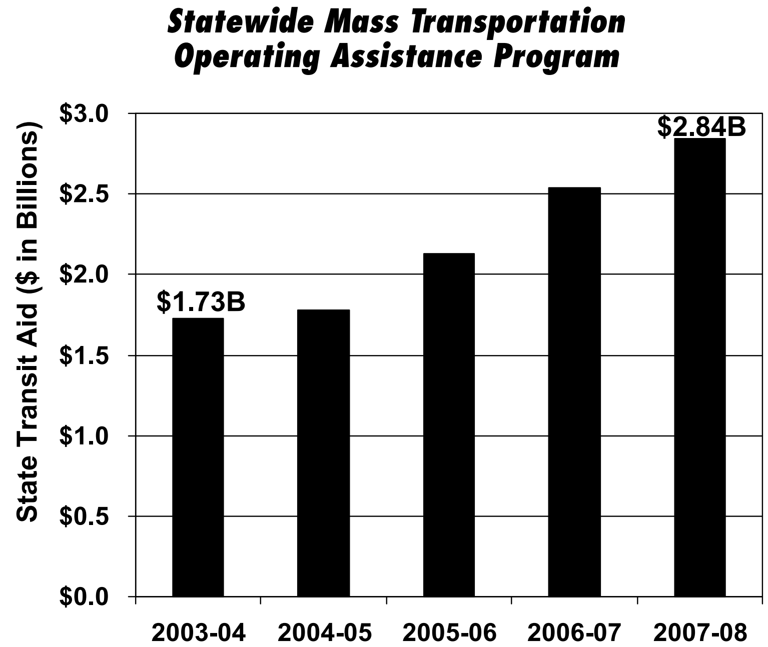
Economic growth and environmental protection require a strong partnership between State and local government. The 2007-08 Executive Budget reflects a renewed commitment to this principle.

- **Transportation Funding.** The Budget provides nearly $1.3 billion of new transportation resources to finance critical infrastructure improvements, including local highway projects, preventive maintenance, State highway projects and engineering, and other emerging and critical needs, as well as $100 million of relief for the Dedicated Highway and Bridge Trust Fund.



This Budget supports nearly $1.3 billion in transportation infrastructure improvements over the next three years.

- **Mass Transit Aid.** The Budget provides sufficient funding for transit systems across the State to ensure no fare increases or service reductions.



The increases in transit operating aid being recommended will assure that commuters have access to reliable and modern transit systems without fare increases.

- **Management Efficiencies.** In addition to immediate financial support, the Budget recommends innovative new partnerships between the State and local transit systems to improve long-term financial management and to achieve savings through the encouragement of aggregate purchasing, leasing and innovative financing techniques. The Budget also includes provisions for the development of performance standards to improve and rationalize the distribution of State transit aid.

- **Brownfields Redevelopment.** Working together, the Department of Environmental Conservation (DEC) and Empire State Development Corporation (ESDC) will develop regulatory and management reforms so that the State Brownfields Redevelopment program is a resource - rather than an impediment - to local redevelopment efforts. To ensure success, the Budget will provide additional staff at DEC and ESDC dedicated to making redevelopment a reality.

- **Upstate Renewal.** The Empire State Development Corporation has designated a Co-chair to focus on Upstate economic development and will utilize $650,000 of new resources to address the unique development challenges of the Upstate economy.

- **Broadband Access.** The Executive Budget provides $50 million to begin implementation of a program to ensure that affordable broadband Internet service is available to all New Yorkers. Universal access to high speed Internet service is increasingly critical to economic competitiveness and will enhance educational and social opportunity, expand access to health care and improve public safety and security.

Economic Revitalization

In addition to the Stem Cell and Innovation Fund and the Investment and Job Creation Program, the 2007-08 Executive Budget provides a wide range of resources for economic revitalization, with a particular focus on Upstate. Key initiatives include:

- **Tourism.** $16 million - a nearly 50 percent increase - for the "I Love New York" program is provided to draw visitors from around the globe to New York State.

- **High Technology Programs.** Nearly $44 million is included for various high technology programs, including the Centers for Advanced Technology.

- **Affordable Housing.** $50 million is dedicated to the creation of a new affordable housing program to benefit communities across the State.

- **Research and Development.** $300 million is being made available for development of an international computer chip research and development center.

Environmental Protection

The 2007-08 Executive Budget supports critical environmental initiatives that protect and preserve the State's irreplaceable natural resources.

- **Container Deposit Program Expansion.** Expanding the Bottle Bill program to include non-carbonated beverages will significantly reduce the waste stream flowing into landfills and incinerators, reduce litter and boost recycling.

- **Land Preservation.** In addition, the Bottle Bill expansion will produce an estimated $25 million of additional revenues for the State Environmental Protection Fund (EPF) in SFY 2007-08, and $100 million thereafter. In connection with passage of the Bottle Bill, the State will increase the EPF from its current size of $225 million to $250 million, to be used for open space preservation, development of outdoor recreational opportunities and preservation of farmland threatened by sprawling development.

- **Regulatory Oversight.** This Budget adds 166 critical staff at the Department of Environmental Conservation, Adirondack Park Agency and Office of Parks, Recreation and Historic Preservation. With these positions, the agencies will regain their ability to be effective stewards of the environment, while ensuring that their regulatory responsibilities are fulfilled in a timely manner.

- **New Agricultural Market.** The Budget will also provide $500,000 for costs associated with the development of a Wholesale Farmer's Market in New York City. This facility will ensure that the world class agricultural products of Upstate New York are available to Downstate businesses and residents.

Environmental Protection Fund

The 2007-08 Executive Budget provides $250 million - a 11 percent increase over 2006-07 levels - for new resources and new ideas for New York's environment.

- As a result of the expansion and restructuring of the State Bottle Bill, $25 million of additional revenues will be available in 2007-08, and $100 million per year thereafter.
- These new resources will allow for increased investments in open space and farmland preservation, water quality programs, recycling, public access and stewardship.
- These funds will allow for the creation of a new Pollution Prevention Institute that will provide technical assistance and support to companies that reduce their use of toxic chemicals.

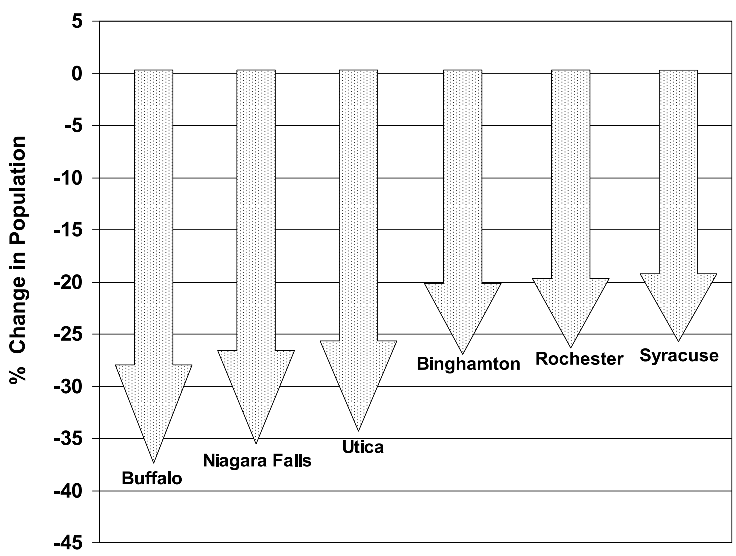
Revitalizing Local Government

> *"We must revitalize our cities, downtowns and rural communities to make them more economically vibrant places to live and work."*

Municipalities across the State face unique regional challenges in the years ahead. New York City and its surrounding metropolitan area must work, with the State as a partner, to sustain the impressive economic growth in that region that has benefited all New York residents in the form of higher revenues. And in Upstate New York, a concerted, long-term effort will be required to revitalize fiscally distressed municipalities and rekindle once vibrant local economies.

A number of interrelated economic and demographic factors have, for many years, combined to weaken the fiscal condition of Upstate local governments, particularly cities. More than three-quarters of all Upstate cities have experienced population declines in excess of 10 percent since 1970, with much of the recent drop occurring in the under 25 age group. From 2000 to 2005, property values in Upstate municipalities grew at less than one-third the average annual rate for localities in the New York City metropolitan area. At the same time, rising property taxes, fueled by a growth in fixed costs and other government spending, continue to create a competitive disadvantage in local efforts to attract jobs and industry.

Population Decline in Upstate Cities (1970-2000)



Long-term population losses have been a key factor in the economic and fiscal decline of many Upstate urban centers.

The 2007-08 Executive Budget takes the first step in a multiyear commitment to assist distressed local governments and strengthen regional economies throughout the State. Using a full range of aid mechanisms and statutory reforms, the State will work closely with municipalities to improve local finances, reduce property tax growth, and promote job creation.

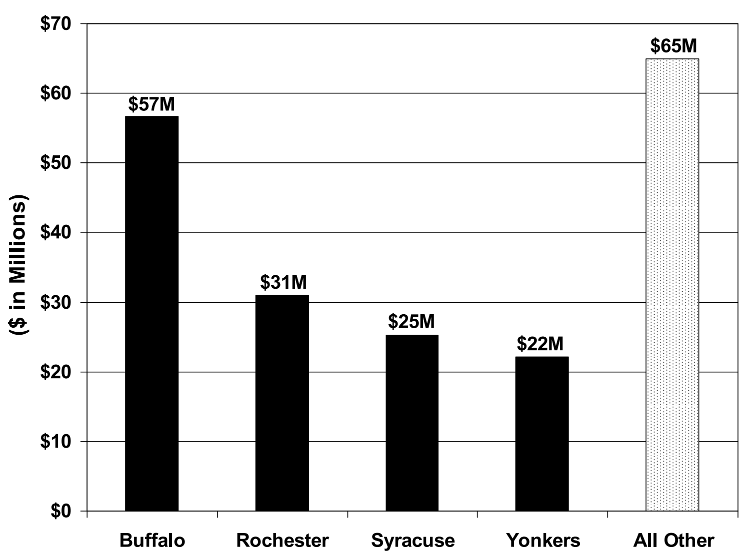
Renew New York: A Four -Year Agenda to Revitalize Upstate New York

Governor Spitzer's Renew New York agenda provides a four-year strategy to place distressed municipalities in Upstate New York on the road to recovery. Combining investments and initiatives across the State Budget, Renew New York includes the following major elements:

- **Increased State Aid for Distressed Municipalities:** The existing Aid and Incentives for Municipalities program (AIM) will be restructured to target $50 million in annual performance-based increases to distressed municipalities over a four-year period. Beginning in 2007-08, AIM increases ranging from 3 to 9 percent will be provided to municipalities based upon their level of fiscal distress. For example, 17 highly distressed Upstate cities and villages that meet all fiscal stress indicators under the targeted AIM program would receive the maximum 9 percent State aid increase. To improve local fiscal performance and encourage efficiency, AIM accountability criteria will be expanded. These criteria would require municipalities receiving the largest AIM increases to develop multiyear fiscal performance plans and to use the additional funding to provide property tax relief, support essential economic development investments or fund cost-saving technology investments.

  As part of this overall effort to redirect AIM to higher need municipalities, New York City and 81 high wealth towns and villages would not qualify for State aid. Many of these municipalities, however, will substantially benefit from increased State investments in education and property tax relief.

Targeting Aid to the State's Most Distressed Municipalities ($200 Million Increase by 2010-11)



Over the next four years, significant increases in AIM funding will be targeted to cities, towns and villages experiencing fiscal distress. New AIM accountability criteria will encourage these municipalities to improve efficiency and fiscal performance.

- **Economic Development and Infrastructure.** Upstate New York will be a high priority under the Governor's economic revitalization program. Beginning with a new Upstate Co-chair for the Empire State Development Corporation, the State will advance a series of new initiatives that benefit the Upstate region. This Budget will contribute to that effort in a number of ways, including through the creation of an Investment and Job Creation Program with an appropriation this year of $300 million and an eleven-year, $2.1 billion Stem Cell and Innovation Fund program.

- **Education Aid.** During the first year of the Governor's $7 billion Four-Year Educational Investment Plan, Upstate school districts will receive State aid increases totaling $551 million, providing substantial additional funding for a variety of educational initiatives, including Universal Prekindergarten. Buffalo, Rochester and Syracuse together will receive an additional $104.6 million.

- **Property Tax Relief.** Governor's Spitzer's new Middle Class STAR initiative will provide $596 million in new targeted property tax relief to taxpayers residing in Upstate municipalities. By 2010-11, this amount will grow to $1 billion.

- **Local Shared Services and Consolidation Incentives.** To promote property tax relief by encouraging New York's many local governments to share services or consolidate, the Executive Budget funds the Shared Municipal Services Incentive (SMSI) program at the $25 million level provided in 2006-07. While continuing to support grants for a range of local shared services activities, SMSI will be modified to assign priority to grant applications from fiscally distressed municipalities as well as proposals that generate school district cost savings. In addition, new consolidation incentive aid will be created under SMSI that provides a recurring 25 percent AIM increase to municipalities that merge or consolidate beginning in 2007-08. Finally, the State will join with municipalities in addressing rapidly rising employee health insurance costs by making available a new lower cost health insurance plan on a statewide basis.

- **Mandate Relief.** All municipalities will benefit from lower construction costs resulting from a proposed increase in the Wicks Law thresholds. Outside New York City, this threshold will be increased from $50,000 to $1 million per project. In addition, procurement reforms will be advanced to facilitate cost-effective local purchasing practices. Municipalities will also benefit from greater parity in the treatment of personal injury and wrongful death claims against public employers, and local governments will be given the option to pursue housing code violators through administrative proceedings that would streamline enforcement of these vital maintenance codes.

State Support for New York City

New York City's economy, bolstered by a vibrant financial services sector and real estate market, has placed the City in excellent financial condition. This Budget includes several major initiatives that will help the City sustain its economic strength:

- **Education Aid.** Under the Governor's Four-Year Educational Investment Plan, City schools will receive an additional $3.2 billion in State aid by 2010-11. Along with $2.2 billion in funding for schools provided by New York City, total State and local funding for New York City schools will increase by $5.4 billion by 2010-11. In 2007-08, New York City will receive an additional $637 million in State education aid.

- **Tax Loophole Closers.** The Budget will close existing loopholes in the Tax Law that allow certain corporate and other taxpayers to shelter income in unintended ways. Since many New York City taxes parallel State tax policy, these actions will generate an additional $374 million in annual City tax revenue.

- **Health Care.** The Budget continues both the State cap on local Medicaid costs and State pick-up of the local share of the Family Health Plus program, thereby producing substantial New York City budget savings estimated at $706 million in the upcoming City fiscal year.

- **Mandate Relief.** An increase in the Wicks Law threshold from $50,000 to $2 million will save the City $112 million in debt service savings over the life of its ten year capital plan. In addition, municipal litigation and tort law reform will lead to estimated annual savings of $14 million for New York City.

Impact of the 2007-08 Executive Budget on All Local Governments

Consistent with Governor's Spitzer's budget reform agenda, the State will provide more detailed multiyear reporting on the fiscal impact of Executive Budget recommendations on local governments. Key local impacts include:

— A total positive local impact of $1.5 billion for new 2007-08 Executive Budget actions on a local fiscal year basis. Including continuation of the Medicaid Cap and Family Health Plus Takeover, the total positive local impact of this Budget grows to $2.7 billion.

— An education aid increase of $1.4 billion, representing the single largest local impact.

— A multiyear positive impact of $5.1 billion by 2011, with increases again driven largely by the Governor's Four-Year Educational Investment Plan.

Impact of the 2007-08 Executive Budget on Local Governments (Local Fiscal Years Ending in 2008 – $ in Millions)

	Total	NYC	School Districts	Counties	Other Cities	Towns & Villages
School Aid*	1,415.0	637.0	778.0	0.0	0.0	0.0
Revenue Actions	379.8	344.0	0.0	35.8	0.0	0.0
Transportation	28.9	18.0	0.0	10.9	0.0	0.0
Public Protection	6.3	0.0	0.0	1.3	0.0	5.0
Municipal Aid	(297.1)	(347.9)	0.0	(3.4)	54.7	(0.5)
Welfare/Child Welfare	(18.4)	(5.4)	0.0	(13.0)	0.0	0.0
Early Intervention	2.3	0.8	0.0	1.5	0.0	0.0
Economic Development	(2.2)	0.0	0.0	(2.2)	0.0	0.0
Mandate Relief/Other**	22.0	22.0	--	--	--	--
Total 2007-08 Exec. Budget Actions	1,536.6	668.5	778.0	30.9	54.7	4.5
Continuing Medicaid Cap Savings***	640.3	343.3	0.0	297.0	0.0	0.0
Continuing FHP Takeover Savings	492.8	362.5	0.0	130.3	0.0	0.0
Grand Total	2,669.7	1,374.3	778.0	458.2	54.7	4.5

*The $1.4 billion 2007-08 school year increase includes $112 million in EXCEL building aid debt service payments but does not include $1.45 billion in EXCEL capital assistance to be provided in 2007-08

**Mandate Relief Savings outside of NYC cannot be specifically quantified since savings vary based upon local government financing practices and unique circumstances

***Medicaid Cap Savings exclude proposed 2007-08 cost containment initiatives which – if enacted – will lower the State's cost for the cap

Impact of the 2007-08 Executive Budget on Local Governments (Local Fiscal Years Ending 2007–2010 – $ in Millions)

	LFY Ending in 2007	LFY Ending in 2008	LFY Ending in 2009	LFY Ending in 2010
NYC	(21.4)	668.5	1,428.9	2,294.2
School Districts	0.0	778.0	1,515.0	2,651.0
Counties	26.6	30.9	29.6	28.2
Other Cities	11.9	54.7	93.0	151.3
Towns & Villages	3.6	4.5	7.2	9.9
Total 2007-08 Exec. Budget Actions	20.7	1,536.6	3,073.7	5,134.6
Continuing Medicaid Cap Savings*	412.3	640.3	1,068.0	1,610.5
Continuing FHP Takeover Savings	452.8	492.8	522.5	536.3
Grand Total	885.8	2,669.7	4,664.2	7,281.4

*Medicaid Cap Savings exclude proposed 2007-08 cost containment initiatives which – if enacted – will lower the State's cost for the cap

Excellence in Higher Education

"We must begin an effort to make our higher education system the best in America."

In the global competition of a 21st century economy, one of New York's greatest assets is our strong and diverse system of higher education. The State's public and private colleges currently enroll 1.15 million students, and nearly 69 percent of our high school graduates go on to college. This rate is the second highest rate in the nation.

New York is the home of the nation's largest public university system — the State University of New York (SUNY) — and the nation's largest urban public university system — the City University of New York (CUNY). However, to achieve excellence for every student, it is not sufficient for SUNY and CUNY to simply be the biggest public universities in the nation — they must also be the best.

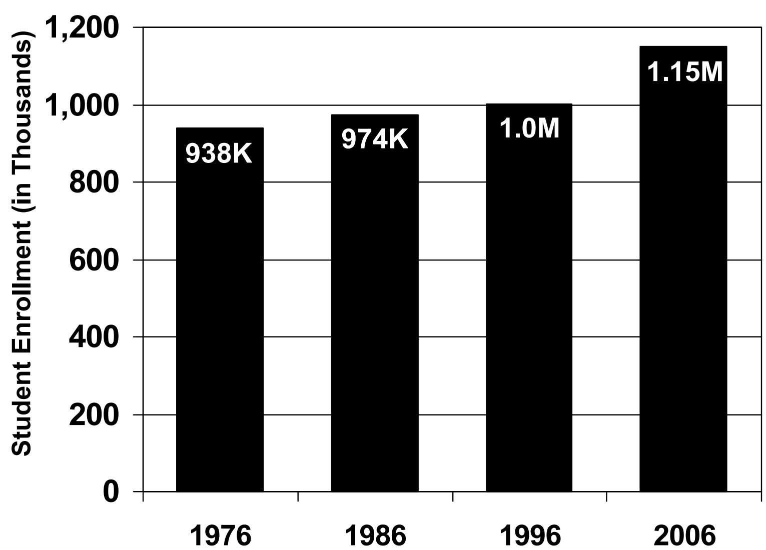
Commission on Public Higher Education

The Governor's new Commission on Public Higher Education will develop comprehensive recommendations as part of a multiyear strategy for achieving academic excellence, ensuring access, and stimulating the State's economic revitalization.

Among its charges, the Commission will be responsible for developing:

- Short-term and longer-term strategies to enable our public universities to go from being good to being great.
- A rational tuition policy to promote affordability, stability and predictability in future tuition charges at SUNY and CUNY.
- Benchmarks for comparing the educational accomplishments, research productivity and academic quality of our public colleges against those of peer institutions throughout the country.

New York State Public and Private College Enrollments



New York's public and private colleges are attracting record numbers of students. In 2006, the State's total college enrollments reached an all-time high of approximately 1.15 million students.

Higher Education Investment Strategy

The financing of our public universities is a partnership with taxpayers, students, and campuses sharing responsibility for supporting campus operations and programs. Under this partnership:

- Taxpayers support fixed operating costs at SUNY and CUNY, and invest in targeted initiatives that strengthen academic programs and promote economic development.
- Students support a portion of their college costs through affordable and predictable tuition increases.
- Campuses achieve efficiencies and ensure the prudent expenditure of taxpayer and student funds.

Pending receipt of the tuition policy recommendations of the Governor's Commission on Public Higher Education, no tuition increase is recommended for SUNY and CUNY State-operated colleges in 2007-08. The Executive Budget recommendations for SUNY and CUNY State-operated campuses include:

- A total of $3.36 billion for SUNY's 2007-08 gross operating budget. This represents an increase of $148.1 million, or 4.6 percent. A total of $1.62 billion is recommended for CUNY's 2007-08 gross operating budget. This represents an increase of $71.8 million, or 4.6 percent.
- State support for SUNY and CUNY will fully fund their ongoing operational costs, and will provide a $10 million increase for the Empire Innovation Program at SUNY ($6 million) and CUNY ($4 million). This additional funding is part of a multiyear plan to enable SUNY and CUNY to recruit top faculty for their research programs.
- An increase of $2.3 million for Educational Opportunity Centers to expand access for disadvantaged students at these tuition-free programs. This will bring total funding to $50.6 million.

Community Colleges

New York's 36 community colleges represent the primary point of access for more than 290,000 students across the State. For the 2007-08 academic year, base operating aid for SUNY and CUNY community colleges will be raised to $2,625 per student — an increase of $100 per student.

For 2007-08, State aid for community colleges will total:

- $445.7 million at SUNY community colleges — an increase of $20.2 million, or 4.7 percent.
- $169.7 million at CUNY community colleges — an increase of $6.3 million, or 3.8 percent.

Capital Infrastructure Investments

To ensure our public campuses receive funding for essential facility and infrastructure improvements, the Governor will call upon SUNY and CUNY to develop new Five-Year Capital Plans for 2008-09. Adoption of new Five-Year Plans will promote stability, predictability and greater discipline in the capital funding process and will ensure campus priorities are balanced with available resources.

Pending development of these new Five-Year Capital Plans, the 2007-08 Executive Budget provides transitional funding of $379.7 million at SUNY and $265.8 million at CUNY to support high priority projects.

TAP Investment and Reform

New York leads the nation in funding for needs-based student financial aid, and $857 million is proposed for the State's Tuition Assistance Program (TAP) for the coming year, a net decrease of $18.7 million reflecting program growth, less $30 million in savings from proposed reforms relating principally to proprietary institutions. This amount will fully fund the existing TAP program, and provide additional funding for the new Part-Time TAP program enacted in 2006.

For the coming year, reforms are proposed to promote the wise investment of taxpayer funds. Specifically, use of the Ability to Benefit Test (ATB) will be discontinued as a measure of determining academic eligibility for TAP beginning with the 2007-08 academic year.

This reform will conform New York's eligibility standards to those currently in use by other major states, and ensure all TAP recipients have the academic skills they need to successfully complete college-level coursework. This reform will also address irregularities in ATB test administration identified in audits conducted by the Office of the State Comptroller.

SUNY Hospitals

SUNY's three teaching hospitals in Stony Brook, Brooklyn and Syracuse provide important graduate medical education training for SUNY students, as well as valuable health care services for the communities in which they are located. The Berger Commission on Health Care Facilities in the 21st Century recommended a number of actions with respect to SUNY hospitals including:

- Joining SUNY Upstate Medical Center and Crouse Hospital under a single unified governance structure to promote better strategic planning, service delivery and bed utilization.
- Studying the feasibility of privatizing SUNY's teaching hospitals at Stony Brook, Syracuse and Brooklyn, with such study conducted by the Commissioner of Health in consultation with other relevant groups.

In the coming months, SUNY will work with the Department of Health to move forward with the Berger Commission's recommendations for its teaching hospitals.

Investment in Arts and Culture

Arts Grants

New Yorkers are in the national forefront in their attendance at arts and cultural events, attesting to the importance of the arts in our daily lives. Generous grants-in-aid from the State to non-profit arts organizations serve as a significant catalyst in preserving and enriching our cultural resources. For the coming year, a total of $47.5 million, an increase of $5 million, is recommended for arts grants administered by the Council on the Arts.

Public Libraries

New York's public libraries are an invaluable resource and a key component of the State's Knowledge Network. For 2007-08, $94.2 million will be provided to fully fund the Library Aid formula and $3 million is continued in supplemental support for public library systems. A new bonded appropriation of $14 million is recommended for 2007-08 for the Library Capital Grants program that began last year.

Public Broadcasting

Our public broadcasting system plays a vital role in the educational advancement of all New Yorkers. For 2007-08, $18.8 million, an increase of $2 million, is recommended in funding for the State's eight public television stations and 17 public radio stations.

Safeguarding New York's Cultural Collections

For 2007-08, the Executive Budget recommends a $60 million bonded appropriation for site acquisition, planning, design and construction of a new climate-controlled storage facility for the collections of the State Museum, Library and Archives. This new funding replaces $20 million previously provided for preliminary project costs.

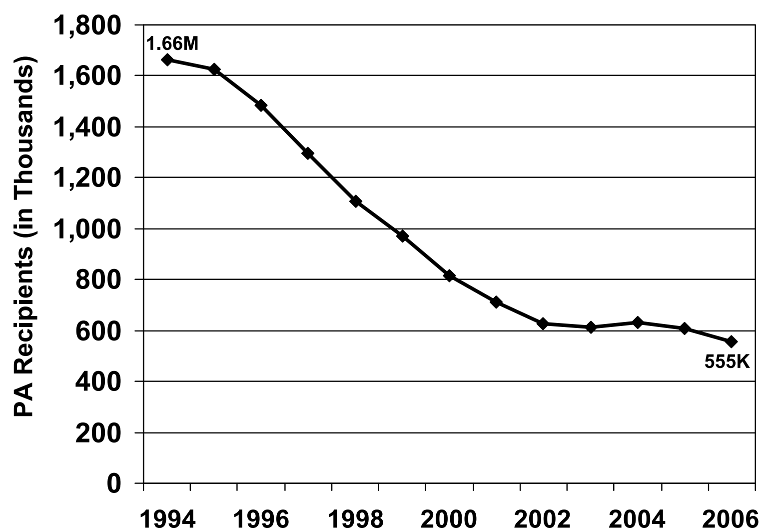
Supporting Families and Children

"One New York means a state that does not just get a working parent off the welfare roll, but one that helps lift him out of poverty."

New York, along with almost all other states, has experienced a sharp reduction in the number of individuals receiving welfare. Federal reforms emphasizing the importance of work, coupled with a steady economy and our own State and local program efforts, have led to a 67 percent drop in the welfare caseload since its highpoint in 1994. Continued moderate declines are projected through the 2007-08 State fiscal year.

In many ways, the most serious challenges lie ahead. Those remaining on public assistance face multiple barriers to employment including physical or mental health problems, drug or alcohol abuse and limited education or language skills. Working families living below the poverty level need a range of services to maintain their financial independence. And even greater efforts must be made to protect vulnerable children from abuse, neglect and the need for out-of-home placement in foster care or juvenile justice facilities.

Public Assistance Caseloads Continue to Decline

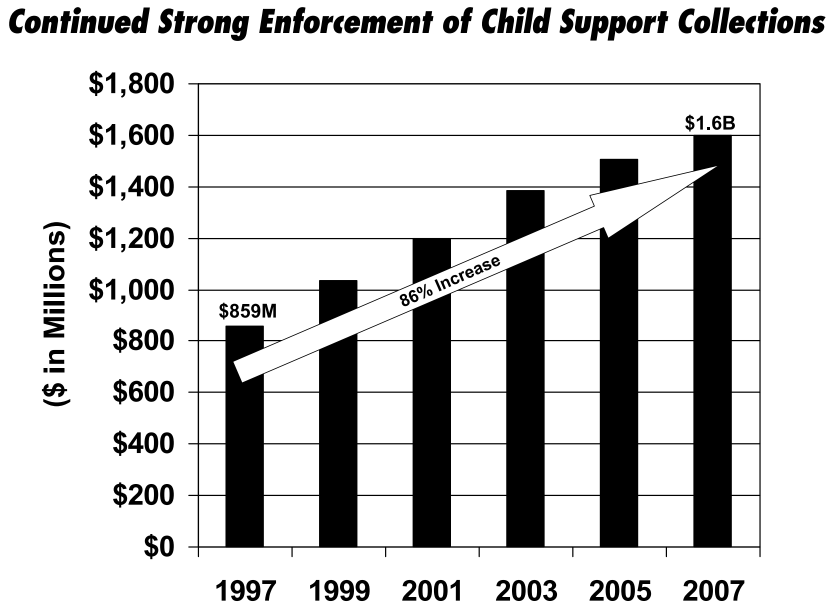


Since its high point in April 1994, approximately two years before Federal welfare reform legislation took effect, the number of New Yorkers receiving welfare has declined by over 1.1 million – from 1,661,331 to 554,983 as of November 2006.

Public Assistance

The decline in the number of individuals receiving public assistance payments has generated savings in the $2.4 billion Federal Temporary Assistance for Needy Families (TANF) Block Grant. This has allowed for substantially increased investments in tax/wage supplement benefits and supportive services (including child care, transportation, and employment services) for the working poor and those moving from public assistance to employment. Access to food stamps and child support—two other critical supportive services—has also been expanded. Governor Spitzer's Budget will provide $9.2 million in targeted increases in TANF support to local social service districts and will maintain more than $80 million in investments in TANF-funded supportive services for the poor that had been eliminated in prior years' Executive Budgets.

Beginning in 2007-08, New York State will seek creative ways to further reduce the number of individuals receiving public assistance and to provide necessary supports to allow all low-income working families to attain financial independence. Governor Spitzer's Budget includes additional resources to build an improved partnership with local governments and the not-for-profit community to expand opportunities for those struggling to overcome economic obstacles that hinder self sufficiency. Key recommendations include:



Child support collections are expected to reach $1.6 billion in 2007, the largest amount in State history.

- **Expanded Local Services.** TANF-supported allocations to local districts will be increased by a total of $9.2 million to $1.046 billion, including separate funding of up to $35 million for the Summer Youth Employment Program, $3 million for non-residential services to victims of domestic violence, and $1.008 billion for the Flexible Fund for Family Services. These amounts will give counties additional resources to help employable New Yorkers transition off welfare and into work. Using this funding, counties will be expected to meet new, more aggressive federal work rates for public assistance recipients. Those local governments that meet the new rates will be eligible for incentive bonuses of up to $11.4 million statewide.

- **Additional Child Care Resources.** Child Care Block Grant funding, comprising federal, state and local dollars, will total $533 million. Within this amount, General Fund support to local districts for child care subsidies will be increased by $4 million, for a total of $140 million. Counties may also dedicate funds from the $1.008 billion Flexible Fund for Family Services to child care. Child care funding is a critical element of the State's effort to help recipients of public assistance and low-income workers achieve self-sufficiency.

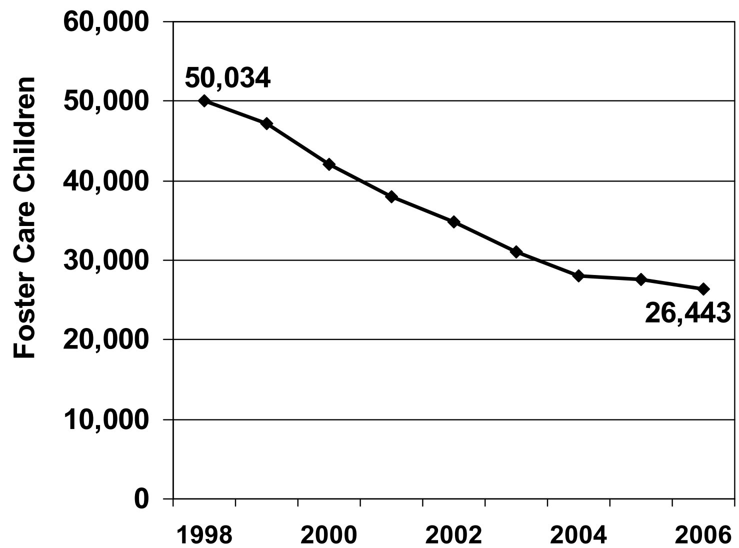
- **Intensive Case Management Services.** Local governments will continue to receive $15 million to support intensive case management services for harder to serve individuals who consistently fail to meet work requirements and, as a result, may have their public assistance benefits reduced.

- **Performance-based Employment Services Funding.** TANF funding totaling $32.5 million will be earmarked for other employment-focused programs for those currently receiving public assistance and for low-income workers striving to achieve full and lasting financial independence. Programs will be expected to meet clearly defined objectives, consistent with the State's commitment to better prepare low-income individuals for the workplace.

- **Supportive Housing Investments.** Approximately $70 million will be provided for supportive housing for low-income New Yorkers. This includes an increase of $1.1 million for the Single Room Occupancy Program to keep pace with the expected creation of additional supportive housing units in 2007-08. Supportive housing continues to offer a cost effective alternative to individuals who, with the proper supports, are capable of living independently.

- **Enhanced State Program Coordination.** When drug and alcohol abuse is found to be the primary hindrance to a recipient's achievement of economic self-sufficiency, the Office of Temporary and Disability Assistance will partner with the Office of Alcoholism and Substance Abuse Services and the not-for-profit community to develop job training protocols and employment expectations so that individuals who are currently in or have completed the treatment process can more readily transition into the workplace.

Foster Care Caseloads Steadily Decline



Since 1998, the number of children in foster care has decreased by 47 percent – from 50,034 to an estimated 26,443 in 2006.

Children and Family Services

Although the number of young people in foster care and youth facilities continues to decline, preventing the placement of children out of their homes and communities remains a challenge. The 2007-08 Executive Budget focuses on making child welfare reform permanent, improving services provided to families in crisis, and making smarter, performance-based investments to better protect the children of New York:

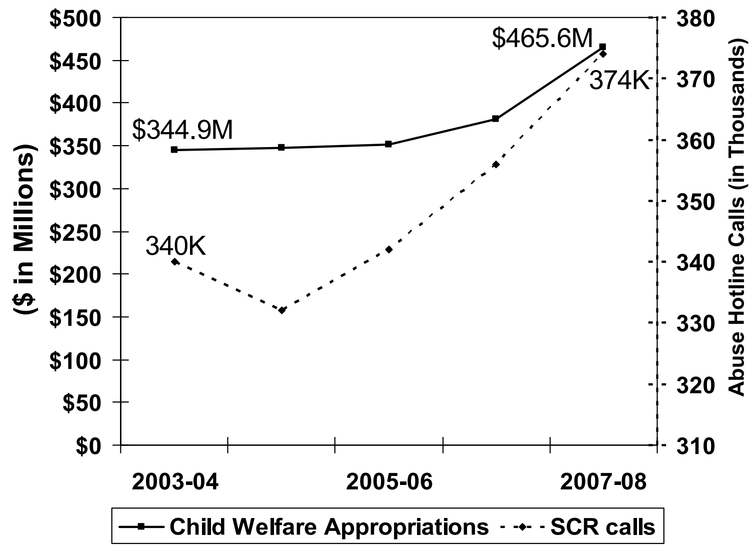
- **Increased State Investment in Child Welfare.** A total of $465.6 million will be available to reimburse local governments for the cost of child welfare services designed to prevent child abuse and neglect, an increase of $84 million from 2006-07. Legislation will be advanced to make child welfare reform permanent in 2007-08 in order to continue the State's commitment to partner with local governments to finance child welfare services.

- **Performance-based Child Welfare Funding.** In return for the State's permanent child welfare investment, local governments will be expected to invest in proven preventive programs, and will be required to develop contracts that are performance-based, with the goal of decreasing the number of foster care placements and reducing the length of stay in foster care. A performance approach will also apply to $108.6 million in TANF funding included in the Budget for services to children and families, including programs administered by the Department of Health. These contracts define specified outcomes that will be achieved through clearly delineated interventions. Such an approach helps the public to better relate anticipated accomplishments to the State's level of investment.

- **Human Services COLA Increase.** Funding will be provided for an April 1, 2007 Human Services COLA that will increase payments to foster care providers, as well as foster and adoptive parents. These increases will enable the Office of Children and Family Services (OCFS) to recruit and maintain foster parents that serve youth in need of permanency.

- **Improved Medicaid Services for Foster Children.** A new Medicaid waiver designed to improve services to hard-to-serve youth in foster care will come on line in 2007-08, assuming timely Federal approval. The enhanced services provided under the waiver are expected to reduce the need to place youth in institutions and to decrease the lengths of stay in foster care.

Child Welfare Spending Increases to Support Child Abuse Prevention Efforts



Funding for child welfare services will increase to address the continued rise in child abuse and neglect calls resulting from a heightened public awareness and an increased focus on preventive services.

Youth Rehabilitative Services

The 2007-08 Executive Budget will allow OCFS to take four important steps forward in the State's effort to provide effective rehabilitative services to youth assigned by the courts to State juvenile justice facilities:

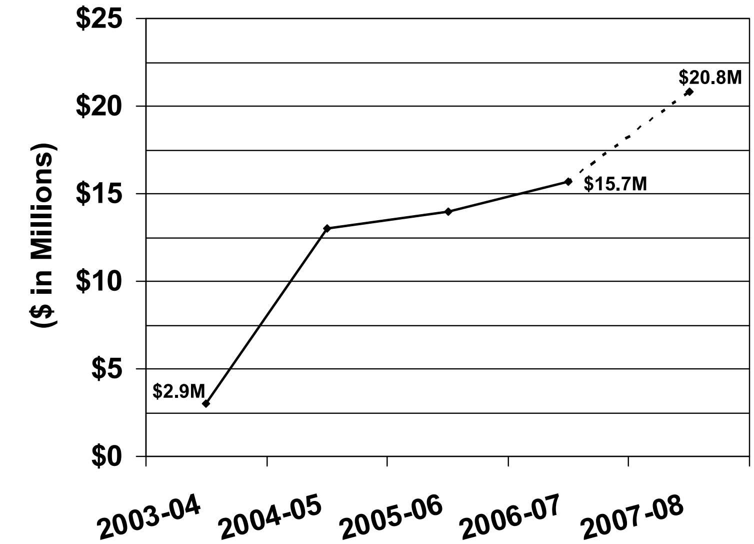
- **Additional Staff.** OCFS will hire 200 new staff at its facilities, an increase of 9 percent, at an annualized cost of $11.8 million, to better meet the safety and health needs of the youth under its care.

- **Community-Based Services.** OCFS will expand the use of community-based services designed to reduce a youth's length of stay in a facility and to divert youth from placement in facility settings. Similarly, localities will be given additional State support to operate community-based alternatives to placements at locally-operated detention facilities that house youth with cases pending in Family Court. A total of $20.8 million in State support will be provided for these efforts, a 32 percent increase from 2006-07.

- **Community Service Teams.** OCFS will expand the Community Service Teams concept through which the Office and local districts immediately engage the families of youth placed in OCFS' facilities to ensure effective and safe assimilation back into the community. Family preparation, coupled with a strong system of community support programs, significantly impacts a young person's ability to succeed once he or she returns to the community.

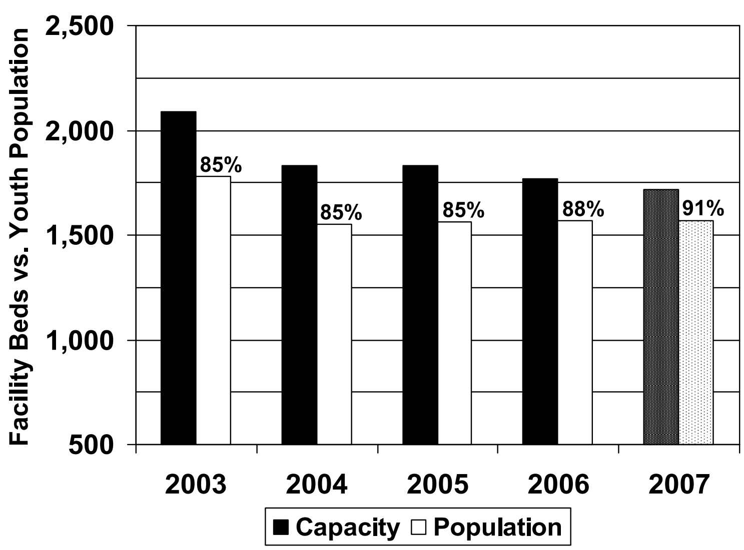
- **Facility Closures.** Excess bed capacity in non-secure facilities and community residences will be reduced by closing the 25 bed Great Valley non-secure facility in Cattaraugus County, as well as two small under-utilized residential homes in Mount Vernon and Brooklyn and one vacant home in Gloversville. Youth in the Great Valley facility will be relocated to facilities closer to their families and communities. These actions will save $2.4 million when fully annualized.

Executive Budget Recommends $5 Million Increase in Community-Based Programs Serving Youth Involved in the Juvenile Justice System



This 32 percent increase will allow more juveniles to be diverted from facility-based services to community-based programs that are less expensive and provide comprehensive, family-based counseling services.

Executive Budget Brings Youth Facility Capacity More in Line with Population



This Budget eliminates 55 surplus beds in 2007-08 to reflect anticipated bed needs in OCFS facilities. These facilities are expected to be at 91 percent capacity, the highest level in 5 years.

Keeping New York Safe

"The first obligation of government is to ensure people are safe."

Governor Spitzer's Executive Budget advances a long-term strategy aimed at each of the major threats to New York's public safety – crime, natural disasters, and terrorism. The steps taken in this Budget lay the groundwork for significant reforms over the next four years, including an improved criminal justice system, better coordination of the State's public safety resources, and a stronger partnership with the federal government and local communities on homeland security and disaster preparedness.

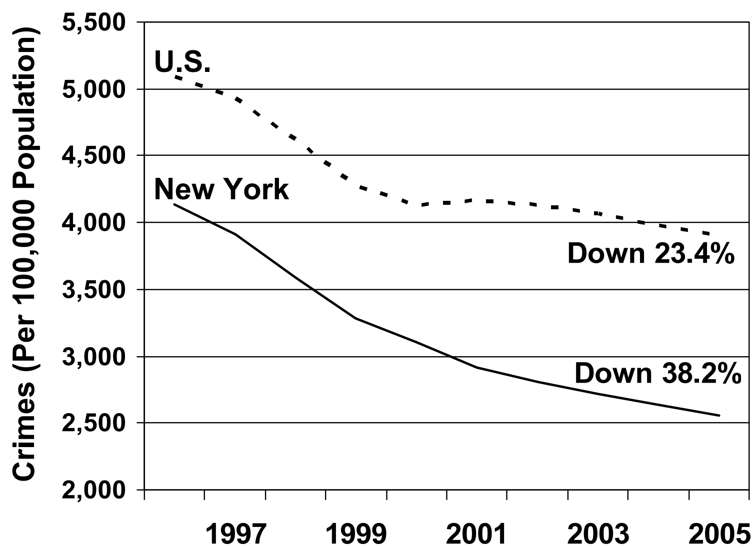
Overall, the Executive Budget proposes spending nearly $4 billion on criminal justice and related programs, in addition to more than $1 billion for disaster preparedness and homeland security.

Criminal Justice

For more than a decade, crime has fallen steadily in New York, as it has across the nation. At the same time, a surge of violent crimes in certain Upstate cities makes clear the need for continued focus on our law enforcement efforts. Consistent with these efforts, we should set the stage for the evolution of our entire criminal justice system into one that is effective, just and affordable.

To ensure that crime remains low, New York must rely on a smart criminal justice system that uses proven, cost-effective approaches. The Budget will expand crime-fighting efforts through new funding for:

Decline in State Crime Rate Exceeds the National Average

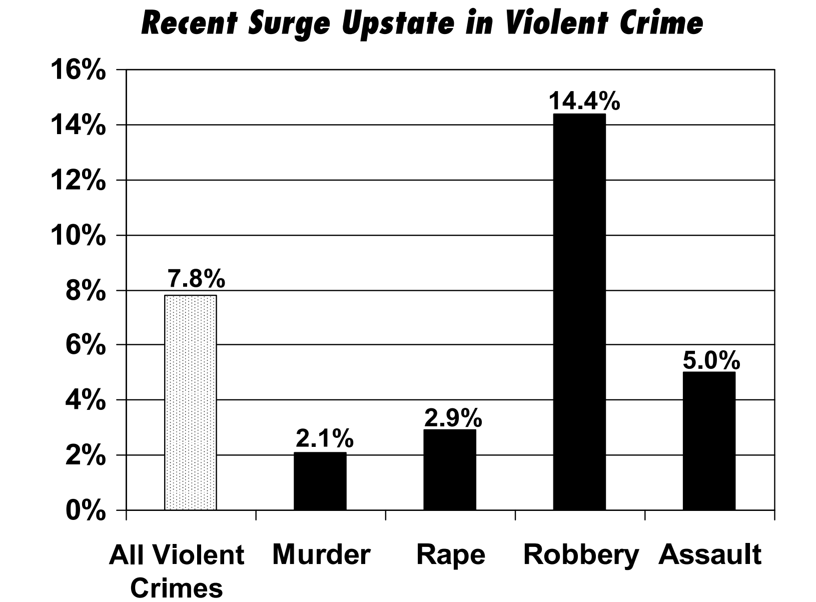


Over a decade, the number of major crimes in New York (as reported to the FBI) has fallen 38 percent, 63 percent further than the national average.

- **Local Crime-Fighting.** The Budget provides $2 million to fight crime in Upstate communities where violent crime is on the rise.
- **Crime Intelligence Sharing.** Funds will be available to begin development of Regional Analytic and Intelligence Centers in high-crime IMPACT jurisdictions to ensure the collection, analysis and sharing of crime data among the major law enforcement agencies from which joint strategies can be crafted to combat violent crime.
- **Increased Work Zone Speed Enforcement.** The Budget enhances safety in highway work zones by enforcing speed limits through a combination of State Police troopers and camera technology.
- **Civil Confinement for Sexual Predators.** Legislation will be proposed which will authorize the continued civil confinement of sexual predators.

Corrections

Reform of the prison system will begin with the creation of two commissions:

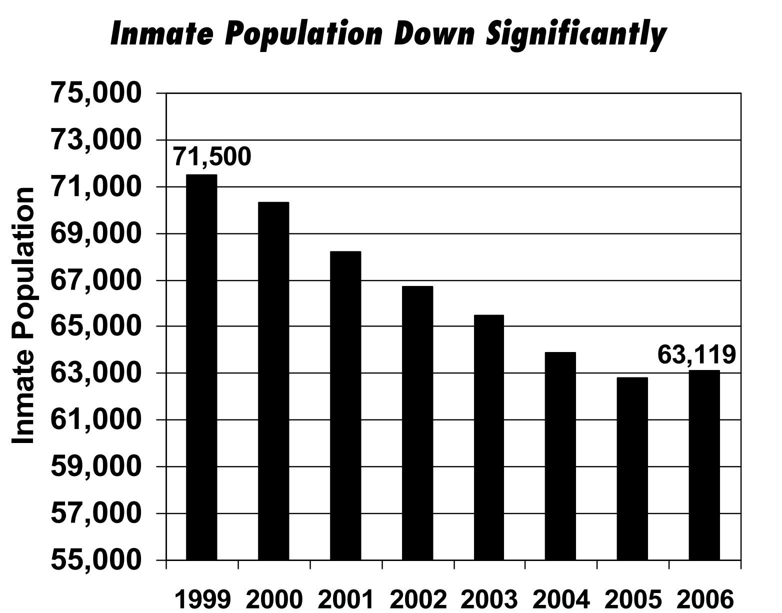


Between 2004 and 2005, the number of violent crimes committed outside of New York City rose 7.8 percent. New initiatives in the Budget are aimed at reversing this trend.

- **Closure Commission.** Since 1999, the prison population has decreased by more than 8,000, yet the State continues to operate the same number of facilities. Now is the time for a fair and transparent examination of the prison capacity the State will require in the future, and to determine which facilities may no longer be needed or are not cost-effective to operate. A panel of experts will be convened to evaluate this issue. The recommendations of the Closure Commission will be binding, unless the Governor rejects them or the Legislature overturns them in their entirety.

- **Commission on Sentencing Reform.** A review of how we sanction crimes goes hand-in-hand with an evaluation of the future shape of prison capacity. The Budget proposes a second commission of experts to conduct a comprehensive review of State laws governing how persons are sentenced to and released from prison, as well as a close examination of the use of alternatives to incarceration.

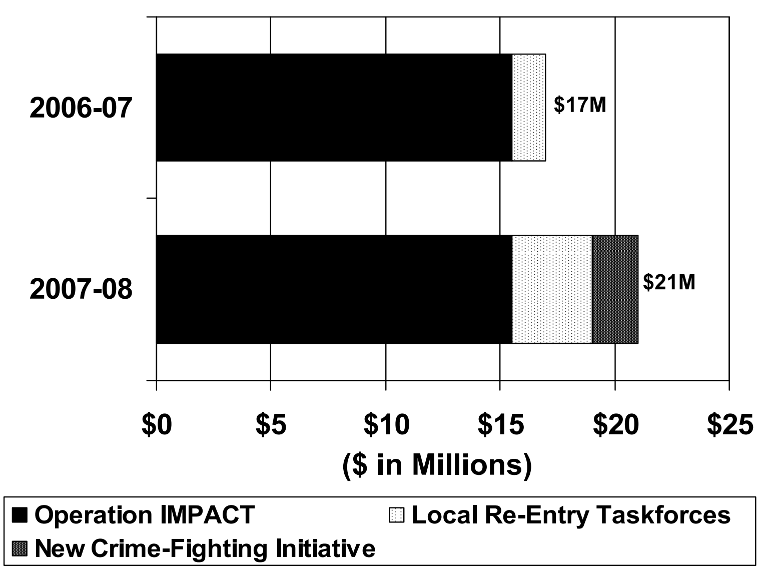
Further, we must properly prepare those scheduled to be released from prison for a successful re-entry. Over the next four years, the prison sentences of an estimated 106,000 persons will end, and these individuals will return to their communities. If they are to have a fair chance at successful reintegration, those formerly incarcerated must be able to rely on a support network that offers an opportunity to work, a safe place to live, and the chance for family reunification. Access to these supports must begin while the inmate is still incarcerated and continue upon release. To meet this goal, the Budget includes:



From its peak in December 1999, the population under the custody of the Department of Correctional Services has declined by 8,400 to approximately 63,100. During this period, the State has continued to operate 70 prisons.

- **Improved Prospects for Community Re-entry.** The Department of Correctional Services will transform existing facilities into transitional centers, where selected inmates will spend up to six months prior to their release intensively preparing themselves for reintegration into the community. These centers will make greater use of work release, a proven program which allows inmates to gain work experience in the community prior to release. In this setting, inmates will also gain critical socialization and life skills. Upon release, field parole officers will act as the linchpin of support and supervision in the community, and will be provided with additional resources. The Budget also continues funding for local re-entry taskforces to support efforts to connect individuals to appropriate services in their communities following incarceration.

Programs and Partnership with Local Governments



The Budget continues three programs that establish a strong criminal justice partnership with local governments. Operation IMPACT will continue to provide local governments with $15.5 million for community-based approaches to fighting crime. Local re-entry taskforces will receive additional funding to link those released from prison to the community services they need. The Division of Criminal Justice Services will offer $2 million in new competitive grants for Upstate crime-fighting initiatives.

- **Coordinated Planning for Parolees.** A framework will be established for an enhanced partnership and close coordination between the Department of Correctional Services and the Division of Parole to ensure programs delivered in prison will assist inmates when paroled, and to strengthen the role of parole officers in the transition planning process.

- **New Parole Violator Process.** The State will take responsibility for parole violators, relieving pressure on participating local jails, while also providing administrative law judges greater latitude in tailoring the sentence to the violation.

- **Ending Excess Phone Charges for Inmates.** The State's $16 million annual commission on inmate phone calls will end, so that contact between inmates and their families is preserved without an undue financial burden on families.

- **Improved Mental Health Treatment.** The Department of Correctional Services, in coordination with the Office of Mental Health, will continue to expand and enhance services to prisoners with mental health needs, including the development of a Regional Mental Health Unit specifically for those with serious and persistent mental illness.

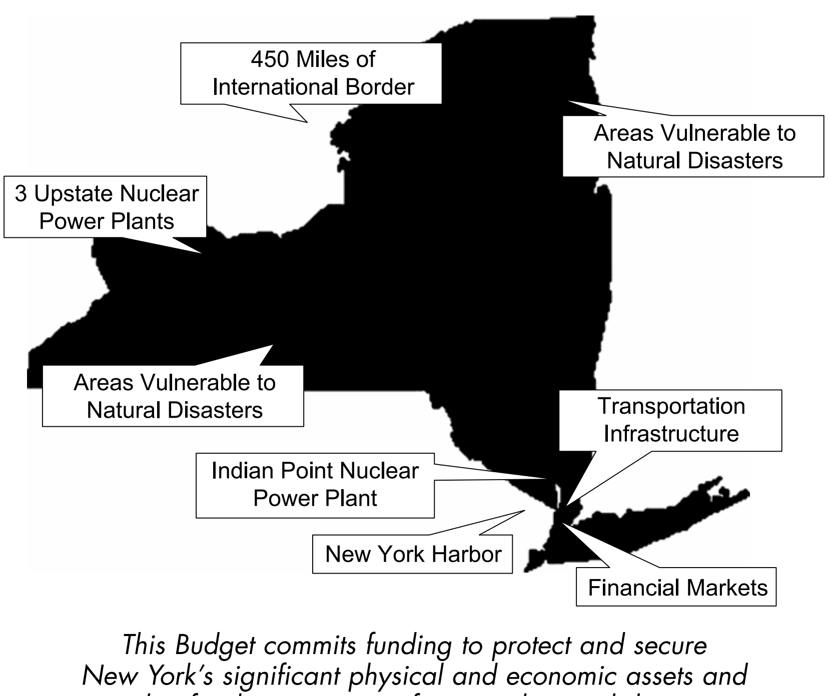
Disaster Preparedness and Homeland Security

Recent history teaches that New York must be vigilant in maintaining its readiness to respond to the dual threats of terrorist attacks and natural disasters. New York is unique in the myriad of threats it faces – a 450-mile shared border with Canada, six ports, 113,000 miles of highway, severe and often unpredictable weather problems across the North Country, the Southern Tier and Central New York, and hurricanes damaging Long Island. In addition, New York City is the world's financial center, home to a 660 mile subway system that transports an average of 4.7 million riders per day, and the highest concentration of high rise buildings on the east coast.

Maintaining our security and preparing for disasters takes continuous and careful planning. It requires a strong and cooperative partnership among all levels of government, and the intelligent and efficient allocation of resources. This Budget honors our strong commitment to homeland security and preparedness:

- **Disaster Planning.** During 2007-08, the State will work with Federal, regional, and local partners so that disaster response and recovery plans are updated to address new federal planning requirements, and to develop a statewide integrated response and recovery strategy for dealing with catastrophic disasters, including acts of terror.
- **Sharing Intelligence.** In 2007-08 the State will continue to build upon and expand partnerships with federal and local officials that emphasize the importance of information sharing between law enforcement and homeland security agencies.
- **Disaster Recovery.** During 2006, New Yorkers suffered three separate natural disasters, requiring more than $450 million in State and federal aid. The Budget ensures that disaster aid will continue to flow to those communities most impacted by these disasters, as their recovery continues.

Securing New York State's Assets



This Budget commits funding to protect and secure New York's significant physical and economic assets and to plan for the mitigation of potential natural disasters.

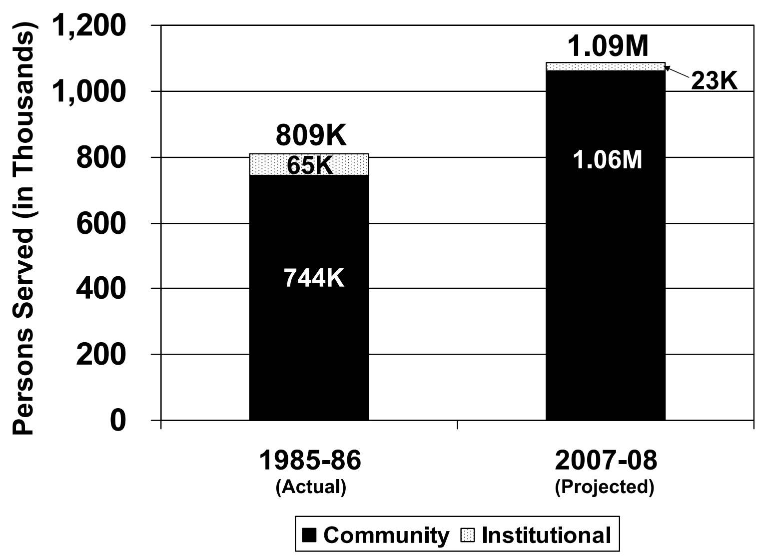
- **Statewide Wireless Network.** The Budget advances the development of the Statewide Wireless Network, a statewide interoperable communications network for first responders.
- **Security for Nuclear Power Plants.** This Budget continues National Guard security at nuclear power plants while recovering $13 million in reimbursement for those costs from operators of nuclear power plants through a new assessment.

Strengthening the Mental Hygiene System

"We must lead a 'revolution of empowerment' (for New Yorkers with disabilities) because, in the end, the choice we face isn't about politics. It's about who we are as human beings. It's about our core belief in the moral obligation of government. And it's about what kind of community we want to live in."

New York State has a proud history of creating services that assist those with physical, mental, or developmental disabilities. As a State, we have always supported policies that empower disabled New Yorkers to live independent, dignified, and productive lives.

Mental Hygiene Populations Continue to be Served in More Appropriate Settings



Over two decades, the number of individuals served by the Mental Hygiene agencies has grown by 276,000 with an increasing percentage being served in community settings.

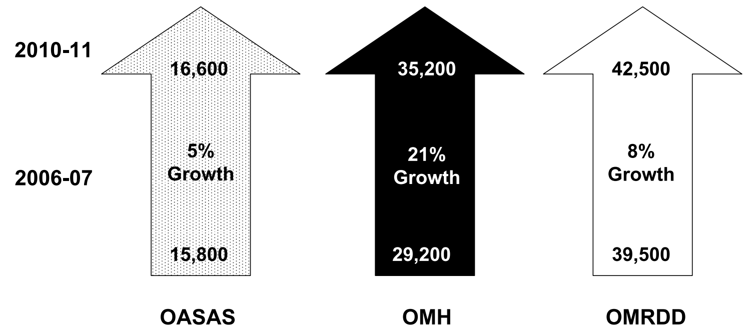
Most often, this has been accomplished by simply expanding the Mental Hygiene service system in order to meet the long-standing unmet needs of populations served by the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), the Office of Alcoholism and Substance Abuse Services (OASAS), and their networks of not-for-profit providers.

While successful, this incremental expansion in services is not always accompanied by any comprehensive and recurring evaluation of the quality and effectiveness of available programs in this ever more complex system.

That is why this Budget offers a broader and more balanced perspective. It is an approach that both invests in new services and recognizes the need to re-invest in, examine and strengthen current programs to assure that high quality and effective services continue to be provided. The Budget's comprehensive approach is designed to improve coordination among agencies, promote cost-effectiveness, and eliminate wasteful and fraudulent practices.

Consistent with this strategy, Governor Spitzer's Executive Budget makes new investments to improve the facilities and program delivery of critically needed services, such as community housing for adults and children with mental illness. It proposes increased funding to make capital improvements for chemical dependency programs, and to expand services to address those populations still in need of services.

Budget Proposes Additional Investments in Mental Hygiene Community Beds



The 2007-08 Executive Budget recommendations support 9,800 new beds, or an 11.6 percent increase between 2006-07 and 2010-11.

Addressing Unmet Needs

This Budget continues government's fundamental obligation to address the unmet needs of the Mental Hygiene populations through several key initiatives that expand services, including:

- **Development of Additional OMRDD Residential Placements.** NYS-CARES is a nationally heralded initiative originally funded to develop 6,800 new residential beds and associated day and support services. This Budget commits to increasing NYS-CARES by another 1,000 beds and almost 2,500 day services over the next five years, at a first year cost of $6 million, growing to $12 million when fully annualized, and an annual cost of over $60 million when fully implemented.

- **Expanded Family Support Services in OMRDD**. The Budget provides an increase of $7.9 million, or almost 12 percent, to help an additional 5,000 families care for their disabled loved ones at home, bringing the total number of families served to 46,000.

- **Expanded Work Opportunities for OMRDD Consumers.** The recommendation supports $3 million in new resources to enhance OMRDD's Supported Employment program by developing 750 new supported work opportunities and transitioning at least 500 consumers from sheltered workshops, day training and prevocational programs into more competitive work, increasing total Supported Employment participants to over 8,800 persons. New initiatives include fee enhancements for job developers and coaches as well as short-term subsidies for new competitive employment opportunities.

- **Additional OASAS Treatment Beds.** This Budget provides $52 million of capital funding to develop 100 additional treatment beds for veterans returning from the "war on terror" with chemical dependency problems, as well as 100 new treatment beds targeted for the Long Island region. When completed, this will bring the total number of funded OASAS treatment beds to 16,600.

- **Additional OMH Community Residential Beds.** This Budget adds 1,000 new supported housing rental beds, which provide essential room and board and mental health support services to individuals, at a cost of $6 million, growing to $12 million when fully operational, and provides $200 million in new capital resources to add another 1,000 certified beds to OMH's capital pipeline. These actions will bring the total community beds for the mentally ill, either operational or in development, to 38,900.

- **Expanded OMH Community-Based Services for Children.** The Budget expands OMH's Home and Community-Based Waiver Services for children by 180 new slots, costing $1.2 million, growing to $4.7 million when fully annualized and bringing the total number of slots to 1,620 serving some 2,430 children. These slots are critical to placing children in need of services in their home and community environment, thereby avoiding more restrictive and costly out-of-home placement.

Revitalizing Current Mental Hygiene Programs

Investments to enhance the current service delivery network and to maintain a safe and secure physical environment are crucial to the long-term health of the Mental Hygiene service system. Indeed, such investments can both vastly improve the quality of care for the consumer and the quality of the work place for those charged with their care. Accordingly, the 2007-08 Executive Budget provides:

- **Workforce Incentives.** This Budget honors the second year of a three-year cost-of-living adjustment (COLA) by providing $60 million to help OMH, OASAS and OMRDD non-profit programs not receiving a regular health care trend with work force recruitment and retention. Moreover, the recommendation advances $17.4 million for the last year of a three-year OMRDD initiative to address health care benefits in the not-for-profit sector.

- **Improved Care in OMH Community Residences.** This Budget advances a new three-year initiative to strengthen community residence beds in the mental health area for both adult and children. First-year funding of $4 million, totaling $13 million when fully annualized, will help with current staffing deficiencies and enhance quality of care for an increasingly disabled population by addressing salary and other staff recruitment and retention issues.

- **Continued Funding for Supported Housing.** $6.5 million for the last year of a three-year initiative is recommended to improve stipends for supported housing, which is OMH's most inexpensive residential model and provides essential room and board and mental health support services. Currently, some 10,700 persons reside in supported housing.

- **Capital Improvements to the Nathan Kline Research Institute.** This Budget includes $7.7 million in necessary capital improvements for the children's magnetic resonance imaging suite at the Nathan Kline Research Institute, including the purchase of a state-of the art MRI, thereby permitting the Institute to maintain its leadership role in cutting edge research in children's mental health.

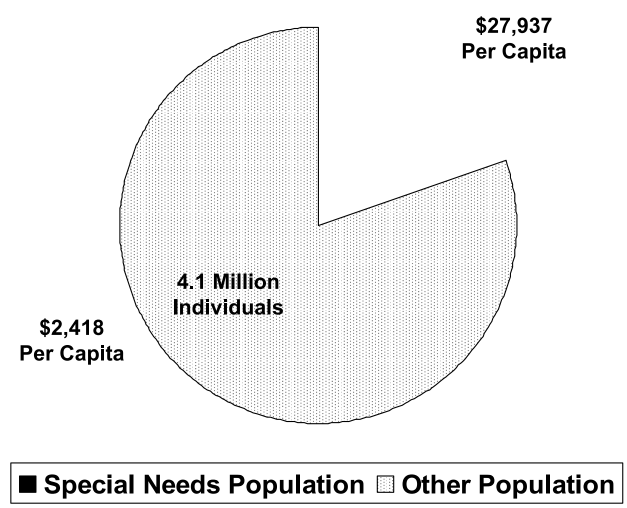
- **Enhancements to the OASAS System.** $120 million is proposed in bonded capital to strengthen the aging infrastructure in the OASAS chemical dependence service system.

Participating in Health Care Reform Initiatives

The Governor's recommendations for the Mental Hygiene system complement and support the key principles of his health care reform agenda, including rationalizing provider reimbursement, managing the care of high cost populations, and attacking fraud and abuse by:

- **Rationalizing Mental Hygiene Reimbursement.** OMRDD, OASAS and OMH will rigorously review the appropriateness of their reimbursement strategies for services in both State-operated and privately-operated programs to promote more cost-effective and appropriate service delivery. This includes:
  - — Eliminating $3.6 million in extended transitional funding for certain OASAS-licensed inpatient rehabilitation providers who have had time to adjust to a more rational reimbursement methodology implemented in 2004.
  - — Streamlining administrative reimbursement associated with new bed development for OMRDD not-for-profit providers to ensure cost effective delivery of services and saving $800,000 when fully annualized.

Executive Budget Recognizes the Need to Better Manage Services for Those with Significant Treatment Needs



Individuals who consume more treatment services for their multiple needs comprise 20 percent of the total Medicaid population, but cost an average of over 11 times more to treat.

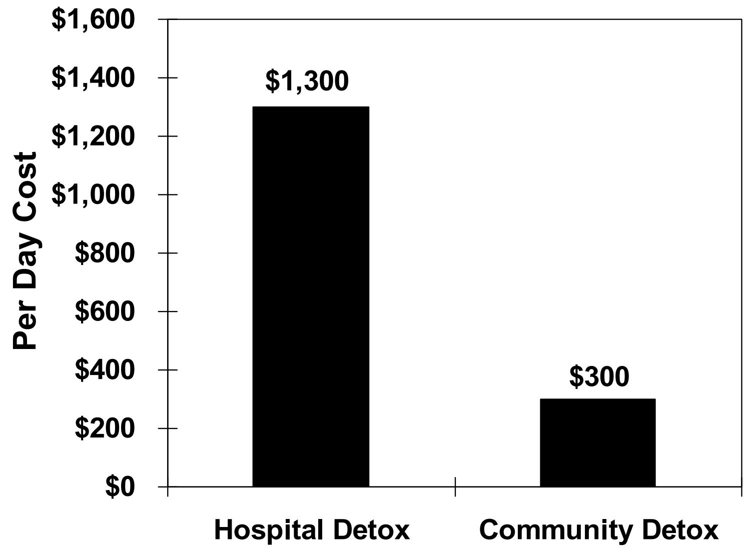
- **Managing the Care of High Cost Beneficiaries.** The Mental Hygiene agencies serve populations with multiple disabilities, whose comprehensive health care and service needs are not only difficult to manage, but are fragmented and costly. Accordingly, OMH and OASAS will participate with the Department of Health (DOH) and other State and local entities to reform and rationalize service delivery, so that general health care and services that address mental illness and/or chemical dependence are fully integrated. Also, OMRDD will continue to address the issue of the inappropriate and expensive out-of-state placement of children with disabilities. To that end:
  - — OASAS and OMH will collaborate with DOH to develop and implement pilot programs that promote more holistic and cost effective health care delivery to populations with multiple disabilities.
  - — OASAS will collaborate with DOH, other State agencies and service providers to redesign the delivery of detoxification services to promote recovery and better integrate reimbursement with outcomes.
  - — OMRDD will continue collaborating with the State Education Department and the Office of Children and Family Services to develop critical in-state service options for children placed in high cost out-of-state placements.

- **Strengthening Anti-Fraud Capabilities.** All three Mental Hygiene agencies will collaborate with the Office of the Medicaid Inspector General (OMIG) and DOH to target and eliminate fraud and wasteful spending. In particular:

  — OASAS will review utilization of high volume providers and identify potential duplicate claims, and initiate even more rigorous billing standards, saving an estimated $18.7 million from these efforts.

  — OMH will hire new staff to complement OMIG efforts by increasing Quality Assurance activities, to generate an estimated $18 million in savings. OMH will also participate in an overhaul of the delivery of pharmacy services by expanding best practices in the area of anti-psychotic and anti-depressant drugs to ensure they are dispensed in a clinically appropriate manner and are not over prescribed.

Executive Budget Calls for Reforming Detoxification Programs to Improve Outcomes at Lower Cost

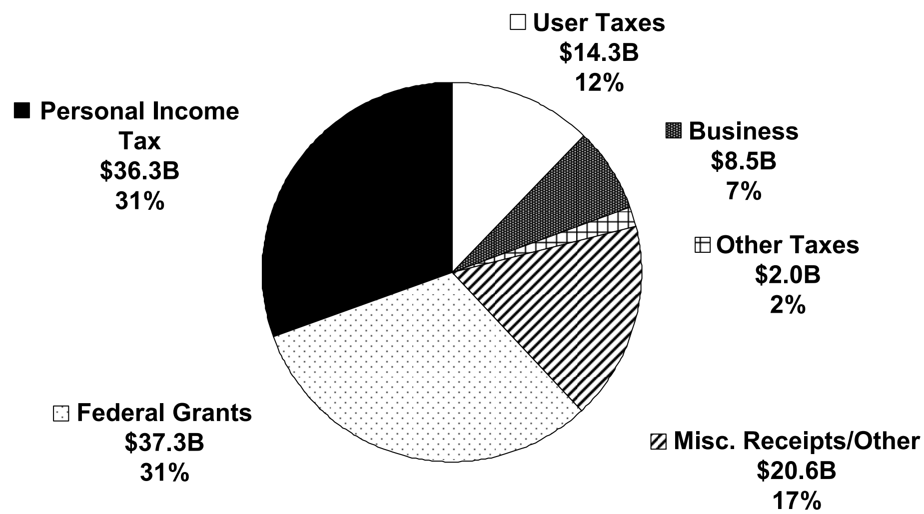


Hospital-based OASAS detoxification costs are four times more expensive than community-based detoxification programs, yet community-based programs discharge twice as many (50%) patients to aftercare as hospital-based programs (25%).

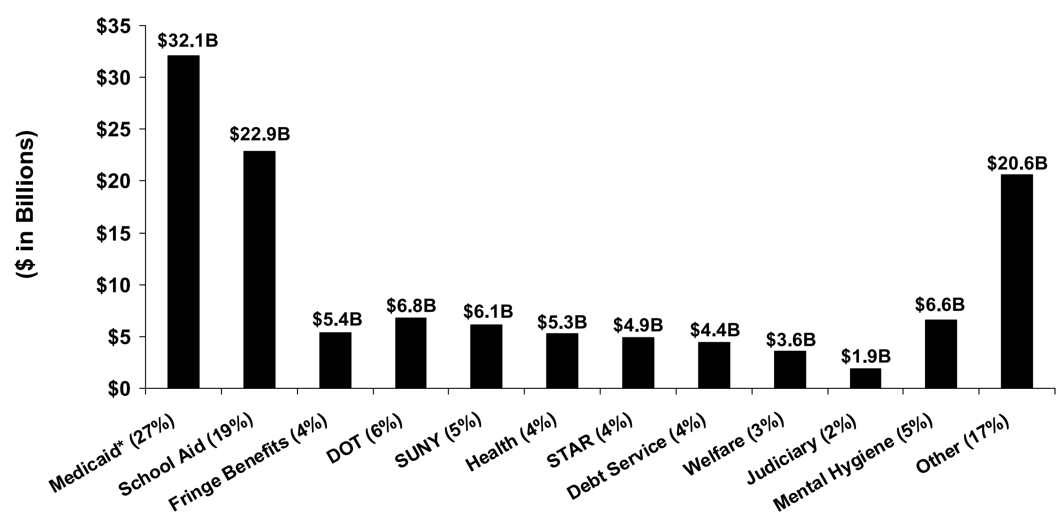
Additional Public Information

2007-08 All Funds Budget

Where It Comes From



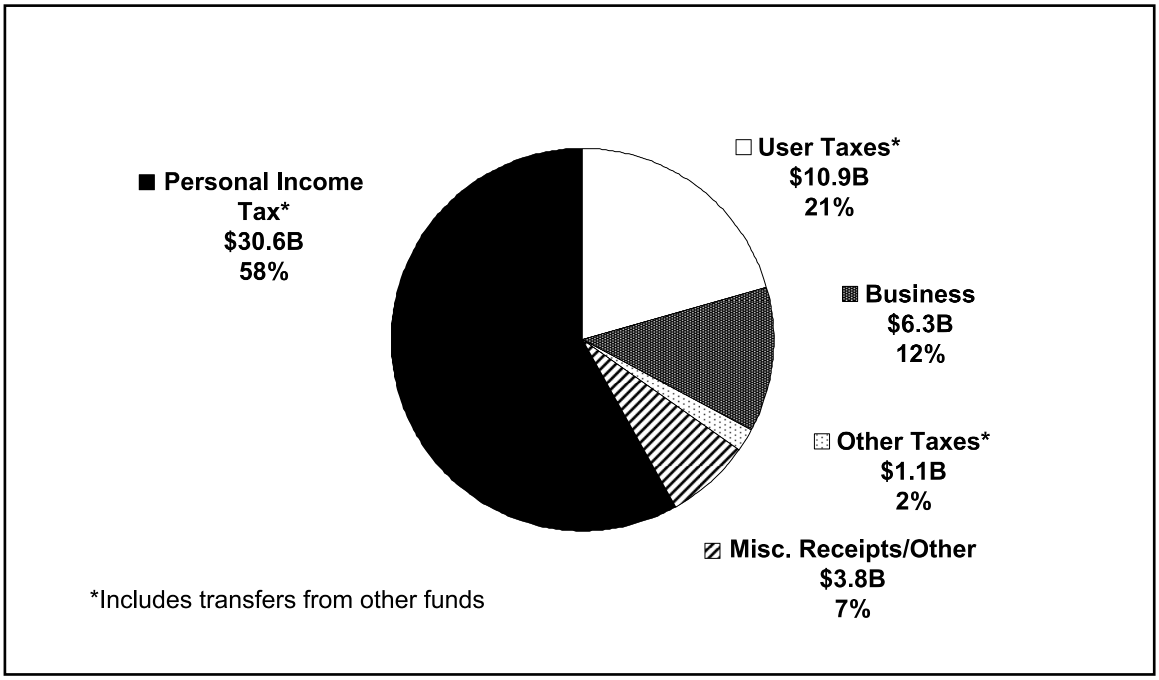
Where It Goes



*This represents Medicaid spending in DOH, and excludes $16.6 billion in Medicaid spending by local governments and other State agencies.

2007-08 General Fund Budget

Where It Comes From



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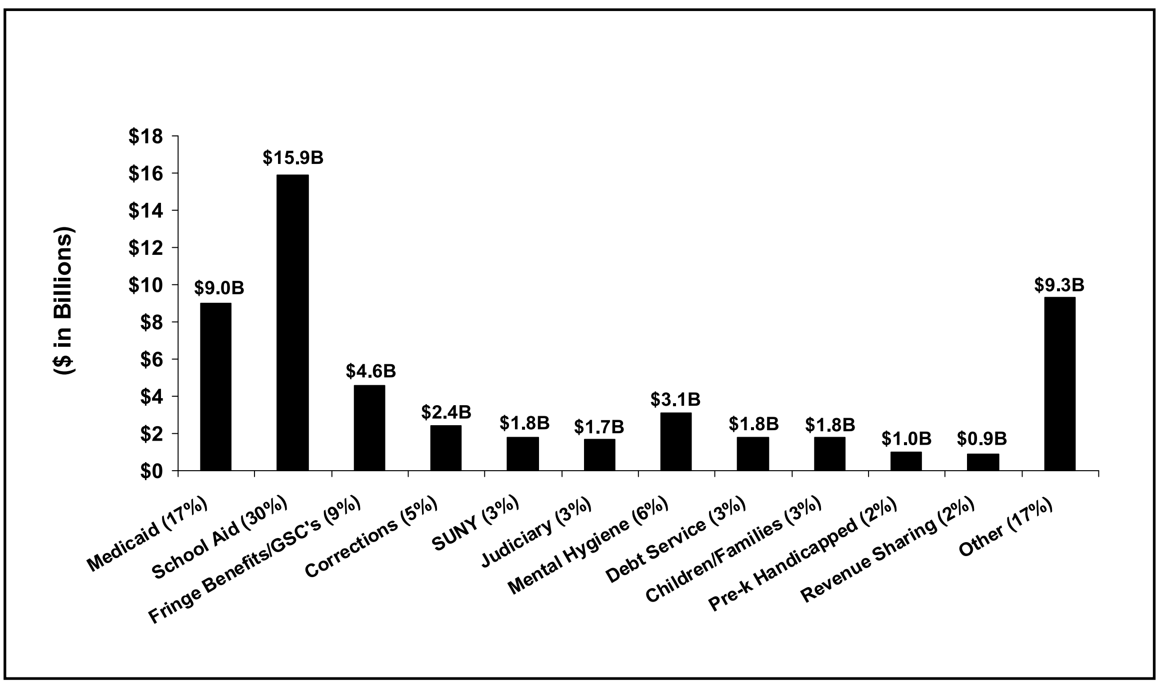

Summary of Changes

Major Agencies

Office of Alcoholism and Substance Abuse Services

Office of Children and Family Services

Department of Correctional Services

Economic Development

State Education Department

Department of Environmental Conservation

Department of Health

Higher Education Services Corporation

Medicaid

Office of Mental Health

Office of Mental Retardation and Developmental Disabilities

Office of Parks, Recreation and Historic Preservation

State University of New York/City University of New York

Office of Temporary and Disability Assistance

Department of Transportation

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

	All Funds 2007-08
Prior Year Estimated Spending	**$531,928**
Additional cost of continuing State-operated programs, including general salary increases and other inflationary adjustments in pharmaceuticals and utilities	8,629
Cost of continuing community-based chemical dependency and compulsive gambling services, including NY/NY III	35,191
On-going Capital costs, including 100 new treatment beds for veterans returning from the War on Terror and 100 new beds to address treatment needs on Long Island	9,693
Second year cost-of-living adjustment (2.5%) for eligible chemical dependence and compulsive gambling programs	11,900
State Operations efficiencies through replication of best practices, including a 3% reduction in non-personal services funding	(565)
Local Assistance efficiencies, including elimination of transition funding for medically-supervised inpatient withdrawal providers ($3.6M) and elimination of certain legislative adds	(4,640)
Recommendation	**$592,136**
Change From 2006-07	**$60,208**

Office of Children and Family Services
($000s)

	General Fund 2007-08
Prior Year Appropriations	**$1,665,535**
Child welfare claims increase	83,900
Foster Care Block Grant COLA Increase	36,300
Adoption subsidies	16,100
OFT rate increase	5,091
Connections prior year Federal revenue depletion	10,314
Preventive COLA annualization	4,800
Community-based alternatives expansion	5,000
Committee on Special Education increase	3,000
Youth Facility staff increase	3,946
Facility closures	(1,339)
Medicaid waiver increase	4,175
5% Nonpersonal Service reduction	(3,363)
Other Local Assistance spending changes	4,472
Other State Operations spending changes	8,246
Recommendation	**$1,846,177**
Change From 2006-07	**$180,642**

Department of Correctional Services

($000s)

State Operations	General Fund 2007-08
Prior Year Appropriation	**$2,560,201**
Non-recurring retroactive payments associated with the 2003-2006 NYSCOPBA binding arbitration award	($211,123)
Mandated personal service increases, net of savings for increased turnover	$45,281
Costs associated with additional Correction Officer training classes due to the increase in retirements	$10,575
Full year cost of staff added as part of the expansion and enhancement of mental health services for inmates	$1,710
Shifting the cost of programs previously supported by a commission received from inmate collect calls	$15,982
Increased cost of inmate medical care	$20,000
Increased cost of facility operations, net of planned actions to achieve efficiencies	4,778
Recommendation	**$2,447,404**
Change From 2006-07	**($112,797)**

Economic Development
($000s)

	All Governmental Funds 2007-08
Prior Year Estimated Spending	**$1,260,211**
Re-estimate of General Fund disbursements for certain economic development programs	($28,555)
Stem Cell and Innovation Fund initial support	$25,000
Re-estimate of capital program disbursements	($10,111)
Additional administrative and operational support, including expanded Buffalo operations and ESDC corporate support	$13,459
Recommendation	**$1,260,004**
Change From 2006-07	**($207)**

State Education Department
($000s)

School Aid	Total 2007-08 School Year Funding
Prior Year Estimated Spending	**$17,744,960**
Increase for the new Foundation Aid program	$981,590
Expansion of Universal Prekindergarten	$98,830
Building and transportation aid increases (including EXCEL Building Aid)	$216,300
Special Education aids increases	$53,130
BOCES aid increase	$37,550
Creation of new Charter School Impact Aid	$15,240
Rochester Community Schools Pilot program	$4,000
Full Day Kindergarten Planning Grants	$2,000
Other formula-driven and categorical aid changes	$4,280
Recommendation	**$19,157,880**
Change From 2006-07	**$1,412,920**
Prior Year School Tax Relief (STAR) Funding	**$3,996,000**
Expanded STAR program	$1,350,000
NYC personal income tax credit increase	$150,000
NYC personal income tax credit growth	$125,700
Discontinuation of property tax rebate	($673,700)
STAR Subtotal	**4,948,000**

State Education Department

(continued)
($000s)

Other Education Programs/Agency Operations	**General Fund 2007-08**
Prior Year Estimated Spending	**$1,709,833**
Increased payments for special education programs	$38,542
Funding for the new School District Cost-Efficiency Review	$5,000
Net Annualization of 2006-07 legislative adds for Higher Education programs	$2,273
Increased funding for Public Broadcasting	$2,000
Annualization of 2006-07 legislative adds for Missing Children Education and Adult Literacy Education programs	$1,500
Non-recurring prior year commitments	($45,017)
Elimination of one-time legislative adds	($44,380)
Net impact of the transfer of programs between School Aid and Other Education programs	($26,536)
Funding for the new Accountability Initiative	$20,000
Projected spending increases for State Operations	$2,003
Recommendation	**$1,665,218**
Change From 2006-07	**($44,615)**

Department of Environmental Conservation

($000s)

	General Fund 2007-08
Prior Year Estimated Spending	**$131,472**
Net changes for annual personal service growth, reduced non-personal service spending and other minor actions	(5,652)
Increased salary costs for law enforcement arbitration settlement	5,735
Increased staff for critical environmental functions and new initiatives	5,153
Eliminate General Fund support for Federal Title V air program; increase fees to sustain regulatory costs	(6,250)
Elimination of certain legislative adds	(884)
Recommendation	**$129,574**
Change From 2006-07	**$(1,898)**

Capital Funds	**All Funds 2007-08**
Prior Year Estimated Spending	**$551,410**
Decreased spending for the 1986 Environmental Quality Bond Act	(6,659)
Increased spending for Brownfields and Hazardous Waste	25,000
Increased spending for the Environmental Protection Fund	10,000
Other net adjustments	(7,700)
Recommendation	**$572,051**
Change From 2006-07	**$20,641**

Department of Health
($000s)

	General Fund 2007-08
Prior Year Estimated Spending	**$757,188**
Continuation of Cost of Living Adjustments for various AIDS and public health programs	29,218
Additional funding to stockpile medication and supplies to be used in the event of a pandemic outbreak, including avian flu	29,000
Growth in General Public Health Work Program	19,359
Expanded funding for vital record enhancements, universal prenatal care and postpartum home visitation, access to cervical cancer vaccines, student body mass index reporting and other health promotion activities	16,553
75 new staff to improve the administration of the State's health care programs and address programmatic needs throughout the Department	3,500
Elderly Pharmaceutical Insurance Coverage (EPIC) Program growth offset by savings attributed to enrolling eligible participants in Medicare Part D	1,100
Early Intervention Program growth offset by savings attributed to increased audit activities	1,000
Fixed cost increases and other adjustments as offset by non-personal service efficiencies and the elimination of non core items funded in the 2006-07 Budget	17,605
Recommendation	**$874,523**
Change From 2006-07	**$117,335**

Higher Education Services Corporation
($000s)

	General Fund 2007-08
Prior Year Estimated Spending	**$847,150**
Decrease in use of special revenue funds for TAP and the Aid to Part-Time Study program	22,415
Increased funding for Scholarships and Performance Awards	15,354
Contractual salary costs	3
TAP reform savings	(21,000)
Recommendation	**$863,922**
Change From 2006-07	**$16,772**

Medicaid
($000s)

	Total Spending 2007-08
Prior Year Estimated Spending	**$46,522,200**
Growth in entitlement spending	2,222,700
Nursing home reimbursement actions, including reform of supplemental payments and rates to reflect Medicaid case mix, and offsetting inflationary increases	(453,100)
Implement measures to appropriately pay for pharmaceuticals, including reimbursement reforms and strengthening the Preferred Drug Program (PDP)	($289,400)
Comprehensive reforms to strengthen the State's anti-fraud capabilities and require counties to pursue recoveries for long-term care eligibility loopholes	($264,200)
Freeze Premium increases for Medicaid Managed Care and Family Health Plus	($187,000)
Hospital reimbursement actions, including reform of supplemental payments and Graduate Medical Education (GME) financing, and offsetting inflationary increases	($158,100)
Advance efficiency and savings measures including establishing contracts for transportation services, eliminating non-medically necessary personal care services, maximizing other revenues and achieving administrative efficiencies	($126,900)
Elimination of certain legislative adds	($6,000)
New investments for expanding coverage to the uninsured, community-based care initiatives, and demonstration projects for high-cost users and telehealth.	$72,800
Payments to State OMH Psychiatric Centers, and Phase III of OMRDD's Healthcare Insurance Initiative	264,400
Recommendation	**$47,597,400**
Change From 2006-07	**$1,075,200**

Office of Mental Health
($000s)

	All Funds* 2007-08
Prior Year Estimated Spending	**$2,424,336**
General salary increases, inflation and other State Operations adjustments ($38.1M); Local Assistance adjustments, including annualization of prior year local program initiatives ($72.7M)	110,791
Second year cost-of-living adjustment (2.5%) for eligible providers effective April 1, 2007	30,000
Community residential pipeline expansion of 2,000 beds – including 1,000 new Supported Housing beds — and funding for continued NY/NY III development	22,753
New mental health services initiatives for children, including an additional 180 HCBS waiver slots and children's Community Residence funding enhancements	2,184
Adult Community Residence program enhancements and funding for final year of Supported Housing stipend initiative	9,494
Enhanced mental health services in forensics facilities	2,298
Capital projects, including NY/NY III Supportive Housing Agreement and other bed pipeline development, a new children's ergonomic magnetic residence imaging suite at Nathan Kline Research Institute, and the relocation of Kirby PC	17,897
Civil commitment, where appropriate, of sexually violent persons for treatment in OMH psychiatric facilities	19,200
State Operations savings achieved primarily through a 3% across-the-board reduction in Non-Personal Service ($11.4 million) and various Local Assistance efficiencies ($16.5 million) including improved medication management and provider audit recoveries	(27,880)
Recommendation	**$2,611,073**
Change From 2006-07	**$186,737**

* Includes Health Care Reform Act funds

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

	All Funds 2007-08
Prior Year Estimated Spending	**$3,153,740**
Annualizations of not-for-profit programs, including NYS-CARES, NYS-OPTS and Medicaid inflationary adjustments	93,759
Additional cost of continuing State-operated programs, including general salary increases and other inflationary adjustments	66,320
Second year of cost-of-living adjustment (2.5 percent) for eligible not-for-profit programs ($8.8M) and Phase III of the Healthcare Initiative	26,170
Capital increases from the relocation of the Bernard Fineson Developmental Center and new State-operated community development	21,380
Expanded NYS-CARES development, Family Support Services and Supported Employment Services	14,030
Limit not-for-profit provider reimbursement for administrative costs and elimination of certain legislative adds	(5,080)
Various State Operations efficiencies, including vacancy management, implementation of overtime best practices and a 3 percent non-personal service reduction	(18,088)
Recommendation	**$3,352,231**
Change From 2006-07	**$198,491**

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

	General Fund 2007-08
Prior Year Estimated Spending	**$145,915**
Elimination of certain legislative adds and other one-time spending	(4,219)
Increased staff for park operations, police and historic preservation	5,769
Net of operating cost adjustments, reduced overtime and non-personal service costs, and other minor actions	(100)
Recommendation	**$147,365**
Change From 2006-07	**$1,450**

Capital Appropriations	All Funds 2007-08
Prior Year Estimated Spending	**$56,300**
Elimination of one-time capital project costs	(4,800)
Recommendation	**$51,500**
Change From 2006-07	**($4,800)**

State University of New York/ City University of New York

($000s)

	General Fund 2007-08
Prior Year Estimated Spending	**$2,594,798**
Annualizations and projected spending increases	110,487
Contractual salary costs	38,862
Net increase for priority academic programs	27,706
$100 per full-time student community college base aid increase	16,851
Additional State operating support	13,692
Energy and utilities cost increases	13,166
Increase for Education Opportunity Centers	2,457
Increase in community college rental aid	673
Fringe benefits re-estimate	(10,018)
Recommendation	**$2,808,674**
Change From 2006-07	**$213,876**

Office of Temporary and Disability Assistance
($000s)

	General Fund 2007-08
Prior Year Estimated Spending	**$1,344,691**
Decrease in public assistance expenditures	(3,125)
Increase in SSI expenditures	21,190
Decrease in Federal funding for the public assistance offset	96,584
Annualized funding for the NY/NY III Initiative	3,883
Other spending changes	485
Recommendation	**$1,463,708**
Change From 2006-07	**$119,017**

Department of Transportation
($000s)

	All Funds 2007-08
Prior Year Appropriations	**$6,930,716**
Increases for transit systems	299,897
Net changes for inflation, program adjustments and additional operating responsibilities	52,487
Shift of State-funded construction contracts to Federal funds; planned reductions in State-funded contracts	(135,495)
Increases for construction, engineering and preventive maintenance funded by Federal aid under SAFETEA-LU	327,299
Discontinuation of one-time appropriations	(227,300)
Planned increases in Bond Act appropriations and engineering adjustments	89,879
Recommendation	**$7,337,483**
Change From 2006-07	**$406,767**

Legislation Required for the Budget

Education, Labor and Family Assistance

- Modify the Tuition Assistance Program (TAP) to reform eligibility criteria.
- Reform the State's education finance system through the establishment of a Foundation Aid formula, expansion of pre-kindergarten and other changes necessary to implement the four-year Educational Investment Plan.
- Enhance the School Tax Relief (STAR) Program by increasing funding and targeting the benefits to low and middle class homeowners.
- Strengthen educational accountability by establishing measurable performance targets, promoting strong educational leadership, and raising standards.
- Ensure that the mayors of Syracuse, Rochester and Buffalo are represented on their local school boards.
- Modify the notification requirement for closing youth facilities.
- Convert an Office of Children and Family Services' (OCFS) internal account to a Special Revenue account to improve transparency.
- Mandate performance-based contracting for preventive services.
- Permanently extend Child Welfare Financing Reform provisions set to expire on June 30, 2007.
- Create a new, independent Office for the Blind and eliminate OCFS's Commission for the Blind and Visually Handicapped.
- Provide for performance measurements in Temporary Assistance for Needy Families (TANF) funded programs, and establish an allocation methodology for the TANF Flexible Fund for Family Service (FFFS).

Health and Mental Hygiene

- Modify and reauthorize the Health Care Reform Act (HCRA), which expires on June 30, 2007 and modify provisions to enact proposals to preserve its fiscal stability and authorize an additional insurance company conversion.

- Improve public health services by implementing cost savings measures, authorizing new fees and extending priority programs.

- Authorize Medicaid cost containment and reforms to provide access to health insurance coverage.

- Renew and lower reimbursable tax assessments from six percent to five and one-half percent on OMRDD-licensed Intermediate Care Facilities.

Public Protection and General Government

- Amend Civil Service Law to insert language that will allow the New York State Employee Health Insurance Plan the option to be self insured.

- Authorize transfers, temporary loans and miscellaneous capital/debt provisions, including certain bond caps.

- Establish eligibility limitations for State aid to municipalities with VLT facilities.

- Restructure the Aid and Incentives for Municipalities (AIM) program to increase financial assistance targeted to distressed municipalities, strengthen emphasis on accountability and efficiency, and eliminate aid to municipalities with limited need for AIM funding.

- Provide mandate relief for localities.

- Expand the uses of funds deposited into the Criminal Justice Improvement Account.

- Specify the manner and criteria by which local governments can receive certain criminal justice funding.

- Authorize an increase in the Criminal History Search Fee to increase resources, primarily to the Legal Services Assistance Fund, to fund civil legal services.

- Provide permanent authorization to deposit all receipts derived from the rental of State armories into the Armory Rental Account.

- Require nuclear power plant owners to pay the costs of security provided by the New York National Guard.

- Permanently extend various criminal justice programs.

- Authorize the use of photo-monitoring equipment at work zones to enforce speed limits.

- Increase salaries of judges and justices of the Unified Court System, retroactive to 2005-06.

- Establish the Universal Broadband Assistance Account to facilitate expanding statewide access to broadband internet service.

- Extend the Procurement Stewardship Act for one year.

- Amend the parole violation process to reduce the demand on local jails to house parole violators awaiting hearings.

- Create a commission to evaluate the State prison system and make recommendations regarding closure of specific correctional facilities.

Revenue

Personal Income Tax

- Provide a new personal income tax deduction of up to $1,000 per child for education tuition for kindergarten through twelfth grade.

- Provide the Commissioner of Taxation and Finance with authority to end practices used by New York partnerships to avoid paying personal income.

- Require certain corporations that are Federal S Corporations to also be New York S corporations to close a loophole that allows resident individuals to place assets into New York C Corporations and avoid paying New York tax.

- Conform the treatment of taxpayers that itemize State and local sales and compensating use tax to taxpayers that itemize State and local income taxes.

- Restructure the fees imposed on Limited Liability Companies from a per member fee to one that is based on income to more clearly reflect an LLC's level of New York activity while generating the same amount of revenue as the LLC fees that are in effect through tax year 2006.

Business Taxes

- Increase the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million and make the annual increase permanent.

- Continue to deter the use of tax shelters by making provisions allowing the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable and listed transactions that may be improper tax avoidance practices (the same provisions would apply to the personal income tax).

- Conform to the practices of 17 other states that require corporations that conduct substantial inter-corporate transactions with one another to file a combined, rather than separate, corporate franchise tax return.

- Conform to the practices of 18 other states that have decoupled from the Federal deduction related to qualified production activities and require taxpayers to add back income from this deduction for New York tax purposes.

- Close a loophole and conform to Federal rules by eliminating the deduction for certain subsidiary dividends received by a parent company from a real estate investment trust (REIT) or regulated investment company (RIC) to ensure that the shareholders of the REIT or RIC pay tax on the income earned by the REIT or RIC.

- Close a loophole that allows banks that use subsidiaries to shelter income.

- Conform to Federal rules and the practices of other states with respect to banking corporations that allow certain taxpayers to deduct only bad debts that have actually been written-off (the "direct write-off method").

- Conform to treatment under the corporate franchise tax, by requiring the add back of expenses related to subsidiary capital under the bank tax, and eliminating the 20 percent reduction in the wage factor portion of the apportionment formula to ensure the bank tax appropriately reflects a bank's presence in New York.

- Extend for two years, the transitional provisions relating to the enactment and implementation of the Federal Gramm-Leach-Bliley Act of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to temporarily maintain that status.

- Eliminate the competitive advantage afforded to certain cooperative insurance companies that have expanded their activities beyond those intended by limiting the applicable exemption for cooperative insurance companies.

Other Actions

- Extend for one year the lower tax rates and rules governing simulcasting of out-of-state races.

- Extend the sunset of Quick Draw by one year from May 31, 2007 to May 31, 2008.

- Provide permanent authorization to the Department of Taxation and Finance to collect unpaid child support.

- Require travel companies that rent hotel rooms over the Internet to collect the sales tax on the markups and service fees charged to customers.

- Extend for two years the increased penalties in the Alcoholic Beverage Tax for violations of law including but not limited to: importation without registration, possession without registration, production without registration, removal from a warehouse and failure to pay the tax.

- Reallocate the distribution of revenues collected through certain dedicated taxes.

- Replace the highway use tax permit requirements with a certificate of registration requirement.

Transportation, Economic Development and Environmental Conservation

- Amend Superfund fees and make technical corrections to the tonnage provisions.
- Increase the Environmental Protection Fund General Fund guarantee.
- Expand the bottle bill to cover additional beverage containers, and to provide for the return of unclaimed deposits on beverage containers to the State for deposit into the Environmental Protection Fund (EPF).
- Authorize the Department of Environmental Conservation to increase fees to ensure compliance with Title V of the Federal Clean Air Act.
- Increase various Department of Environmental Conservation regulatory fees, including concentrated animal feeding operations, dam safety, stormwater, State Pollution Discharge Elimination System and well drillers.
- Authorize the State Comptroller to intercept any local assistance aid to New York City for the cost of administering the State Rent Regulation Program.
- Permit the Department of Motor Vehicles to use the United States Postal Service change of address file to improve the Department's mailing accuracy.
- Extend provisions for the suspension of registrations and licenses for lapses in insurance coverage, and allow reinstatement upon payment of a fine.
- Conform Vehicle and Traffic Law with Federal requirements governing operators of commercial motor vehicles.
- Permanently extend provisions relating to the suspension and disqualification of driving privileges for failure to make child support payments.
- Redirect fees, fines, penalties and assessments of the Department of State's Business and Licensing Services Account to the General Fund.
- Permanently authorize the Secretary of State to charge increased fees for expedited handling of documents.
- Permanently extend the formula for distribution of the Federal Community Services Block Grant Program.
- Amend and clarify reporting requirements in the Capital Program and Financing Plan (CPFP) for the Dedicated Highway and Bridge Trust Fund (DHBTF).
- Permanently extend suspension of drivers' licenses for certain drug related convictions to conform State penalties with Federal law.

- Provide the annual authorization for the CHIPS and Marchiselli programs.
- Permanently extend the single audit program for recipients of State transportation assistance.
- Permanently extend suspension of drivers' licenses for certain alcohol related convictions to conform State penalties with Federal law.
- Amend Eminent Domain Procedure Law to suspend State interest payments when a condemnation notice is completed through certified mail.
- Amend Transportation Law to conform with Federal law and allow continued collection of motor carrier registration fees.
- Require the Commissioner of Transportation to convene a panel of transit experts to develop transit performance measures, and expand transit system financial reporting.
- Require the Commissioner of Transportation to convene a Procurement Council to identify opportunities to achieve savings in procurements through the expanded use of aggregate purchases, leasing and other financial techniques.
- Authorize the New York State Energy Research and Development Authority to finance a portion of its research, development and demonstration and policy and planning programs from assessments on gas and electric corporations.
- Authorize and direct the New York State Energy Research and Development Authority to make a payment to the General Fund of up to $913,000 and a payment of up to $330,000 to the Environmental Conservation Special Revenue Fund, Low Level Radioactive Waste Account.
- Make permanent the general loan powers of the New York State Urban Development Corporation (UDC).
- Authorize a $300 million Investment and Job Creation Program in the Empire State Development Corporation.
- Establish a new public benefit corporation, the Stem Cell and Innovation Fund Corporation, to implement a new Stem Cell and Innovation program.
- Authorize annual utility and cable television assessments to provide funds to the Department of Health from Cable TV assessment revenues, and to Agriculture & Markets, the Department of Economic Development, the Office of Parks, Recreation and Historic Preservation, the Consumer Protection Board, Department of Environmental Conservation, and Homeland Security.

Citizen's Guide

The Citizen's Guide to the Executive Budget

The Executive Budget process and key Budget document formats are governed by the State Constitution, with additional details and actions prescribed by State laws and practices established over time.

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

To fulfill these requirements, this Budget includes five books and several bills. The central volume, *Executive Budget Briefing Book*, contains the Budget Director's Message, which presents the Governor's fiscal blueprint for 2007-08 and explains the State's Financial Plan. It also includes highlights of major initiatives, and a list of the legislative proposals needed to implement the proposed Budget.

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

The *Economic and Revenue Outlook* explains the specific sources of State revenues and presents the economic outlook for the nation and the State.

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

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

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

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

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

The Constitution authorizes the Governor to amend the Executive Budget within 30 days of submission, allowing for technical corrections and revisions based on the latest information. However, to help achieve timely budgets, the recent Budget Reform agreement reduced the time period for submitting amendments from 30 to 21 days. Any amendments are made available on the Budget Division's website when submitted to the Legislature.

The legislative review process includes public hearings on the Governor's Budget. These hearings are scheduled by the Senate Finance and Assembly Ways and Means Committees, which are responsible for coordinating each House's action on the Budget.

The Budget Reform bill mandates the use of Conference Committees as part of the legislative budget process. Conference Committees, which have been used in various forms in the past, will be formed early in the process to facilitate agreement on a budget between the two houses. The two houses ultimately develop joint recommendations, amend the Governor's proposed bills to reflect their decisions, and pass the amended bills. These final bills are available from the legislative Document Rooms.

Except for appropriations for the Legislature and the Judiciary, appropriations proposed by the Governor become law immediately when passed by the Legislature. However, all items that have been added by the Legislature, and all appropriations for the Legislature and the Judiciary must be sent to the Governor for his approval or veto. The Constitution grants the Governor "line item veto" power, permitting the Governor to veto such items selectively, while approving the remainder of the bill.

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

After enactment of the Budget, the Legislature is required to summarize its changes to the Executive Budget. This summary is presented in the "Green Book," which is available from the Senate and Assembly Document Rooms. The Governor is required to revise the Financial Plan to reflect the Enacted Budget. Like the original Executive Budget and any amendments, this revised Plan is also made available on the Budget Division's website.

In addition to the process reforms regarding Budget amendments and Conference Committees, the January 2007 Budget Reform agreement between the Governor and legislative leaders also:

- Eliminates "lump sum" appropriations for all legislative adds, as well as for Temporary Assistance for Needy Families, the Environmental Protection Fund and Medicaid.
- Adds a new 3 percent Rainy Day Reserve that can be used during economic downturns or in response to a catastrophic event.
- Requires the Comptroller to issue a binding revenue forecast if consensus is not reached by March 5.
- Requires the Legislature to enact a balanced budget.
- Requires "sunshine" reporting to members before a budget vote.
- Accelerates and expands "quick start" activities to help ensure timely enactment.
- Expands Executive reporting on the Budget.

Note: *Readers are encouraged to visit the New York State Budget Division's website (www.budget.state.ny.us) to access the latest information and documents related to the Executive Budget proposal and the enacted Budget. Virtually all materials are made available on the website, either on the day of publication or within 24 hours.*