



STATE OF NEW YORK

ELIOT SPITZER
GOVERNOR

January 22, 2008

To My Fellow New Yorkers:

I'm pleased to submit to you my second Executive Budget. This is an important document that helps to mark the progress State government made over the past year and charts a course for the year ahead.

The 2007-08 Enacted Budget produced many significant changes that are important to all of us. Together, we made an historic investment in education tied to the most meaningful reforms in a generation. The Budget targeted substantial funding to the neediest schools and held them accountable for results through Contracts for Excellence. We began to restructure the health care system, and in the process increased quality and access while controlling Medicaid costs. Indeed, for the first time in a decade, spending on Medicaid will actually be lower than the year before. We also substantially increased property tax relief, while directing most of the additional aid to middle class taxpayers who need the help the most.

This past year, we took important steps to reinvigorate the state's economic development efforts and set an agenda to capitalize on the unique strengths of each region. We also invested significantly in higher education and the transportation and other infrastructure that, quite literally, supports our daily economy.

Collectively, these investments were designed to target State spending where it would have the greatest impact on our State's economy. We did all this and more by keeping our sights on the priorities we all share – a desire to make New York the best place to live, work, raise a family and run a business.

The Executive Budget for 2008-09 builds on the foundation laid last year and continues to advance our long-term goals in education, health care reform and economic development. This year's Executive Budget makes the hard choices necessary to advance these goals while maintaining the discipline of staying within our long-term objectives for spending growth.

The Executive Budget proposals we are putting forth are designed to spur economic growth by investing in our children from pre-kindergarten through higher education; advancing a bold plan for economic development in Upstate New York; continuing our efforts to provide property tax relief; and focusing on expanded access to health care—especially for children—while continuing to control costs. This Budget also takes important steps to make neighborhoods stronger through measures ranging from a new Housing Opportunity Fund to efforts to make our streets safer.

Like every other state in the nation, New York is feeling the effects of a serious economic downturn requiring us to make tough decisions necessary to continue moving our State in the right direction. Throughout our history, New Yorkers have risen to challenges and continued to seek progress and innovation even during difficult times. We can and must do so today. We must continue to make strategic, smart, and targeted investments, while making government leaner and more efficient if we are to guarantee a strong future for our children.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eliot Spitzer', with a long horizontal line extending to the right.

ELIOT SPITZER

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DIRECTOR'S MESSAGE

When Governor Spitzer took office on January 1, 2007, he articulated a new vision for our State's future.

It was a vision of a New York with a government that carefully scrutinizes its spending choices, demands accountability, and produces results.

Last year's Budget was a turning point for our State, as we took the first steps toward realizing these goals. Working with the Legislature, Governor Spitzer was able to achieve several significant reforms in the areas of education, health care, property tax relief, and the budget process.

This blueprint for change has served as the foundation for the 2008-09 Executive Budget, which will continue the essential work of making New York's government more efficient and accountable. But it does so in the context of significant fiscal challenges.

An unexpected decline in the national economy related to the subprime mortgage crisis has led to a projected budget gap of \$4.4 billion for the 2008-09 fiscal year. Through a series of tough, but necessary choices, Governor Spitzer has closed this deficit and balanced the Budget without raising taxes.

These fiscally responsible savings initiatives have allowed our State to focus its priorities on consolidating the gains we made in last year's Budget, while also identifying several key, targeted new initiatives that will help move New York forward. As the Governor noted in his State of the State message, we cannot "let ourselves be paralyzed by challenging fiscal times. Some of our nation's and State's greatest triumphs have come out of bold decisions made during difficult circumstances."

CONFRONTING SIGNIFICANT FISCAL CHALLENGES

New York faces a dramatically different financial outlook for 2008-09 than initially projected when the Budget was enacted last year. Both the subprime mortgage crisis and a slowing national economy have had substantial, negative impacts on revenues.

New York's Budget is particularly sensitive to problems in the financial services industry, since 20 percent of State revenues are derived from that source. Previously, when that sector of the economy had performed beyond expectations, the State experienced significant surpluses. For the previous twelve fiscal years, except for the two following the September 11 attacks, revenues came in higher than initially forecast by an average of almost \$1.5 billion. These surpluses were used to help decrease projected budget gaps in subsequent fiscal years.

With the largest financial firms on Wall Street reporting massive layoffs and losses, exactly the opposite phenomenon is expected to take place this year. When the 2007-08 Budget was enacted last April, the Division of the Budget projected a \$3.1 billion General Fund budget gap in 2008-09. Over the last nine months, that number has grown considerably to \$4.4 billion, primarily as a result of lower revenues.

THE GOVERNOR'S RESPONSE

Governor Spitzer's Executive Budget directly confronts these fiscal challenges facing the State so that New York can continue making the essential progress that we began last year.

Through various savings initiatives and revenue raising actions, Governor Spitzer has produced a balanced, fiscally responsible budget that makes targeted investments in New York's future without raising taxes.

The overall size of the Budget is \$81.8 billion on a State Operating Funds basis, a 5 percent increase over 2007-08. This is consistent with Governor Spitzer's goal of keeping State Operating Funds spending growth below the average rate of personal income growth which is 5.3 percent. Since local assistance payments make up 70 percent of the Budget, limiting growth to a level below this number, such as the inflation rate, would likely cause shortfalls in aid for municipalities, leading to increases in regressive sales and property taxes.

State Operating Funds encompass all segments of the Budget derived from New York revenue sources, excluding funding for long-term capital projects. It is the best measure for determining the amount of spending growth we can sustain, and the fiscal burden our investments have placed on State taxpayers. The Executive Budget responsibly manages other fiscal metrics as well.

All Funds spending totals \$124.3 billion, an increase of 5.1 percent from 2007-08. General Fund spending totals \$56.7 billion, an increase of 5.9 percent from 2007-08.

Non-recurring resources of \$1.1 billion represent less than one-quarter of the gap-closing plan. The Executive Budget maintains \$2.2 billion of reserves, after using \$337 million of those funds from prior years to finance labor settlements. State debt will increase by 6.6 percent from \$50 billion in 2007-08 to \$53.3 billion in 2008-09. This figure remains well within the statutory limits of debt reform, and debt service payments as a percentage of the All Funds budget will increase by only .1 percent to 4.3 percent.

THE REFORM AGENDA, YEAR 2: PROTECTING OUR PRIORITIES

In order to balance the Budget and control spending growth without raising taxes, Governor Spitzer has recommended savings initiatives in every area of the Budget. This demanded a series of tough but necessary choices that will allow us to focus our limited resources on the key reforms that will help improve our children's educational opportunities, increase access to quality health care, make our communities safer, lower the local property tax burden, and create economic growth across our State.

In many ways, the fiscal challenges we faced in this year's Budget presented an opportunity. They required that we carefully scrutinize every spending decision and determine which programs and priorities are essential to New York's future. That way, we did not allow temporary financial difficulties to dissuade us from making the crucial investments that New York needs to stay competitive.

It was with this in mind that Governor Spitzer has produced a fiscally responsible Executive Budget that reflects his vision of a more accountable, transparent, and effective State government. It is a plan of action that focuses our funding priorities on educating our children, providing tax relief, improving access to health care, keeping New Yorkers safe, improving our environment, and creating jobs. Above all, it is a Budget that will help move our State forward.

FISCAL OVERVIEW

FINANCIAL PLAN AT A GLANCE

Financial Plan at a Glance: Impact on Key Measures (\$ in Millions)				
	2006-07 Actuals	2007-08 Revised	2008-09 Current Services	2008-09 Executive Proposal
State Operating Funds Budget				
Size of Budget	\$73,489	\$77,909	\$83,830	\$81,825
Annual Growth	11.0%	6.0%	7.6%	5.0%
NYS Long-Term Estimated Personal Income Growth				
	5.3%	5.3%	5.3%	5.3%
Other Budget Measures (Annual Growth)				
General Fund (with transfers)	\$51,591 11.0%	\$53,588 3.9%	\$58,955 10.0%	\$56,742 5.9%
State Funds	\$77,311 10.9%	\$82,669 6.9%	\$89,426 8.2%	\$87,779 6.2%
Capital Budget	\$5,559 17.0%	\$6,645 19.5%	\$7,579 14.1%	\$7,927 19.3%
Federal Operating	\$33,716 1.0%	\$33,760 0.1%	\$34,893 3.4%	\$34,577 2.4%
All Funds	\$112,764 8.1%	\$118,314 4.9%	\$126,302 6.8%	\$124,329 5.1%
All Funds (including "Off-Budget" Capital)	\$114,056 8.3%	\$120,506 5.7%	\$128,473 6.6%	\$126,500 5.0%
Inflation (CPI) Growth				
	3.4%	3.2%	2.9%	2.9%
All Funds Receipts				
Taxes	\$58,739	\$60,926	\$63,771	\$64,912
Miscellaneous Receipts	\$18,078	\$20,067	\$20,005	\$21,310
Federal Grants	\$35,579	\$35,841	\$36,897	\$36,883
Base Tax Growth				
	12.9%	6.5%	4.2%	4.2%
General Fund Outyear Gap Forecast				
2008-09	N/AP	N/AP	(\$4,422)	\$0
2009-10	N/AP	N/AP	(\$6,154)	(\$3,287)
2010-11	N/AP	N/AP	(\$7,697)	(\$5,687)
2011-12	N/AP	N/AP	(\$9,454)	(\$6,821)
Total General Fund Reserves				
	\$3,045	\$2,626	N/A	\$2,226
State Workforce (# of FTEs at year-end)				
	195,526	199,424	201,168	201,270
Debt				
Debt Service as % All Funds	4.5%	4.2%	4.3%	4.3%
State Related Debt Outstanding	\$48,095	\$49,991	N/A	\$53,299

FINANCIAL PLAN SUMMARY

The national and State economies have continued to perform below expectations during the second half of 2007. This slowdown in economic activity, which the Division of the Budget expects to persist until at least the end of 2008, has significantly affected the State's fiscal outlook. Since enactment of the 2007-08 Budget, the Division has reduced its General Fund revenue forecast by over \$500 million in 2007-08 and by over \$700 million for 2008-09.

Despite this revised economic outlook, the General Fund is still projected to remain in balance for the current fiscal year. Declining revenues were offset by reductions in spending, which reflect revised estimates for a number of programs, as well as the planned use of reserves to finance collective bargaining costs that have been added since the Budget was enacted.

In 2008-09, greater fiscal challenges face the State. Projected shortfalls in revenues have led to a significant increase in the current-services General Fund budget gap, which now totals \$4.4 billion – \$1.3 billion larger than projected at the time of the Enacted Budget.

CLOSING THE GAP

The Executive Budget for 2008-09 eliminates the entire potential imbalance for fiscal year 2008-09, responding to the current fiscal uncertainties with a plan that emphasizes recurring savings. If enacted as proposed, the Executive Budget would cut the gap that must be addressed in 2009-10 by nearly one-half and would reduce the combined structural imbalance by nearly \$12 billion through 2011-12. The table below summarizes the multiyear impact of the Executive Budget recommendations.

General Fund Budget-Balancing Plan 2008-09 Executive Budget (\$ in Millions)				
	2008-09	2009-10	2010-11	2011-12
Current Savings Gaps	(4,422)	(6,154)	(7,697)	(9,454)
Savings Plan:	4,838	3,741	3,507	4,071
Savings Actions	2,253	2,495	2,274	2,832
Revenue Initiatives	1,109	1,267	1,254	1,260
Non-recurring Actions	1,139	(21)	(21)	(21)
Use of Reserves to Finance Labor Settlements	337	0	0	0
New Initiatives:	(416)	(874)	(1,497)	(1,438)
Executive Budget Gaps	0	(3,287)	(5,687)	(6,821)

For the 2008-09 fiscal year, the Executive Budget contains a \$4.8 billion savings plan, which closes the \$4.4 billion gap and allows for \$400 million in additional investments.

2008-09 Executive Budget -- General Fund Budget-Balancing Plan				
(\$ in Millions)				
	2008-09	2009-10	2010-11	2011-12
Current Savings Gaps	(4,422)	(6,154)	(7,697)	(9,454)
Savings Plan	4,838	3,741	3,507	4,071
Savings Actions	2,253	2,495	2,274	2,832
Health Care ¹	826	957	895	1,418
STAR	354	380	165	175
Welfare/TANF	204	204	204	204
Mental Hygiene	212	243	277	280
Criminal Justice	101	131	136	139
General State Charges	89	61	66	67
Higher Education	67	99	101	103
Other Education	66	73	76	79
Transportation/Transit	64	45	47	48
All Other	270	302	307	319
Revenue Actions	1,109	1,267	1,254	1,260
Improve Audit and Compliance	280	250	250	250
Reclassify HMOs as Insurance Taxpayers	215	250	250	250
LLC/Partnership Fees	75	75	75	75
Capital Base Rate Reduction Cap/Elimination	73	58	58	58
Modify Quick Draw Restrictions	36	60	60	60
All Other	430	574	561	567
Non-Recurring Actions	1,139	(21)	(21)	(21)
VLT Franchise Payment	250	0	0	0
Phase in AIM Restoration for NYC	164	0	0	0
Bond Finance Certain Eligible Capital Costs	173	(21)	(21)	(21)
All Other	552	0	0	0
Use of Reserves to Finance Labor Settlements	337	0	0	0
New Initiatives:	416	874	1,497	1,438
School Aid	126	207	512	178
Health Care	120	281	373	443
Humance Services COLA	0	88	180	278
All Other	170	298	432	539
Executive Budget Gaps	0	(3,287)	(5,687)	(6,821)

¹ Includes Medicaid, Health, and Aging. Excludes certain non-recurring resources and HCRA savings.

RECURRING SAVINGS (SPENDING)

Recurring savings total \$2.3 billion in 2008-09, comprising nearly 50 percent of the overall gap-closing plan. The Executive Budget recommends continuing efforts to restrain health care costs, slowing the phase-in of the basic middle-class STAR rebate program, realigning costs, where appropriate, to the level of government responsible for service delivery, and increasing operational controls on State agencies.

Health Care

The 2008-09 savings plan marks another step in a multiyear effort to reform the State's health care system that began in 2007-08. Recommended State-financed savings, including savings in Medicaid, HCRA programs, and Aging, total \$980 million in 2008-09 from all sources, before accounting for reinvestments. In the General Fund, recurring savings total \$826 million in 2008-09 and grow to over \$1.4 billion by 2011-12. Proposals include intensifying audit activities to reduce fraud, expanding controls on pharmaceutical programs, adjusting reimbursement rates for prescription drugs, and enhancing management of high-cost beneficiaries. Other savings include a program to authorize brokers to coordinate transportation services, a Diabetes Care Improvement Project in which Medicaid would reimburse for diabetes self-management education, and the implementation of payment auditing to deny ambulatory care claims submitted without the required procedure or diagnosis codes. Outside of Medicaid, health care savings include elimination of the planned COLA for Early Intervention (EI) providers and certain initiatives enacted in 2007-08.

School Tax Relief Program

The Executive Budget recommends delaying the continued phase-in of the basic Middle Class STAR rebate program begun last year; a reduction in the comparable STAR credit for New York City resident personal income taxpayers with incomes above \$250,000; reduced protection from annual declines in the STAR exemption, and authorization for the State to offset middle-class STAR rebates owed to individuals who are delinquent on their taxes, child support, or other legal debt obligations. After these recommendations, the State will still finance nearly \$5 billion in total property tax relief in 2008-09 on a commitment basis.

Welfare/Temporary Assistance for Needy Families

The Executive Budget contains several savings proposals in the area of public assistance. First, financing of certain activities funded through TANF will be shifted to the General Fund. This will make more TANF funding available to pay for the State's Earned Income Tax Credit (EITC) without impacting services provided. Second, the Budget discontinues TANF funding for 2004-05 program commitments that have not yet been initiated, and eliminates several 2007-08 initiatives that are not essential to the agencies' core missions. The Budget also proposes altering the current financing shares for public assistance benefits, with local governments asked to finance more of the costs for certain categories of assistance.

Other Savings

Other savings include nearly \$300 million in savings in State Operations, with reductions in both personal service and non-personal service spending. Operations savings include hiring controls, such as not filling vacancies for non-essential positions, overtime management, and energy and other utility savings. Other significant recommendations include assessing a security fee on nuclear power plant operators for State costs, and auditing activities to eliminate ineligible dependents from receiving health insurance coverage from the State. The Budget also reflects the closure of three underutilized correctional camps (Pharsalia, Mt. McGregor and Gabriels), and the medium-security facility at Hudson.

RECURRING SAVINGS (REVENUES)

The Executive Budget recommends several tax law and administrative reforms, which will generate \$1.1 billion in additional revenue on a General Fund basis. These include improving audit capabilities, reclassifying HMOs as insurance taxpayers, and other efforts to improve tax equity and compliance. These proposals are detailed in the accompanying revenue actions chapter.

NON-RECURRING RESOURCES

The State typically uses some nonrecurring resources each year to support its operations. The Executive Budget uses approximately \$1.1 billion of non-recurring resources to balance the General Fund Financial Plan (less than one-quarter of total gap-closing measures) and another \$337 million in labor reserves to finance expected collective bargaining costs.

Non-recurring revenue actions include a potential payment for development rights at Belmont Park. Additionally, the Executive Budget includes only a partial restoration of an aid payment to New York City under the Aid and Incentives to Municipalities (AIM) program. Other one-time actions consist of bonding certain capital projects originally planned to be cash financed, and sweeps of excess balances from other funds.

RECOMMENDED INITIATIVES

The Executive Budget proposes new initiatives totaling over \$400 million in 2008-09, growing to \$1.4 billion in 2011-12. The initiatives include additional school aid, health care investments in ambulatory and primary care, and the extension of a cost-of-living adjustment for human service providers through 2011-12.

IMPACT ON SPENDING GROWTH

In 2008-09, General Fund spending, which accounts for only about 65 percent of all State-financed spending, is projected to grow at 6 percent (5.9 percent when transfers are included). But spending growth in the General Fund presents an incomplete picture of the actual spending that is paid for by State taxpayers to fund ongoing government services. A more comprehensive spending measure is State Operating Funds, which includes the General Fund, special revenue funds financed by State taxes and fees, and the payment of debt service.

In 2008-09, the Governor set a goal of holding State Operating Funds spending to less than the long-term growth rate in State personal income of 5.3 percent. Achieving a spending growth rate at or below the target rate is important because, in the long run, it should permit the State to increase reserves in economic expansions when State tax receipts tend to grow faster than personal income. In difficult years, when personal income and revenue growth is below the historical trend or even negative, sufficient reserves would be available to smooth the impact on spending and provide for a more stable long-term fiscal environment.

In 2008-09, the Executive Budget holds State Operating Funds spending to 5.0 percent, below the target rate of 5.3 percent. State Operating Funds spending, which excludes federal operating aid and capital spending, is projected to total \$81.8 billion in 2008-09, an increase of \$3.9 billion over the current-year forecast. This growth is for local aid to public schools, Medicaid costs, support for transportation, local government aid programs and debt service, as well as roughly \$800 million for agency operations costs (including fringe benefit costs).

Main Sources of State Operating Funds Growth State Fiscal Year Basis (\$ in Millions)						
	2007-08 Revised	2008-09			Annual Change	
		Current Services	Change from Current Services	Exec. Proposed	Dollar	Percent
STATE OPERATING FUNDS	77,909	83,830	(2,005)	81,825	3,916	5.0%
School Aid	19,025	20,269	125	20,394	1,369	7.2%
Medicaid ¹	15,139	16,235	(544)	15,691	552	3.6%
Medicaid: Takeover Initiatives	235	486	0	486	251	106.8%
Debt Service	4,292	4,657	(29)	4,628	336	7.8%
Transportation	2,932	3,133	20	3,153	221	7.5%
Judiciary	1,821	2,010	0	2,010	189	10.4%
Children and Families	1,871	2,095	(56)	2,039	168	9.0%
CUNY	1,134	1,334	(22)	1,312	178	15.7%
AIM	707	1,076	(159)	917	210	29.7%
Collective Bargaining	140	337	0	337	197	140.7%
All Other	30,613	32,198	(1,340)	30,858	245	0.8%

¹Medicaid spending total includes all State agencies including those outside of the Department of Health.

RESERVES

The Division of the Budget projects the State will end the 2008-09 fiscal year with a General Fund balance of \$2.2 billion (3.9 percent of spending) if the Legislature enacts the Executive Budget recommendations in their entirety. The balance consists of \$1.2 billion in undesignated reserves and \$1.0 billion in reserves designated to finance existing or planned commitments, including potential new labor settlements. The projected closing balance is \$400 million below 2007-08. The use of labor reserves as planned to finance expected collective bargaining agreements and a reduction in the balance to pay for legislative member items accounts for the decline.

General Fund Estimated Closing Balance			
(\$ in Millions)			
	2007-08	2008-09	Change
Projected Year-End Fund Balance	2,626	2,226	(400)
<i>Undesignated Reserves</i>	1,227	1,227	0
Tax Stabilization Reserve Fund	1,031	1,031	0
Rainy Day Reserve Fund	175	175	0
Contingency Reserve Fund	21	21	0
<i>Designated Reserves</i>	1,399	999	(400)
Labor Settlement Reserve/Likely Risks	1,045	708	(337)
Community Projects Fund	354	291	(63)

ECONOMIC BACKDROP

Given New York City's status as an international financial center, the current credit crisis could have an especially deleterious impact on the New York State economy. Though the Division of the Budget is not forecasting a recession at this time, the risk of a recession is substantial.

THE NATIONAL ECONOMY

- The national economic slowdown is expected to continue through the first half of 2008. Real U.S. GDP is projected to grow 2.2 percent for 2008, following growth of about the same magnitude for 2007. This forecast is consistent with major professional forecast vendors.
- The subprime mortgage debacle is still unfolding and the housing market is still searching for a bottom. Corporate profits are soft; financial sector profits are falling. Growth in U.S. corporate profits is projected to slow further to 3.1 percent in 2008, following growth of 3.7 percent in 2007. These growth rates represent a significant decline from average growth of more than 15 percent over the five preceding years. Equity markets have responded accordingly: the S&P 500 has experienced a correction of more than ten percent since its most recent October peak.

- The national labor market has continued to lose momentum, underscored by the December increase in the unemployment rate to 5.0 percent. The Division of the Budget projects nonfarm job growth to slow to 1.0 percent for 2008, following growth of 1.3 percent for 2007. The unemployment rate is projected to rise from 4.6 percent in 2007 to 5.0 percent in 2008.
- Although there has been some improvement in credit market liquidity in recent weeks, markets remain tight, generating a significant drag on both household and business spending. Real household spending is projected to grow only 1.5 percent in the current quarter and 1.9 percent for all of 2008, well below its long-term trend of about 3.0 percent.
- The Division of the Budget projects inflation of 2.7 percent for 2008, roughly equal to its 2007 level of 2.8 percent; however, excessive energy price volatility could push overall price growth still higher, putting downward pressure on household spending and tying the Federal Reserve's hand as it tries to stimulate the economy with lower interest rates.
- Cushioning the current slowdown are solid growth in the global economy and an activist stance on the part of the Federal Reserve, which has already cut its policy target rate by 100 basis points with a further reduction likely, and is taking other action to inject liquidity into credit markets. The Federal government is also likely to take stimulative action.

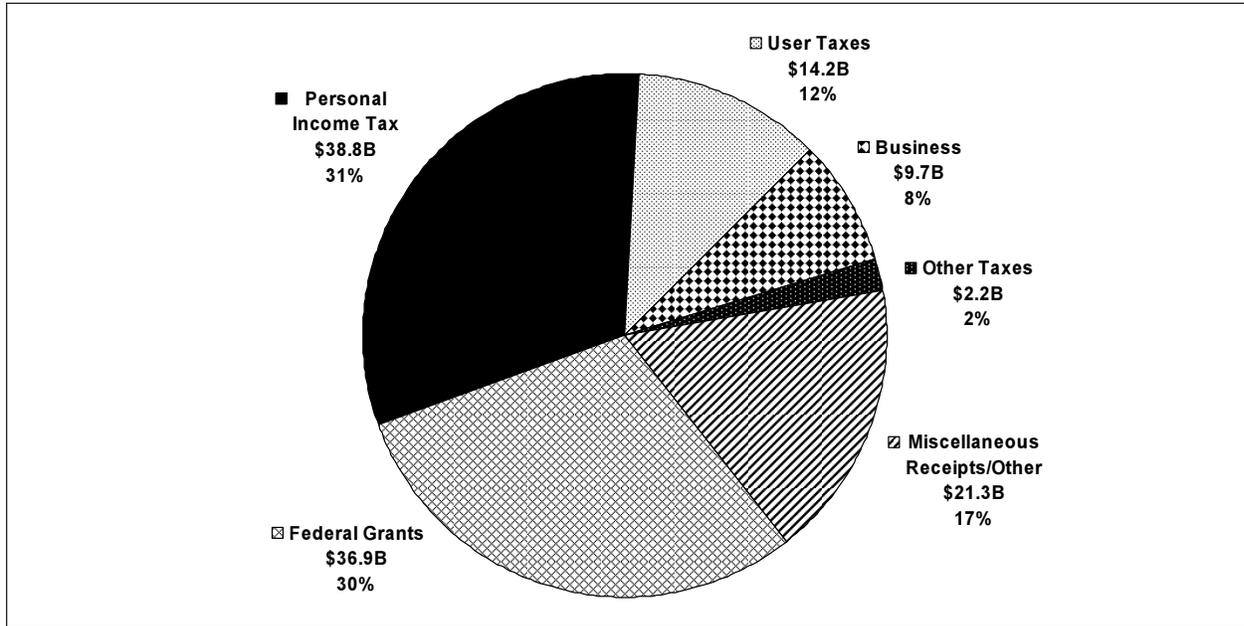
THE NEW YORK STATE ECONOMY

- Consistent with the slowing of both the national and New York economies, the Division of the Budget projects a decline in State employment growth from 1.1 percent for 2007 to 0.6 percent for 2008.
- As a result of the mortgage-backed security debacle, the Division of the Budget projects a 5.5 percent decline in financial services and insurance sector bonuses for the first quarter of 2008, representing a loss of about \$2.1 billion in wages relative to the same period in 2007.
- Wage growth is similarly projected to fall from 7.6 percent in 2007 to 3.3 percent in 2008. Slower growth in both the wage and nonwage components of income will result in total personal income growth of 4.3 percent for 2008, following 7.4 percent growth for 2007.
- The State's housing and commercial real estate markets are in better shape than the nation's but significant risks exist. The dollar volume of New York City commercial real estate transactions appears to have peaked in the first quarter of 2007.

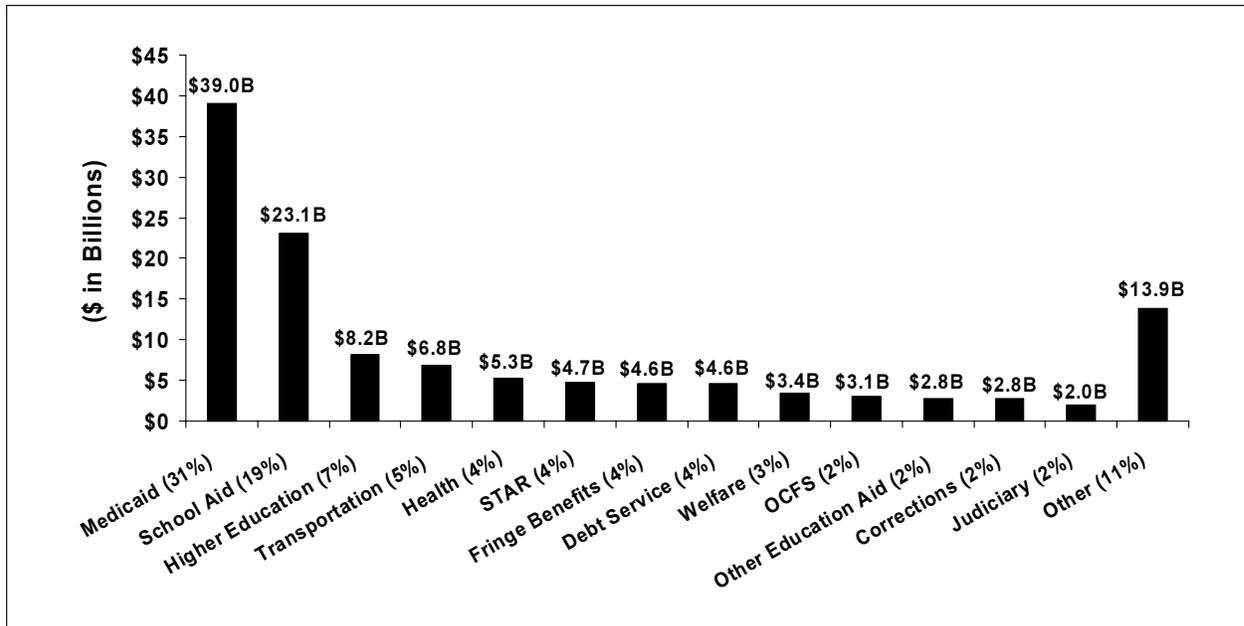
2008-09

ALL FUNDS BUDGET

WHERE IT COMES FROM



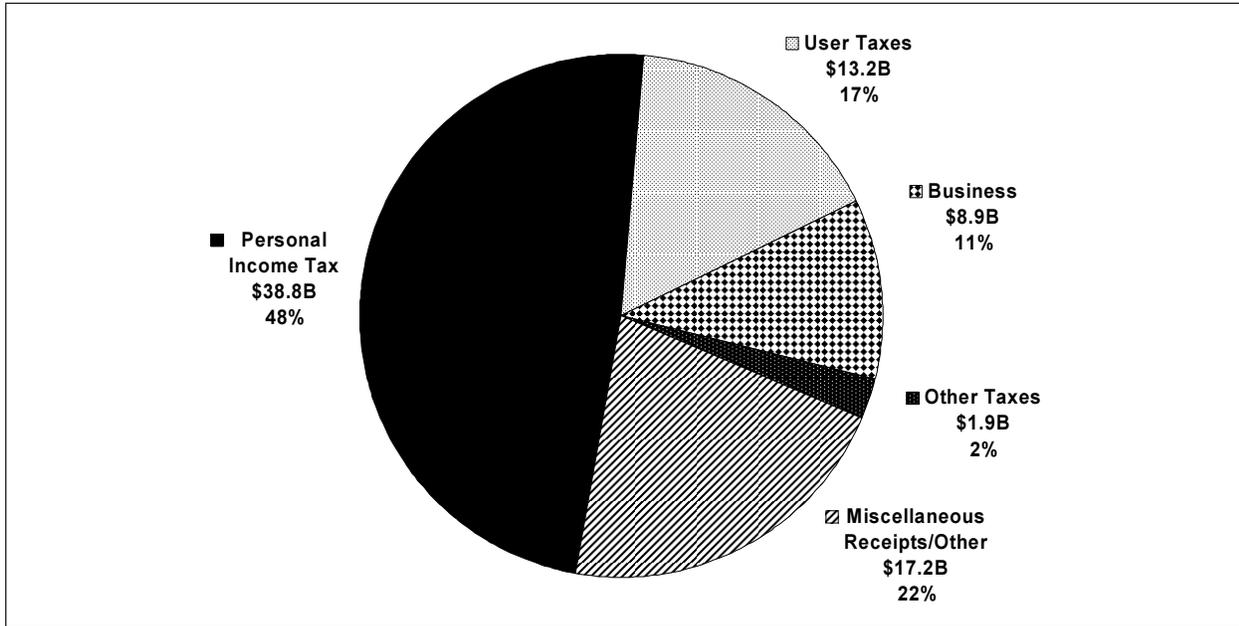
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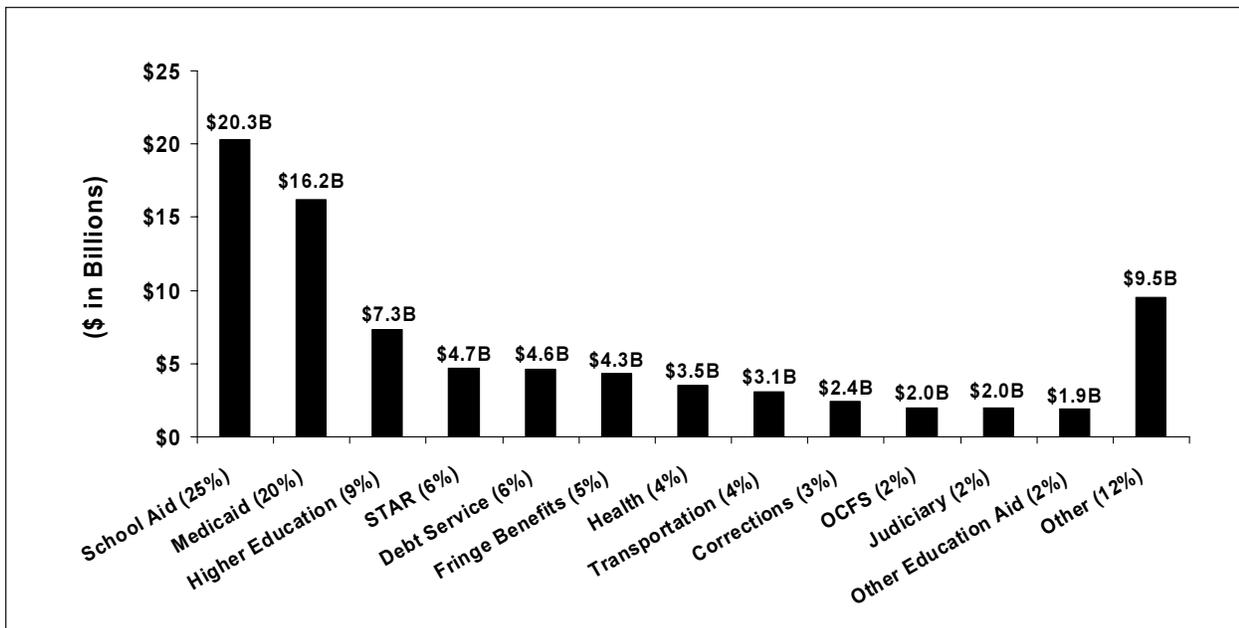
2008-09

STATE OPERATING FUNDS BUDGET

WHERE IT COMES FROM



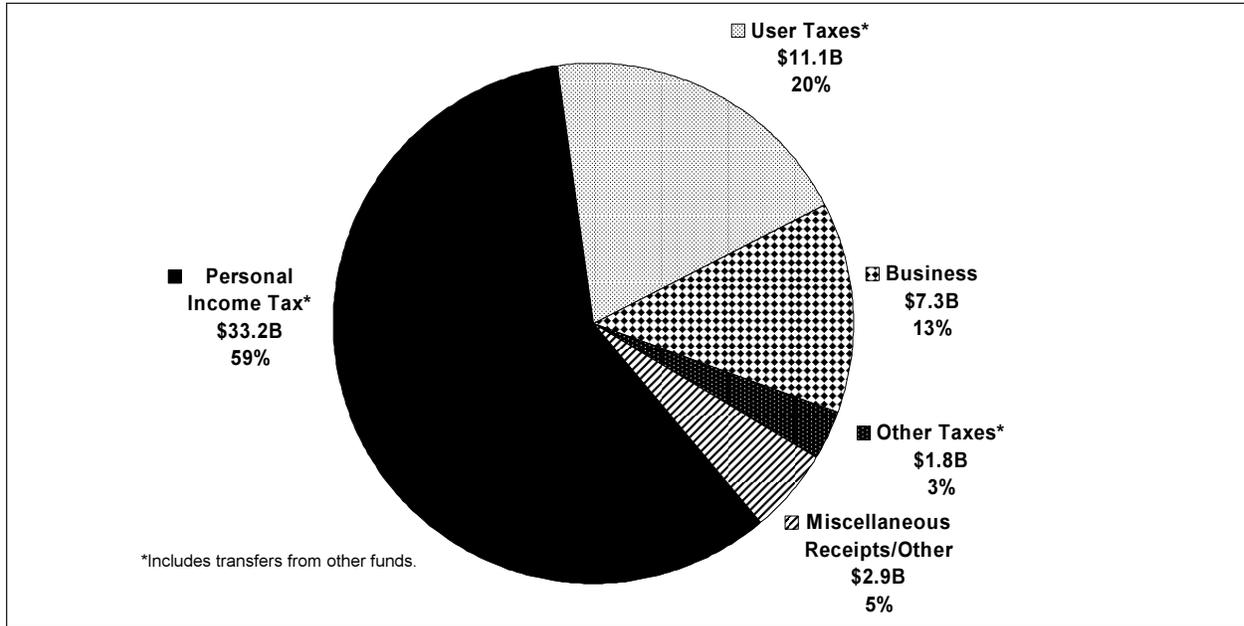
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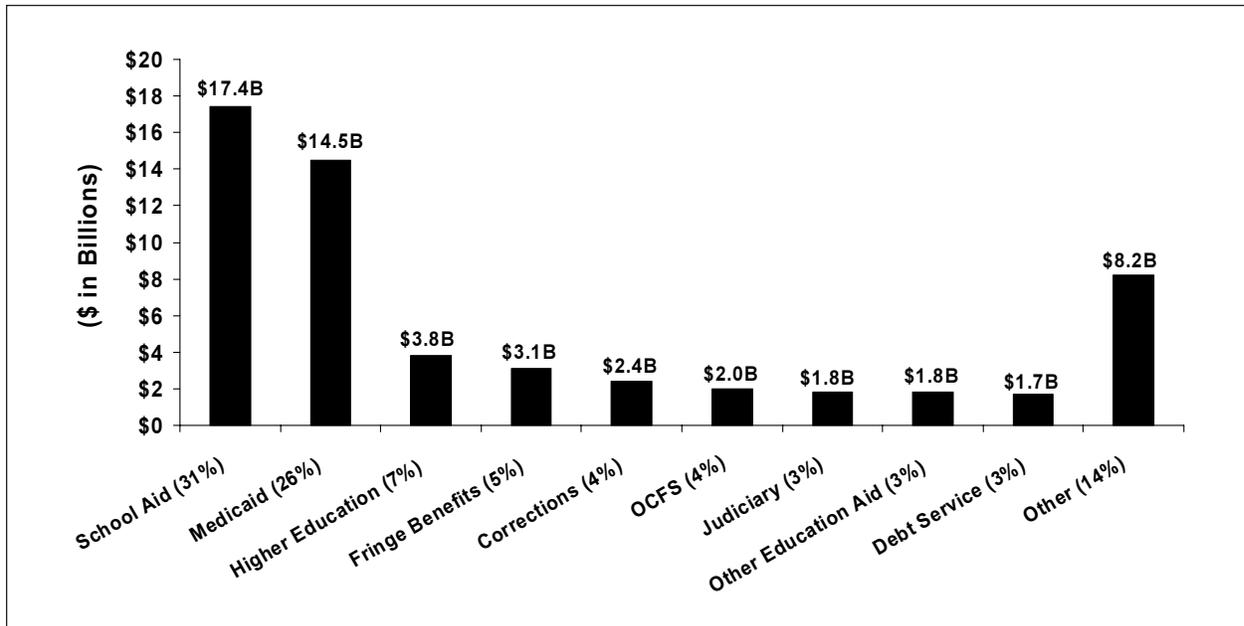
2008-09

GENERAL FUND BUDGET

WHERE IT COMES FROM



WHERE IT GOES



REVENUE ACTIONS

Governor Spitzer has presented a balanced Budget that does not raise taxes. The Executive Budget also puts forward several reforms that will make the State tax code more equitable and fair. Consistent with actions implemented in other states and the Federal government, these measures will continue the initial effort begun in last year's Budget to close corporate and sales tax loopholes, streamline the tax code and decrease fraud. The Budget also improves the State's audit and compliance capabilities and increases certain fees that are used to fund specific services.

On an All Funds basis, these revenue actions will provide a total of \$1.9 billion in additional resources.

ELIMINATING TAX LOOPHOLES

To promote fairness, the tax code should not allow certain taxpayers to avoid taxes they would otherwise owe through the use of unintended loopholes. Doing so unfairly shifts that tax liability to others. All businesses and individuals should compete on a level playing field.

The following reforms will help our State achieve that goal and generate over \$434 million on an All Funds Basis in previously uncollected State tax revenue:

- **Amend Definition of Gain from Sales of Real Property for Nonresidents.** This Budget would close a loophole that allows nonresidents to place a property located in New York State in a partnership or LLC for the purpose of avoiding paying personal income tax when their ownership interest is sold. This measure will generate \$10 million annually starting in 2009-10.
- **Definition of "Presence in New York" for Residents Usually Outside the Country.** This Budget proposes to close a loophole by amending the definition of "presence in New York" for determining residency of taxpayers who usually reside outside the country. The spouses and children of these taxpayers would only need to be present in New York for 90 days to be subject to State taxes, not necessarily present at the taxpayers' permanent place of abode in New York. This measure will generate \$5 million in revenue annually starting in 2009-10.
- **Tax Shelter Reporting.** This Budget would provide the Department of Taxation and Finance with permanent statutory tools to address the increasing use of abusive tax shelters. Tools, which were originally scheduled to sunset July 1, 2009, but would be made permanent, include:
 - Requiring the disclosure of information related to transactions that present the potential for tax abuse;
 - Authorizing New York to promulgate regulations that would require the reporting of New York taxable transactions;

- Providing substantial penalties for nondisclosure and the underpayment of taxes; and
- Extending the statute of limitations for assessments relating to these transactions.

This measure will generate \$17 million annually starting in 2009-10.

- **REITs and RICs Reform.** This Budget would make statutory corrections and structural alterations necessary to eliminate remaining tax loopholes with respect to real estate investment trusts (REITs) and regulated investment companies (RICs). It would require all captive REITs and captive RICs to file a combined return with the closest corporation that directly or indirectly owns or controls the captive. These amendments address the loopholes that remain despite legislation enacted in 2007. These amendments also simplify the approach to controlled REITs and RICs. This measure will generate no additional revenue, but is necessary to preserve revenue anticipated from the 2007 legislation.
- **Require Non-Profit Tax-Exempt Organizations to Collect Sales Tax On Certain Sales, Rentals and Leases.** This Budget would close a current loophole that allows non-profit entities to compete on an unfair basis with other vendors, requiring them to collect tax on activities not directly related to their non-profit status. This measure will generate \$7.5 million in 2008-09 and \$15 million when fully effective.
- **Curtail Certain Tax Avoidance Schemes.** This Budget proposes to narrow both the sales tax exemption for commercial aircrafts and the use tax exemption for motor vehicle, vessel, and aircraft. This will help curtail certain abusive sales and use tax avoidance schemes. This measure will generate \$4 million in 2008-09 and \$6.3 million when fully effective.
- **Qualified Production Activities Income (QPAI) Decoupling.** Conforming New York's tax code to the practices of 18 other states, this Budget proposes to decouple the State from the Federal deduction related to qualified production activities, requiring taxpayers to add back this deduction for State tax purposes.

The deduction was originally intended to provide a tax incentive to manufacturers by preserving and promoting domestic production and manufacturing jobs. However, the deduction is now allowed on a vast array of activities that go beyond the familiar concept of manufacturing. A multi-state firm currently could use the deduction to reduce its New York taxes without having a single production employee in the State. This method of tax avoidance will no longer be available. This measure will generate \$56 million annually starting in 2008-09.

- **Classify Credit Card Companies Doing Significant Business in New York as Taxpayers Under the Bank Tax.** This Budget would subject out-of-State credit card companies to New York taxation on the revenue they collect from New York merchants and consumers ("economic nexus"). This measure will generate \$95 million in 2008-09 and \$75 million when fully effective.

- **Brownfields Tax Credit Reform.** This Budget would refocus State environmental clean-up efforts by expanding potential remediation credits and providing meaningful caps to redevelopment credits available under the Brownfields Program. This measure is revenue neutral during the five-year financial plan period, but will produce significant savings in the years following.
- **Empire Zone Reform.** The Empire State Development Corporation will administratively decertify existing Empire Zone businesses that failed to meet certain performance targets, and enforce more stringent qualification standards for new Empire Zone businesses. These changes are expected to generate \$50 million in savings annually starting in 2008-09.
- **Merge Fuel Taxes into One Petroleum Business Tax.** This Budget recommends combining the petroleum business tax, the motor fuel tax and the State sales tax on motor fuel and diesel motor fuel into one petroleum business tax. This will offer greater transparency and simplify tax forms, making the tax easier to administer. This proposal would increase revenues by \$13.2 million in 2008-09 and \$55.9 million when fully effective.
- **Capital Base Rate Reduction and Cap Elimination.** This Budget would reduce the corporation franchise tax capital base rate, eliminate the tax liability cap on this base for non-manufacturers, and conform the definition of “manufacturer” under the capital base to the definition under the entire net income base.

The tax rate would be reduced from 0.178 percent to 0.15 percent. The conforming amendments would specifically exclude electricity generation from the definition of manufacturing.

This bill would provide further tax relief to corporations with capital base liability below \$1 million doing business in New York State and increase the liability of those who previously benefited from the \$1 million cap. This measure will generate \$98 million in 2008-09 and \$70 million when fully effective. Small businesses that qualify for the reduced rates will receive tax relief totaling \$42 million annually.

- **Restructure Fees and Minimum Taxes Imposed on Limited Liability Companies (LLCs) and Corporations.** This Budget proposes to restructure LLC fees and corporate minimum taxes to impose a similar fee on all partnerships and S corporations. Under the new structure, LLC fees would be based on a measure of New York activity (income) rather than the total number of members in a LLC. This measure will generate \$75 million annually starting in 2008-09.
- **Reclassify Certain Beverages.** The tax treatment of certain flavored malt beverage products would be changed to better reflect alcohol content. These products will be taxed at the low liquor rate rather than the beer rate. This measure will generate \$15 million in 2008-09 and \$18 million when fully effective.

- **Redefine Little Cigars.** Little cigars, which are indistinguishable from cigarettes, would be classified as cigarettes for tax and stamping purposes by both the State and New York City, and made subject to the requirements of the Master Settlement Agreement. This measure will generate \$3.6 million in 2008-09 and \$4.8 million when fully effective.
- **Study Tax Policy Toward Non-residents.** The Department of Taxation and Finance would be directed to conduct a study of current taxation policies on non-residents with a limited work presence in New York. This will be done administratively.

IMPROVING TAX COMPLIANCE

The 2008-09 Executive Budget advances several new initiatives that the Department of Taxation and Finance will use to improve taxpayer compliance and reduce fraudulent activities. These measures include:

- **Vendor Registration Program.** This Budget would institute a registration program that would be applicable to new registrations and re-registrations of vendors. This would make it easier for the Department to update taxpayer information, remove obsolete registrations and collect past-due taxes from vendors. The registration fee will be set at \$50.
- **Vendor Classification.** This Budget would establish an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect sales and use tax.
- **Voluntary Disclosure and Compliance Program.** Delinquent taxpayers will avoid criminal prosecution and civil penalties if they voluntarily disclose their past delinquencies, pay past-due debt, and enter into a tax compliance agreement with the Department.
- **Increased Enforcement Resources.** Taxpayer compliance will be improved through a proposal to increase the Department's fraud and investigative enforcement staff. This effort will be broadcast through a statewide media campaign.
- **Improved Ability to Fight Fraud.** The Executive Budget recommends a shortened tax administration process, requires electronic filing and increases and expands criminal penalties.
- **Increase Access to Data.** As part of this Budget, financial institutions, sales tax vendors and other State agencies would be required to share certain tax information with the Department.

ADJUSTING FEE SCHEDULES

The Executive Budget recommends increasing certain fees and fines to offset the costs of administering programs: increasing food safety penalties; increasing various insurance related penalties; and increasing the motor vehicle law enforcement and highway safety fee. These measures will generate \$305 million in 2008-09.

BUDGET REFORM

Last January, Governor Spitzer and the Legislature enacted legislation designed to make the budget process more transparent, timely and responsible. Under these initiatives, the State enacted its first consensus, three-way on-time Budget in 24 years. The new budget process requires:

- **A Balanced Enacted Budget.** The Legislature is now required by law to enact a balanced Budget.
- **An Expanded Rainy Day Fund.** To ensure that the Budget remains in balance, a new “Rainy Day” fund is authorized at up to 3 percent of General Fund spending that can be used in the event of future economic downturns, natural disasters, or other catastrophic events. This fund is in addition to an existing reserve 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 as sufficient to guard against risk and respond to unforeseen events.
- **Accelerated Amendment Submission.** The Governor is now required to propose any amendment to the Executive Budget within 21 days of its submission - nine days ahead of the Constitutional deadline. This deadline will allow the Legislature additional time to enact a State Budget.
- **Consensus Revenue Forecasting.** To provide an early answer to the fundamental question of how much money is available for the fiscal year, the consensus revenue forecasting process must conclude by March 1. If no agreement between the Legislature and Executive is reached by that date, 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.
- **Clearer Appropriations Bills.** Appropriations in the Executive Budget must be itemized in detail to help the Legislature and the public understand clearly how the Governor proposes to allocate funds.
- **A Schedule for Action.** Within ten days of the Governor’s Budget submission, the Legislature must issue a schedule that sets dates for their budget actions, 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.
- **No More Lump Sum Appropriations.** 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.

- **Executive Reporting Requirements.** These reforms oblige the Governor to produce the following:
 - Detailed multiyear financial plans and monthly cash flow projections, 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; and
 - Detailed reporting on planned technology projects that are estimated to cost in excess of \$10 million.

IMPROVING THE BUDGETING PROCESS

This year’s Budget will be the first that is developed completely within the parameters of the reformed budget process, including the “quick start” requirement. Building on this progress, Governor Spitzer initiated a new set of fiscal principles and called for public engagement to help guide budget development.

ENGAGING THE PUBLIC

In a difficult budget year, Governor Spitzer believed it was especially important to engage New Yorkers in the State’s decision-making process. The Division of the Budget worked to foster public consideration of the State’s priorities in advance of the release of the Executive Budget through a series of hearings and town hall-style meetings. This is the first time such an effort was undertaken in New York.

In October, the Division of the Budget (DOB) conducted seven hearings with key State agencies about their budget requests. Members of the Legislature and their staff participated in these hearings, and for the first time, the public and press were encouraged to attend.

In November, DOB held a series of “town hall” meetings throughout the State on the challenging fiscal environment in which the Budget would be developed and to solicit input about New York’s funding priorities. Hearings were held in Buffalo, Rochester, Utica, Syracuse, Brooklyn, and Long Island.

In December, four additional hearings were held in Albany, each of which focused on a specific issue, including economic development, property taxes, education, and housing.

In total, nearly 1,000 New Yorkers attended these hearings and 316 people submitted testimony about their budget priorities. Additionally, the Division of the Budget utilized its website to engage those who were unable to attend in person. Each hearing was webcast live and archived for 30 days. New Yorkers were also able to submit their comments electronically via email and access written testimony submitted for the meetings.

Public input was extremely valuable in clarifying taxpayers’ priorities and, within the context of a challenging year, the Division of the Budget worked hard to respond. Many of these

concerns, ranging from funding supportive housing for people with disabilities to providing support for arts and cultural institutions as a means of strengthening communities, are reflected in the Executive Budget. While some other recommendations could not be accommodated, they did lay a foundation for long-term investment in many of these priorities.

THE QUICK START BUDGET PROCESS

Under the budget reform agreement passed in January 2007, the “quick start” process provided elected officials and the public with an earlier understanding of the State’s fiscal outlook.

In previous years, the Division of the Budget released an October “Mid-year Update,” identifying the most current fiscal outlook for the State, but the Legislature did not publicly release similar estimates until much later.

As part of the “quick start” process, by early November, 2007, the Senate, Assembly, Comptroller, and DOB all released separate reports forecasting expected receipts and expenditures for the current year and, at least, the ensuing two fiscal years. This was followed by a public meeting of the respective finance staffs of these bodies to discuss any differences in these estimates.

On November 15, the Assembly, Senate, and Division of the Budget released a joint report that detailed the significant financial risks facing the State given the turbulence on Wall Street and slowing of the national economy. It also identified the potential for significant budget gaps in 2008-2009. They wrote: “The issues surrounding the subprime lending situation and the associated negative consequences for the housing market and financial service companies have resulted in a significant change in the risk profile the State faces over the next 18 months.”

NEW FISCAL PRINCIPLES

Every Budget requires balance between conflicting priorities. The State has to make important investments in infrastructure, health care, education, the environment and other areas necessary for New York’s future. At the same time, we must manage spending and lower taxes to compete with other states for new businesses and jobs.

Many have championed capping spending at the rate of inflation as the right approach to balancing these two competing concerns. However, this would represent only a hollow victory for New York taxpayers.

Local assistance payments to municipalities make up over seventy percent of the State Budget. This money is used to fund schools, job training programs, aid for the disabled, health care, road construction, and other basic services citizens expect of their local governments – the costs of which very often outpace the rate of inflation.

As such, restraining State spending to meet the benchmark of keeping to inflationary increases could force local governments to raise regressive sales and property taxes to make up for shortfalls in aid.

In May, Governor Spitzer put forward two new fiscal principles for spending growth which balance targeted investments with minimizing the burden on New York taxpayers.

PERSONAL INCOME GROWTH

The Governor's first principle dictates that spending growth be kept below 5.3 percent, the long-term rate of personal income growth in New York.

Personal income growth is a measure of how much our economy is growing, the tax burden our citizens can sustain, and what the State can afford to spend.

Maintaining the discipline necessary to consistently limit spending to personal income growth, will over time improve the fiscal health of New York. By following this approach, the State will build up reserves in good years that can help prevent harsh funding cuts when the economy slows. For example, if spending growth had been kept to 5.3 percent over the last five years, our State would have nearly \$4 billion in extra revenue today – nearly the size of the current Budget gap.

Additionally, this new policy of consistent and manageable spending growth would offer relief to local governments by allowing them to more easily plan for their fiscal futures, and help keep local property tax burdens at more manageable levels.

STATE OPERATING FUNDS

The second principle relates to how to measure the size of the Budget. The Governor believes that State Operating Funds, rather than All Funds, represent the best metric to use for the purpose of determining whether we have met the goal of limiting spending growth to below 5.3 percent.

State Operating Funds encompass only those portions of the Budget that come from New York revenue sources, excluding capital spending and revenue from the Federal government. Ultimately, this approach offers the best approximation of the fiscal burden that the Budget puts on New York taxpayers.

Limiting growth of State Operating Funds allows New York to maximize the money it receives from Washington. We should always strive to increase the federal investments New York receives in return for its tax contributions.

Capital spending is also excluded to ensure that the size of the Budget is not distorted by spending for long-term projects, a policy followed by other state governments and the City of New York. Separate measures for assessing the affordability of the State's debt are instead included in the State financial plan.

THE 2008-2009 BUDGET

The 2008-2009 Executive Budget is consistent with Governor Spitzer's fiscal principles. State operating funds spending is expected to total \$81.8 billion, an increase of \$3.9 billion or 5 percent. This is 0.3 percent below the Governor's goal of limiting growth to 5.3 percent.

PROGRAM OVERVIEW

REFORMING OUR HEALTH CARE SYSTEM

This past year, New York took an important first step toward reforming its health care system by putting patients first, providing greater access to health insurance coverage for the uninsured and promoting safe, high quality and appropriate health care for all New Yorkers. Efforts to improve health care and rationalize spending included:

- Streamlining Medicaid enrollment and renewal to make it easier for individuals to obtain coverage and care.
- Investing in Stem Cell research and critical public health programs.
- Reducing State health care spending by nearly \$1 billion, contributing to an actual two percent decline in Medicaid spending in 2007-08, after averaging more than eight percent annual growth over the previous five years.
- Implementing Berger Commission recommendations to eliminate excess bed capacity from the State's health care system. The downsizing, restructuring and closure of hospitals and nursing homes is underway, supported by federal dollars.
- Advocating for a federal waiver that would have allowed access to affordable health insurance for the nearly 400,000 uninsured children who live in New York.
- Conducting a review of State health care spending in critical areas, including indigent care, Graduate Medical Education, hospital inpatient care and ambulatory care services, in anticipation of further reforms to make health care more affordable and spending transparent, rational and more effective.
- Beginning Partnership for Coverage, an initiative to gather input and data through public hearings to assist State health and insurance officials develop proposals to advance universal access to affordable, high quality and cost-effective health care.

BUDGET HIGHLIGHTS

Expanding Access to Health Insurance Coverage: The Child Health Plus and Foster Care programs will be expanded, Family Health Plus Buy-In will be implemented, and eligibility and renewal requirements will be streamlined to improve access to coverage.

Controlling Health Care Costs: The Budget recommends a series of initiatives that will generate State savings of \$980 million in 2008-09 and \$943 million in 2009-10.

Reforming Hospital, Primary and Preventive Care Reimbursement: Funding will be redirected from inpatient care to hospital clinics, physicians and community-based clinics to make the system more rational and cost-effective.

Ensuring the Integrity of the Medicaid Program: The Budget recommends 75 new staff and other resources to strengthen the Office of the Medicaid Inspector General's capacity to fight fraud.

Strengthening the Public Health and Aging Systems: New funding of \$15 million is recommended to address key public health and senior care priorities, including anti-smoking programs; the prevention of adolescent pregnancy; childhood lead poisoning and obesity; caregiver resource centers; and services for the frail elderly.

Beginning the Transformation of the Long Term Care System: A Home Care Advisory Council would be created to study the Home Care system, and nursing home reform options would be explored.

PERFORMANCE PROFILE

Health Care System Overview

- Medicaid spending will total \$46.3 billion in 2008-09, an increase of 2.7 percent from 2007-08. Without cost containment actions, spending would have grown to \$47.3 billion.
- In 2007-08, New York experienced its first decrease in the State share of Medicaid spending in nearly a decade.
- New York State ranks first nationally in Medicaid spending per capita.
- Medicaid is the largest payer of health care and long-term care costs in the State and serves more than 4 million clients each month through a network of over 60,000 health care providers and 23 fully capitated managed care plans.
- 2.6 million individuals are uninsured, including 400,000 children, and almost 50 percent are currently eligible for public health insurance programs.

NEW YORK'S MEDICAID SPENDING EXCEEDS OTHER LARGE STATES

State	Medicaid Expenditures (\$ in Millions)	State Population (In Thousands)	Per Capita Expenditures
NEW YORK	\$43,554	19,306	\$2,256
California	\$33,840	36,458	\$928
Texas	\$17,684	23,508	\$752
Pennsylvania	\$15,402	12,441	\$1,238
Florida	\$12,621	18,090	\$698
Ohio	\$11,768	11,478	\$1,025
Illinois	\$9,967	12,832	\$777
Massachusetts	\$9,561	6,437	\$1,485
New Jersey	\$9,109	8,725	\$1,044
Michigan	\$8,237	10,096	\$816
Wisconsin	\$4,617	5,557	\$831
Total U.S.	\$296,935	298,817	\$994

Source: CMS 64 FFY 2006, Beneficiaries FFY 2004 & Census 7/1/06

New York's Medicaid program is the largest in the nation and spending on a per-capita basis exceeds other large states.

This progress is noteworthy, but further reform is needed. Despite being home to some of the nation's best hospitals, physicians and community providers, New York still lags behind other states in the performance of its health care system based on certain broad indicators. New York's Medicaid program remains the most costly in the nation and too many New Yorkers remain without health insurance coverage. Parts of the Medicaid reimbursement system are still irrational and offer too little incentive for higher quality, less expensive alternatives, and, most importantly, better health outcomes. There is also a clear need for more primary and preventive care.

This Budget continues a reform agenda emphasizing access, affordability and quality. It expands access to health care coverage and strengthens the public health system. The Budget pays for these improvements with savings of \$980 million in Medicaid, The Health Care Reform Act, and other areas, which are achieved by:

- Ensuring the Integrity of the Medicaid Program;
- Controlling the Cost of Prescription Drugs;
- Reforming Reimbursement for Hospital, Primary and Preventive Care;
- Extending the Health Care Reform Act and Requiring Insurers to Pay Their Fair Share;
- Initiating the Transformation of the Long Term Care System; and
- Advancing Other Medicaid Efficiencies.

**EXECUTIVE BUDGET TO IMPROVE
NEW YORK'S HEALTH CARE SYSTEM**

Category	Nationwide Ranking
Access to Services	11th
Quality of Health Care	30th
Selected Public Health Indicators	30th
Avoidable Hospital Use	39th
Overall Ranking	22nd

Source: Commonwealth Fund "National Scorecard on U.S. Health System Performance" (2006)

New York ranked 22nd in a recent national study performed by the Commonwealth Fund, "National Scorecard on U.S. Health System Performance" (2006). This study focused on access to health care and 28 other representative public health measures.

**EXPANDING ACCESS
TO HEALTH CARE COVERAGE**

The Executive Budget advances the Governor's long range goal of universal health insurance coverage by simplifying enrollment procedures for those currently eligible for public health insurance programs and expanding coverage to individuals who are currently not eligible.

- **Child Health Plus Expansion.** State support, along with an increase in family contributions tied to income, will fully fund the planned expansion of Child Health Plus from 250 percent to 400 percent of the Federal Poverty Level. This expansion will proceed even if federal dollars are unavailable while the State pursues its lawsuit against the Bush Administration and negotiations in Washington continue regarding the extension of the Federal State Children's Health Insurance Program (SCHIP). This expansion will result in nearly all 400,000 uninsured children in the State having access to comprehensive and affordable health care.
- **Family Health Plus Employer Buy-In.** Beginning in April 2008, employers will have the option to "buy-in" to low-cost Family Health Plus coverage for their employees. For participating employers, the State will share in the premium costs for employees who would otherwise be eligible for Family Health Plus. More New Yorkers will have access to low-cost insurance and it will be an easier business decision for employers to offer health care coverage.

- **Enhanced Enrollment and Renewal Opportunities.** This Budget will establish a new enrollment portal permitting the State to directly enroll and renew individuals in Medicaid. The State will operate a single hotline for all public health insurance programs, process certain applications, and eventually operate a telephone renewal process statewide and develop an electronic application. Funding for facilitated enrollment in community-based organizations will be increased.
- **Streamlined Eligibility and Renewal Requirements.** The enrollment and renewal processes will be streamlined to make it easier for eligible children and adults to access and retain coverage under the Medicaid, Family Health Plus and Child Health Plus programs. Income standards will be simplified by aligning Medicaid with Family Health Plus program resource rules. Single adults and childless couples will have one eligibility level and will no longer have to meet drug and alcohol screening requirements. Further, the asset test for the Medicare Savings Program will be eliminated, allowing more individuals to qualify for the low income subsidy under Medicare Part D.
- **Elderly Pharmaceutical Insurance Coverage (EPIC) Discount Card.** A new program will be established to make the EPIC drug discounts available to financially vulnerable uninsured individuals, regardless of age. The average discount will be over 25 percent, making prescriptions more affordable for persons without drug coverage.
- **Foster Children Health Coverage.** This proposal will ensure that all foster children have access to Medicaid until 21 years of age. Currently, it is estimated that 300 young people annually lose Medicaid coverage at age 18, when they age out of foster care. This proposal, along with the Bridges to Health Medicaid Waiver Program recently announced by the Office of Children and Family Services, will ensure that this especially vulnerable population receives needed health and support services.
- **Doctors Across New York.** To ensure that the extension of health insurance coverage translates into health care access, an adequate supply of doctors is needed. This new program will provide grants and enhanced reimbursement to encourage new primary care and specialist physicians either to establish or to join practices and providers in rural and inner-city medically underserved areas. A new tuition loan repayment program will be tied to service in such communities.
- **Nursing Programs.** Nursing programs at SUNY and CUNY will be expanded to help increase the State's capacity to educate an adequate supply of nursing students.

ENSURING THE INTEGRITY OF THE MEDICAID PROGRAM

Significant strides have been made over the last year to strengthen the anti-fraud capabilities of the Office of the Medicaid Inspector General (OMIG) and positive results have been achieved. It is now expected that this Office will realize \$505 million in State savings in 2007-08, \$75 million more than the budgeted target of \$430 million. This Budget builds on that success by providing additional resources and statutory tools for the OMIG to perform its critical role. State savings of \$590 million – \$160 million more than anticipated in the 2007-08 State Budget – will be realized in 2008-09. The Budget recommends:

- **Increased Staffing.** The OMIG will add 75 new staff, including 55 auditors and investigators, to enhance its capability to prevent and detect Medicaid fraud, waste and abuse.
- **Additional Technology.** Additional resources are provided to the OMIG to upgrade its data mining technology and software and to expand its Card Swipe Program (which identifies Medicaid card users), currently used by 1,200 providers, to an additional 4,000 providers.
- **Enhanced Anti-Fraud Measures.** A number of statutory measures are proposed to enhance anti-fraud capabilities by giving the OMIG access to Medicaid providers' tax returns and information related to certain complaints filed with the State Attorney General, and additional tools to recoup Medicaid overpayments. The Budget also increases the maximum civil penalties for violations of health law or regulations and dedicates the proceeds to patient safety programs.

EXECUTIVE BUDGET INCLUDES \$980 MILLION IN HEALTH CARE SAVINGS

Program	2008-09 Savings
Anti-Fraud	\$160M
Pharmacy Actions	\$172M
Acute Care Reimbursement	\$100M
Health Care Reform Act	\$193M
Long Term Care Reimbursement	\$152M
Additional Medicaid Savings	\$79M
Public Health and Aging	\$124M
Total	\$980M

CONTROLLING THE COST OF PRESCRIPTION DRUGS

Prior to any actions, New York will spend approximately \$1.9 billion in State funds on prescription drugs in 2008-09 through the Medicaid and EPIC programs. The 2008-09 Executive Budget recommends actions that would control these costs and generate \$172 million in State savings. The Budget addresses prescription costs in these areas:

- **Family Health Plus.** Coverage for prescription drugs will be provided to Family Health Plus enrollees through Medicaid fee-for-service rather than through health plans. This will allow the State to collect additional drug rebates while still providing Family Health Plus enrollees with comprehensive drug coverage, mirroring the approach used for Medicaid Managed Care enrollees.
- **High Cost Drugs.** A Specialty Pharmacy Program will be created within Medicaid to lower the price of high cost drugs, which have increased dramatically in number and cost. Specialty drugs typically require specific handling and have a limited distribution. The Specialty Pharmacy Program will ensure safe delivery of appropriate medications and necessary supplies and provide supportive/educational services to patients.

- **Preferred Drug Program (PDP).** The Executive Budget eliminates the exemption of anti-depressants from the PDP and generates additional rebates. Anti-psychotics, anti-retroviral and anti-rejection drugs will remain exempt. New classes of drugs will continue to be added to the PDP to maximize savings from manufacturer rebates. Importantly, the Budget maintains the provision that a physician's decision prevails in all instances.
- **Clinical Drug Review Program.** The Executive Budget reflects the addition of new drugs to the Clinical Drug Review Program (CDRP) to generate additional savings while continuing to ensure proper usage of certain high-risk drugs. Drugs in the PDP may be included on the CDRP, if required to ensure proper usage.
- **Medication Therapy Management.** A pilot program is established to improve medication compliance and clinical outcomes for Medicaid enrollees who take multiple medications and who have high prescription drug costs.
- **Physician Education.** A program will be started to provide prescribers with unbiased clinical information about medications and to balance marketing efforts by manufacturers. This will improve patient outcomes and reduce unnecessary expenditures by providing objective information to prescribers.
- **Drug Utilization Review (DUR).** An organization with special expertise and experience in providing pharmacy management services will administer the DUR program, and the number of clinical reviews will be increased.
- **Pharmacy Reimbursements.** Pharmacy reimbursement will be reduced from Average Wholesale Price (AWP) less 14 percent to AWP less 17 percent for brand name drugs to more closely reflect the actual wholesale price to pharmacies. This reduction will be offset by a one dollar increase in the dispensing fee for generics and brand name drugs in the PDP. In addition, co-payments for brand name drugs in the Medicaid PDP will be reduced from \$3.00 to \$1.00. These changes will encourage the use of lower cost and preferred products.
- **Medicare Savings Program.** Eligible EPIC seniors will be enrolled in the Qualified Individuals Medicare Savings Program which will make them eligible for the Medicare Part D low income subsidy, lowering the cost to the EPIC program and participants' out-of-pocket costs.
- **Federal 340B.** This Budget will increase participation in the Federal 340B program, which allows eligible entities (e.g., Federally Qualified Health Centers and Disproportionate Share Hospitals) to obtain certain prescription drugs at lower costs and results in savings to the Medicaid program as well as to uninsured patients.
- **Medicare Part D.** The Budget recommends reduced Medicare Part D clawback payments for revised Part D per-capita drug costs pursuant to notification from the Centers for Medicare & Medicaid Services (CMS).
- **Bulk Purchasing.** The Commissioner of Health will be authorized to explore bulk purchasing opportunities to maximize the State's purchasing power.

REFORMING REIMBURSEMENT FOR HOSPITAL, PRIMARY AND PREVENTIVE CARE

New York's current Medicaid reimbursement system does not adequately support primary care and preventive services. Rather, by over-reimbursing hospital inpatient costs, it directly encourages the use of those services instead of more cost effective ambulatory care. Accordingly, the 2008-09 Executive Budget advances a multi year proposal to re-direct dollars from inpatient care to ambulatory care provided by hospital clinics, physicians and community-based clinics. These actions will produce a more rational, cost-efficient reimbursement system that rewards quality and supports primary and preventive care. The following actions generate net State savings of \$100 million in 2008-09:

- Inpatient costs, including Graduate Medical Education, will be rationalized and updated, or “rebased”, from 1981 to 2005 trended to 2008 over a four-year period. Most of the resulting savings from this action will be redirected to make critical investments in ambulatory and primary care provided by hospitals, community clinics and physicians. Inpatient trend factors for 2008-09 will be reduced by 25 percent to mitigate spending increases.
- Graduate Medical Education reimbursement and funding is maintained at current levels, but targeted to support State health care priorities, including enhanced primary and preventive care, and recruitment of physicians in medically underserved communities.
- Efficiency savings will be realized and quality care promoted by restructuring reimbursement for detoxification services provided on an inpatient basis, selectively contracting with designated hospitals for certain services, and restricting reimbursement for “never events” that should not occur (e.g., amputating the wrong limb).
- A new methodology — Ambulatory Patients Group (APGs) — will reimburse providers based on the intensity of services performed, rather than the number of visits provided. Reimbursement for hospital and community clinics has been capped for over a decade. APGs will create incentives to provide services in more appropriate settings.
- Consistent with the phase-in of rebasing and implementation of APGs, investments will be directed to hospital-based ambulatory care clinics, ambulatory surgery and emergency rooms, community-based clinics, and physicians. Targeted enhancements will be available to providers that offer weekend and evening hours.
- Implementation of the Berger Commission's recommendations will generate savings of \$43 million in 2008-09 and \$57 million annually thereafter through the closure of 9 hospitals and the merger or change in affiliation of 48 hospitals.
- Public Hospital Workforce Recruitment and Retention grants will be phased out over a four-year period since these costs will be fully accommodated in the new rebased rates.
- Additional edit checks will be introduced in the payment system to ensure that all procedures are properly reported on Medicaid claims. This information is needed to implement new reimbursement systems and to measure and improve quality of care.
- Rate enhancements, which are outdated and no longer justifiable, are eliminated for “specialized” psychiatric services in ten hospitals.

EXTENDING THE HEALTH CARE REFORM ACT (HCRA) AND REQUIRING INSURERS TO PAY THEIR FAIR SHARE

HCRA, which is scheduled to expire on March 31, 2008, supports nearly \$5 billion in costs for critical health care programs, including Graduate Medical Education, Indigent Care, Child Health Plus, Family Health Plus, EPIC and Stem Cell research. The 2008-09 Executive Budget recommends several actions to ensure that HCRA is extended for three years and fiscally balanced through March 31, 2011. A series of actions will generate total State savings of \$193 million in 2008-09, including:

- Increasing the Covered Lives Assessment by \$140 million, from \$850 million to \$990 million annually, effective April 1, 2008;
- Enhancing HCRA audit capabilities by providing more resources to improve the timeliness of audits and revenue collections; and
- Moving financing of the Newborn Screening Program to the Insurance Industry's assessment as it promotes improved health care for all New Yorkers.

This Budget would also reclassify for-profit health maintenance organizations (HMOs) as insurance companies for tax purposes. As a result, for-profit HMOs would be subject to the premiums tax of Tax Law Section 1502-a instead of the business corporation tax of Article 9-A. HMO premiums would be taxed at the same rate, 1.75 percent, as premiums under other accident and health insurance contracts. Since HMOs are similar in operation to traditional health insurers, and compete with these businesses, it is appropriate to treat them similarly for tax purposes. This measure will generate \$247 million in 2008-09 and \$288 million when fully effective.

INITIATING THE TRANSFORMATION OF THE LONG-TERM CARE SYSTEM

Under the current configuration, New York's long-term care system will be unable to meet the anticipated needs of the baby boomer generation for community-based care and will quickly become unsustainable. Demand for long-term care services will continue to increase, as the State's over-65 population is projected to grow 50 percent by 2030. The Executive Budget recommends a series of initiatives to promote the delivery of cost-effective, high quality care and takes the first steps toward comprehensive reimbursement reform in long-term care. The Budget includes new funding of nearly \$2 million to expedite nursing home appeals; develop a home care database; and to develop nursing home reimbursement reform measures and facility restructuring plans. In addition, the following measures produce State savings totaling \$152 million:

- Financing for nursing homes will be re-configured to reduce the overall funding level, but ensure that funds slated for release in 2008-09 are disbursed in a timely fashion. The nursing home rebasing initiative was authorized in 2006-07, but implementation awaits required federal approvals. Over the next year, the Department of Health will work with the nursing home industry to improve the current reimbursement system for nursing homes, focusing on efficiency and quality issues.
- Trend factors will be reduced by 25 percent for nursing homes, home care, and personal care as part of a strategy to promote efficiency and mitigate spending increases.

- Implementation of the Berger Commission recommendations will generate savings of \$10 million in 2008-09 and \$13 million annually thereafter through the closure of 3 nursing homes, reducing capacity in 12 homes and restructuring 6 other homes.
- This Budget restructures rates, limits reimbursement of administrative costs for home care providers, and establishes a new personal care demonstration program, which will promote the efficient and appropriate provision of high quality care to recipients. A Home Care Technical Advisory Council will also be established to recommend reforms to the home care reimbursement system.

ADVANCING OTHER MEDICAID EFFICIENCIES

The 2008-09 Executive Budget proposes a number of steps to improve the Medicaid program, focusing on measures to more efficiently manage and coordinate care for all Medicaid enrollees, with a special focus on the elderly, the disabled and medically complicated patients who require high levels of resources and services. The initiatives described below will generate State savings of \$79 million and also improve health care for these populations. The Executive Budget:

- Requires dual eligibles (those in Medicaid and Medicare) enrolled in a Medicare managed care plan to enroll in the same plan for their Medicaid benefits to provide better coordination of care for these recipients.
- Implements a prenatal registration project that identifies women at risk of poor birth outcomes, and diabetes and asthma care improvement projects that will require Medicaid to reimburse for diabetes and asthma self-management education; incentives will be paid to providers who participate in the Bridges to Excellence Diabetes Physician Recognition Program.
- Authorizes transportation access managers to promote efficiencies in the provision of transportation services by matching services to patient needs; reviewing and approving transportation orders for high-volume ordering practitioners and facilities; and, creating lower cost livery and stretcher van services in high volume neighborhoods.
- Modernizes the Medicaid Utilization Threshold Program, which places a limit on the number of services a recipient may receive in a year, so that thresholds are based on clinical evidence, diagnoses and severity of illnesses. The Program will also undergo a review of claims to ensure quality and patient safety.
- Limits premium increases for Family Health Plus, Medicaid Managed Care and Managed Long-Term Care to ensure that the State appropriately pays for services provided by these managed care plans. A portion of these savings will be redirected to finance the new State Enrollment Portal and fund additional facilitated enrollers for community-based organizations.
- The Office of Alcoholism and Substance Abuse Services will implement several actions that target inappropriate utilization of Medicaid services.

STRENGTHENING THE PUBLIC HEALTH AND SENIOR CARE SYSTEMS

The 2007-08 Enacted Budget took long overdue steps to revitalize New York's public health and senior care systems by making needed investments in a number of important areas, with a particular emphasis on primary and preventive care. The 2008-09 Executive Budget generates State

savings of \$124 million by eliminating a cost-of-living adjustment (COLA) for the Early Intervention (EI) Program, recouping overpayments made to New York City for EI costs and taking other cost-saving initiatives. Recommended actions include:

- \$3.6 billion in statewide spending to help combat HIV and AIDS.
- \$118 million for the Roswell Park Cancer Institute, including \$78 million in operating support, \$15 million for cancer research and \$25 million for capital projects.
- \$84 million for anti-smoking initiatives, an increase of \$2.2 million.
- \$50 million for the second installment of the Stem Cell research initiative enacted last year. Combined with last year's investment, \$150 million will be available in 2008-09.
- \$56 million for the third year of the Human Services COLA for various public health and AIDS programs. These COLA increases, set to expire on March 31, 2009, will be extended for an additional three years.
- \$40 million for the General Public Health Works reserve fund that would be available to the State and counties in the event of a public health emergency.
- \$28 million to support the State's emergency response capability, including \$12.5 million to counties for emergency response efforts, with the balance available to the Department of Health to stockpile necessary medications and supplies for use in the event of a pandemic outbreak.
- \$102 million for critical public health programs that support primary care and prevention. These include school based health clinics, nutrition programs and efforts to conduct cancer screenings, expand access to cervical cancer vaccines, and increase prenatal and postpartum home visits. Additional funding of \$4.6 million is included for childhood lead poisoning, adolescent pregnancy, and obesity prevention programs; to establish a comprehensive Hepatitis C program and support HIV risk reduction and Communities of Color initiatives.
- \$3.3 million for hospice quality reviews, health facility surveillance contracts, regional epidemiology programs, public health genomics, the Center for Translational Neurological Research, workforce preparedness, data protection/interoperability requirements, a clinical laboratory education training program and fee-supported lab specialist testing and certification programs.
- \$6.1 million for the State Office of the Aging's NY Connects program which provides information, assistance and education to seniors regarding available medical and non-medical long-term care services.
- \$5 million in additional funding that will be invested in supports for caregivers through the establishment of Caregivers Centers of Excellence, an Adult Day Demonstration Program, a new Expanded In-Home Services for the Elderly Program targeted to the frail elderly, and a new Community Empowerment initiative to create "Beacon Hill" programs across the State. Funding will also be used to develop a web-based reporting infrastructure for local Area Agencies for the Aging.

SUMMARY OF CHANGES

MEDICAID
(\$000s)

	All Funds 2008-09
Prior Year Estimated Spending	\$ 45,036,800
Growth in entitlement spending	2,252,000
Additional audit target savings	(320,000)
Initiating the transformation of the long term care system	(303,000)
Controlling the cost of prescription drugs	(263,000)
Reforming reimbursement for hospitals and clinics; investing in primary, preventive and ambulatory care, including increasing physician fees	(176,000)
Improving the management and use of health care services	(102,000)
Other State agency savings in OMRDD, OMH and OASAS	(70,000)
Other savings actions including authorizing transportation brokers and eliminating the Early Intervention COLA	(36,000)
Investments including expanding coverage for Foster Children up to age 21, streamlining eligibility processes and removing the asset test for Medicare Savings Program	9,700
Payments to OMH psychiatric centers and OMRDD - operated developmental centers and community programs	230,000
Recommendation	\$ 46,258,500
Change From 2007-08	\$ 1,221,700

SUMMARY OF CHANGES

DEPARTMENT OF HEALTH
 (\$000s)

	General Fund 2008-09
Prior Year Estimated Spending	\$ 872,951
Annualization of prior-year public health investments	30,407
Shift of various programs from Temporary Assistance for Needy Families (TANF) financing to the General Fund	25,320
Continuation of cost-of-living adjustments for various AIDS and public health programs	19,600
New funding for a State Medicaid enrollment system, long term care reform efforts, facilitated enrollment, tobacco control initiatives and a number of other public health programs	18,100
Growth in General Public Health Works Program	15,300
Growth in Early Intervention Program	6,100
Recoupment of NYC Early Intervention overpayments	(60,000)
Elimination of Early Intervention COLA	(32,300)
Elimination of all 2007-08 legislative additions	(24,950)
Shift of Medicaid Management Information System costs to PIT bond financing	(9,950)
Fixed cost increases offset by other miscellaneous and technical adjustments	(8,737)
Recommendation	\$ 851,841
Change From 2007-08	\$ (21,110)

EXPANDING EDUCATIONAL OPPORTUNITY

Education is integral to a modern, knowledge-driven economy. New York State's economic future is tied to its ability to educate and engage as broad and diverse a group of young people as possible. The Executive Budget recommendations for 2008-09 recognize this imperative with investments intended to close the achievement gap between students from low- and high-need school districts.

DELIVERING ON EDUCATION REFORM— CLOSING THE ACHIEVEMENT GAP

The 2007-08 Enacted Budget provided an historic school aid increase of \$1.76 billion, or 10 percent. This represented the first year of a Four-Year Educational Investment Plan that will increase school aid by over \$7 billion by the 2010-11 school year. This unprecedented level of funding was accompanied by comprehensive reforms, including:

- **A Foundation Aid Formula.** The new Foundation Aid formula consolidated 30 different aid programs and was designed to provide sufficient State and local resources to give all children the opportunity to meet New York's learning standards, link school funding to the cost of a successful education, and allocate funding based on objective standards of student need and districts' wealth.
- **Enhanced Accountability.** Last year's Budget increased accountability for school spending through the Contracts for Excellence program, an enhanced system of performance measures, an expanded process for Schools Under Registration Review, and other measures.

BUDGET HIGHLIGHTS

Overall School Aid: Continues the Four-Year Educational Investment Plan. In 2008-09, the second year of the Plan, overall school aid will grow by nearly \$1.46 billion, bringing the cumulative two-year increase to \$3.18 billion and total school aid for the 2008-09 school year to \$21.01 billion.

Implementation of Foundation Aid: Foundation Aid will increase by \$899 million, bringing the cumulative two-year increase to \$2 billion and total Foundation Aid for the 2008-09 school year to \$14.54 billion.

Continued Expansion of Universal Prekindergarten Programs: Includes a total of \$452 million in Universal Prekindergarten funding, enough for more than 120,000 children.

Healthy Schools: Proposes measures to improve the nutritional quality of food served in school.

English Language Learner Model Programs: Supports the expansion and replication of proven programs and school reform models for English language learners.

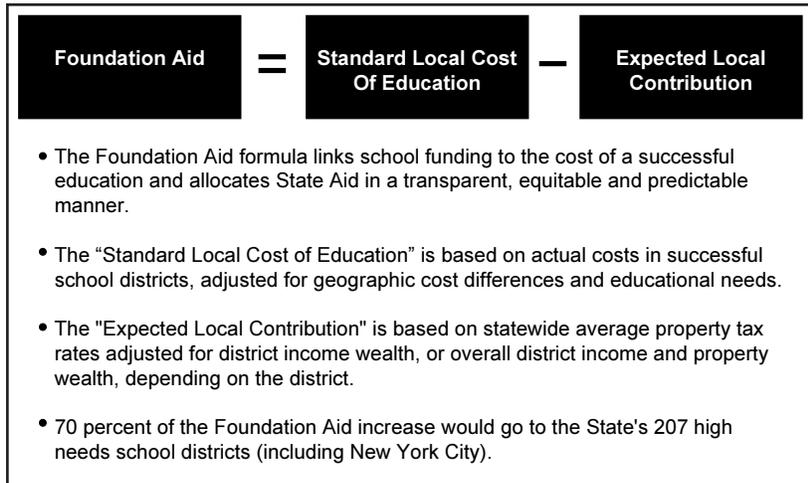
Math/Science Initiatives: Expands the State's existing Math/Science Education initiatives to include advanced hands-on technical learning, such as robotics.

PERFORMANCE PROFILE

SCHOOL AID

Overview

- Nearly 700 school districts operate over 4,000 schools.
- In 2006-07, per-pupil spending of \$15,263 made New York the second highest spending State on a per-pupil basis. New York's per-pupil spending was nearly 50 percent higher than the national average of \$10,212.
- In 2006-07, total expenditures for education were estimated to be \$48.3 billion. Of this amount, State aid totaled approximately \$21.4 billion, or 44.3 percent.
- A significant gap in academic achievement exists between students in high need districts, such as New York City and the Big Four City school districts, and other students.
- The average four year graduation rate for NY's students is 67% with NYC and the Big Four at 50% and 45% respectively.
- In 2006-07, New York State classified 12.6 percent of all students as requiring special education services — 31 percent were placed in educational settings which were separate from their non-disabled peers. This figure remains above the national average.



- **Commitment to Universal Prekindergarten.** The 2007-08 Enacted Budget renewed the State's commitment to full implementation of Universal Prekindergarten (UPK) and provided significant funding to expand the program. During the current school year, over 93,000 children had access to UPK services, an increase of 30,000 over the prior year.
- **Increased Charter School Cap.** The 2007-08 Enacted Budget increased the charter school cap from 100 to 200, with 50 of the additional charter schools reserved for New York City. Since the cap was raised, an additional 22 charter schools have been approved or are in the process of being approved, 19 of which are located in New York City.

The 2008-09 Executive Budget continues the progress of 2007-08 and maintains the Governor's commitment to increase school aid by over \$7 billion by 2010-11, while:

- Balancing the need for continued commitments with fiscal responsibility in the context of the State's \$4.4 billion deficit;
- Ensuring that high needs school districts continue to receive the greatest increases in Foundation Aid;
- Expanding to other aid categories the Foundation Aid approach of targeting funding based on a district's needs as measured by wealth factors; and
- Improving upon the Contracts for Excellence program and other accountability initiatives.

FOUR-YEAR EDUCATIONAL INVESTMENT PLAN

The Executive Budget implements the second year of the Four-Year Educational Investment Plan that, when fully phased in by the end of 2010-11, will increase annual State funding by over \$7 billion. In a year of challenging financial circumstances and difficult choices, the Budget reflects this continued commitment and will:

- **Increase Overall School Aid.**

The Executive Budget recommends an overall school aid increase of nearly \$1.46 billion, bringing the two-year cumulative increase to \$3.18 billion and total State funding for the 2008-09 school year to \$21.01 billion.

- **Increase Foundation Aid.**

The four-year phase-in of Foundation Aid will continue with an additional \$899 million increase, bringing the two-year cumulative increase to \$2 billion.

At the time the 2007-08 Budget was enacted, funding for Foundation Aid was projected to increase by \$1.24 billion in 2008-09. Several factors have

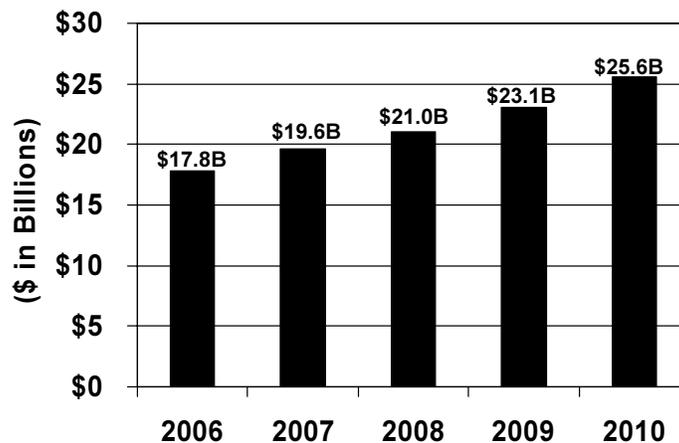
changed this projection. Based on updated wealth and demographic information reported by school districts, the amount and distribution of Foundation Aid for 2008-09 changed significantly and would have totaled \$992 million if no other actions were taken. In addition, while the Executive Budget maintains the basic elements of Foundation Aid, such as calculating funding based on the cost of a successful education and student needs, several adjustments were made to the formula. These were done to balance competing priorities related to maintaining support for high need districts, preserving funding stability, and addressing the State's budgetary constraints. These changes, which reduced the total increase to \$899 million, include:

- Enhancing the Foundation Aid Formula to ensure that high needs school districts continue to receive the greatest increases in Foundation Aid;
- Decreasing the minimum increase in total Foundation Aid that a school district can receive from 3 percent to 2 percent, and decreasing the maximum increase from 25 percent to 15 percent; and
- Decreasing the second year phase-in of the program from 42.5 percent of the planned four year increase to 37.5 percent.

The impact of this reduction is partially offset by several additional funding streams.

- **Reform High Tax Aid.** The Executive Budget continues to provide \$100 million for High Tax Aid for school districts with a high property tax burden, relative to income. The Budget also

EDUCATIONAL INVESTMENT PLAN INCREASES STATE AID TO SCHOOLS BY OVER \$7 BILLION



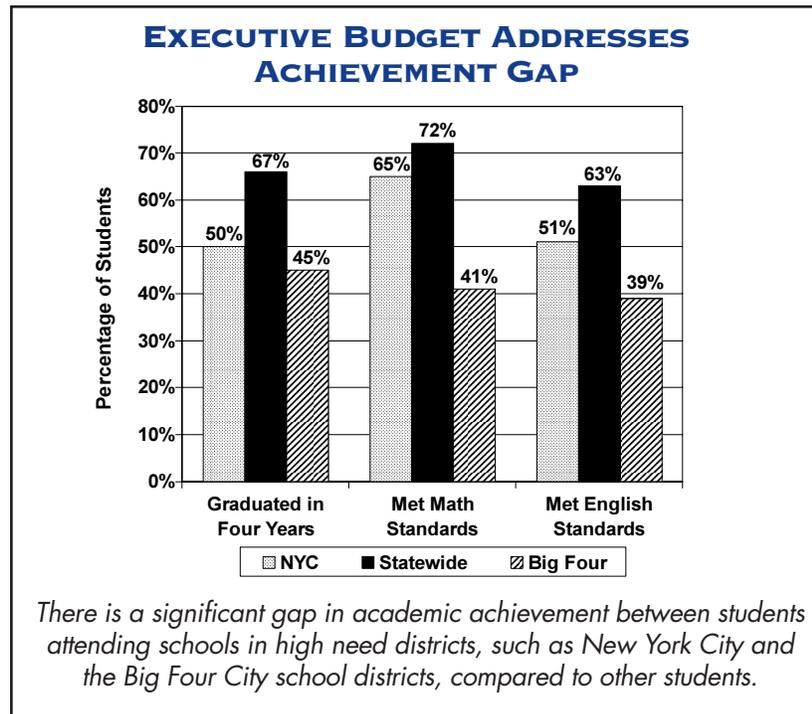
The Executive Budget continues the second year of the Four-Year Educational Investment Plan. This plan will increase school aid by over \$7 billion by 2010-11. Aid will increase \$1.4 billion in 2008-09.

introduces a Foundation-type approach to High Tax Aid by adjusting the allocation formula to take into account individual district wealth and tax burden measures resulting in a greater proportion of aid directed to high- and average-need school districts.

- **Provide New York City Academic Achievement Grants.**

Grants of \$100 million and \$79 million are advanced through the New York City Academic Achievement Grants program. These grants will be available for operating expenses, if not required to offset additional expense-based aid claims. If the proposal described below – that would conform payment of building aid to New York City for new projects to the process used for all school districts in the State – is adopted, it is expected that most of these grants will be available for general operating support.

- **Reform BOCES Aid.** Modifications have been made to the existing BOCES Aid reimbursement formula to more accurately reflect each school district's current fiscal capacity as measured by relative income and property wealth – similar to the principles underlying Foundation Aid. The Budget recommends \$594 million in BOCES Aid in 2008-09, a decrease of \$31 million.
- **Increase Special Services Aid.** The Executive Budget provides \$171 million for Special Services Aid, an increase of \$39 million. This aid category funds career education programs and computer services for school districts that do not participate in the BOCES program.
- **Provide Supplemental Educational Improvement Plan Grant.** The 2008-09 Executive Budget recommends \$17.5 million for this program that will provide additional resources to the Yonkers City School District in support of its educational improvement plan.
- **Expand Universal Prekindergarten.** The Budget recommends a \$79 million increase for Universal Prekindergarten compared to current estimates for the 2007-08 school year, bringing total funding to \$452 million for the 2008-09 school year. This investment will support an estimated 120,000 students in programs throughout the State. The Executive Budget would allocate this aid, ranging from \$2,700 per child to approximately \$5,800 per child, based on district wealth as a measure of local ability to contribute, and student educational needs.
- **Support and Reform School Construction.** An increase of \$174 million is recommended for school construction, bringing total funding to over \$2 billion. This level of total support includes \$135 million for debt service on EXCEL Building Aid bonds. The Budget also



recommends modifications to conform payment of building aid to New York City for new projects to the process used for all other school districts in the State.

- **Support Bilingual Education/English Language Learners.** \$13.5 million is planned for Bilingual Education grants, an increase of \$2 million. This increase will provide incentive funds for school districts to implement model programs with demonstrated effectiveness. The Budget also recommends increasing funding for the State University of New York's Office of Diversity and Educational Equity by \$200,000 to assist in this effort.

PRESCHOOL SPECIAL EDUCATION

The 2007-08 Enacted Budget created a Temporary Taskforce on Preschool Special Education with members that included service providers and officials representing county governments, school districts, and State agencies. On November 15, 2007, the Taskforce submitted recommendations to the Governor and Legislature, targeted towards improving the alignment between funding, decision-making, and service delivery for the preschool special education program. The Executive Budget reflects these recommendations and would:

- **Cap County Costs for Preschool Special Education.** The annual growth in preschool special education costs for counties outside of New York City is capped at 4 percent, with the State assuming the remainder of the growth. By the 2009-10 school year, annual growth will be limited to 3 percent. Counties will realize an estimated \$20 million in savings in 2008-09, growing to approximately \$90 million in 2011-12.
- **Align Programmatic and Fiscal Responsibility for Preschool Evaluations and Committee on Preschool Special Education (CPSE) Administration.** The Budget recommends increasing school district programmatic responsibility for the evaluation of preschoolers suspected of having disabilities and also recommends allocating a portion of the costs of preschool evaluations and CPSE administration to school districts. The State will realize an estimated \$46 million in savings from this recommendation in the 2008-09 State Fiscal Year.

HEALTHY SCHOOLS

The Executive Budget proposes measures which enhance the nutritional quality of food sold, served, or offered in schools, while improving access and affordability. Reimbursement for school meals will be increased by \$9 million for the 2008-09 school year, so that all children eligible for reduced price meals will receive school meals at no cost. In addition, beginning in 2009-10, State reimbursement for all meals will be increased to assist school districts with any increased costs associated with purchasing healthier food.

EDUCATIONAL ACCOUNTABILITY

Reforms enacted in 2007-08 require that, in exchange for new resources, schools must demonstrate that funds are spent wisely and produce measurable improvements in student achievement. The 2008-09 Executive Budget continues and expands school accountability:

- **Enhanced Contracts for Excellence.** Almost half of the State's students are now learning in school districts that have signed Contracts for Excellence. The Contracts indicate how school districts will spend increased State funding in ways that have been proven to improve student performance. For 2008-09, all school districts receiving an annual Foundation Aid increase in excess of 10 percent or \$15 million, or receiving a Supplemental Educational Improvement Plan grant, and having a school identified as having educational deficiencies under newly strengthened criteria, will have to develop a Contract for Excellence. Enhancements to the Contracts for Excellence Program recommended in the Executive Budget include:

- Improved and strengthened criteria to identify participating schools and districts.
- Requiring that districts enter into a contract annually for a three year period unless the districts have schools that have made adequate progress addressing identified deficiencies, or schools where the deficiency has not extended beyond one year.
- Expanding allowable activities to include programs proven to be effective in improving the academic achievement of English language learners.
- Leadership Development. The Budget supports the Board of Regents commitment to improving leadership development opportunities and programs so that our educational leaders are better prepared to guide a new generation of public schools in NYS.

2007-08 CONTRACTS FOR EXCELLENCE PROMISE IMPROVED PERFORMANCE

Buffalo: Sixteen schools most in need of improvement have lengthened their school day by one hour and the school year by 20 days. Each school has doubled the amount of time spent on Math and English Language Arts, and created classes of less than 10 students for those most in need of improvement.

Rochester: Twenty-eight schools will have a six-day week. Thirty four other schools will have a longer school day. The Rochester school district—in partnership with the city's colleges and universities—is establishing small early- and middle-college high schools to help at-risk students transition to college.

New York City: New York City will reduce class size in 75 of its lowest-performing and most overcrowded schools. The City has also set specific targets to below 20 students per class in kindergarten through grade 3.

Newburgh: Newburgh has a three-year plan to reduce class size to 20 students for all grade levels at its elementary schools, providing its neediest students with more individualized attention.

EDUCATIONAL ENHANCEMENT

- **Transition to Teaching Pilot Program.** The Executive Budget recommends a pilot initiative, building on the existing Teachers of Tomorrow Program, to encourage professionals in technical fields, such as engineers and computer scientists working in private industry, to become certified classroom teachers.
- **Expand Math and Science Initiatives.** Uses of funds for the existing Math and Sciences Initiatives Program are expanded to include pre-engineering and advanced hands-on technical learning opportunities, such as robotics, that are an important part of modern scientific applications.

CHARTER SCHOOLS

The Executive Budget continues to provide \$21 million in Transitional Aid for school districts impacted by a concentration of charter schools, as well as \$6 million for technical assistance and start-up grants for Charter Schools.

SUMMARY OF CHANGES

STATE EDUCATION DEPARTMENT (\$000s)

School Aid	Total 2008-09 School Year Funding
Prior Year Estimated Spending	\$ 19,557,710
Continued implementation of Foundation Aid	898,560
Continued expansion of Universal Prekindergarten	78,960
Building and Transportation Aid increases (including EXCEL Building Aid) ..	347,190
Additional funding for education grants	99,000
Special education aid increase	37,120
Increase in Special Services Aid	39,130
Increase in Bilingual Education grants	2,000
Phase-out of one-year Supplemental Public Excess Cost Aid	(19,620)
Modify BOCES Aid ratio	(31,440)
Other formula-driven and categorical aid changes	5,950
Recommendation	\$ 21,014,560
Change From 2007-08	\$ 1,456,850

SUMMARY OF CHANGES

STATE EDUCATION DEPARTMENT (\$000s)

Other Education Programs/Agency Operations	General Fund 2008-09
Prior Year Estimated Spending	\$ 1,782,127
Net impact of the transfer of programs between school aid and other education programs	41,457
Additional State funding to limit county costs for preschool special education	20,000
Increased funding for nonpublic schools	15,000
Funding to support a \$10 million (school year) after-school community learning centers program	7,000
Funding to support first-year costs of the Healthy Schools Initiative	5,000
Increased funding for special education categorical programs	3,090
Funding for the new student mentoring/tutoring program	1,000
Completion of timing-related spending for nonpublic schools	(40,000)
Elimination of one-time legislative adds	(37,305)
Completion of payments for Targeted Prekindergarten Program transferred to School Aid	(26,700)
Elimination of tail payments for various programs and other non-recurring prior year commitments	(21,659)
Savings related to the elimination of legislatively directed programs and other initiatives	(3,237)
Funding for the School Leadership Initiative	250
Other net adjustments for State Operations	(5,542)
Recommendation	\$ 1,740,481
Change From 2007-08	\$ (41,646)

SETTING A NEW AGENDA FOR HIGHER EDUCATION

The global economy of the 21st century will be defined by creativity, innovation and the rapid transformation of ideas into new products and services. One of New York's greatest assets as we respond to this new economy is our strong and diverse system of higher education. This system enrolls more than one million students on approximately 250 campuses. It includes world class private research and liberal arts institutions; the State University of New York (SUNY), the largest public university system in the nation; and City University of New York (CUNY), the nation's largest urban public university system.

A FRAMEWORK FOR EXCELLENCE IN HIGHER EDUCATION

While the quality of New York's public and private colleges and universities is recognized around the world, the increasing level of investment by other nations in their higher education systems is a reminder that New York must continue to pursue academic excellence. In its preliminary report, Governor Spitzer's Commission on Higher Education highlighted this challenge and recommended a thoughtful and ambitious array of long-term investments and reforms to enhance research, teaching, access, workforce development and operational flexibility. Over time, New York must make sustained investments in higher education that will require commitment and ingenuity from all stakeholders—the Executive, the Legislature and the institutions themselves.

BUDGET HIGHLIGHTS

Significant Capital Investment: Provides a new \$9.3 billion five-year capital commitment to SUNY and CUNY to construct and rehabilitate classrooms, residence halls, hospitals and other public higher education facilities around the State.

Stable Operating Support: Provides \$4.04 billion in State General Fund support for SUNY and CUNY, a \$90 million increase. Support from tuition and fees will remain level at \$1.7 billion, reflecting no tuition increase. Recommendations provide \$641 million for community colleges.

A Vision for the Future: Recommends creation of a Higher Education Endowment fund by leveraging the value of the State Lottery.

Targeted Initiatives: \$2 million to provide combat veterans with a tuition benefit equal to the cost of SUNY tuition; \$2 million to help address the statewide nursing shortage; and \$200,000 to SUNY's Office of Diversity and Educational Equity for programs for English Language Learners.

PERFORMANCE PROFILE

- SUNY is the largest public university system in the nation, operating 64 Campuses.
- SUNY enrollment for 2007-08 is estimated at 426,891 students, an increase of more than 9,000 students over 2006-07. Community colleges represent just over 50 percent of all SUNY students.
- SUNY awarded 80,590 degrees in the 2006-07 academic year.
- CUNY is the largest urban university in the country, comprised of 23 institutions and 280 buildings.
- CUNY enrollment for 2007-08 is projected at 232,000 for degree-seeking students, an increase of more than 6,100 over 2006-07 and the highest in decades. CUNY's six community colleges enroll 33 percent of all CUNY degree-seeking students.
- In 2006-07, CUNY awarded 34,075 degrees, a 3.6 percent increase from 2005-06.
- The Higher Education Services Corporation (HESC) administers the largest student need-based aid program in the country — enrollment in the Tuition Assistance Program (TAP) for 2008-09 is projected at 311,000 FTE students.
- HESC awarded over 19,000 new scholarships, general awards and loan forgiveness awards in the 2006-07 academic year. The majority of such awards were Scholarships for Academic Excellence.

THE COMMITMENT BEGINS

The 2008-09 Executive Budget reflects difficult choices needed to close a \$4.4 billion budget deficit. However, overall recommendations for SUNY and CUNY increase year-to-year General Fund appropriations by nearly \$90 million, or 2.3 percent, from \$3.95 billion to \$4.04 billion. This funding level does not include an estimated \$200 million in additional General Fund spending that will be allocated to SUNY and CUNY following legislative action on anticipated collective bargaining agreements with organizations representing the universities' faculty and employees.

In addition, the Executive Budget proposes an unprecedented \$9.3 billion five-year capital plan for SUNY and CUNY that will address critical maintenance, strategic initiatives and energy efficiency. This recommendation is consistent with the preliminary recommendations of the Commission, which called for increased investment in the long-neglected infrastructure of both universities.

Also aligned with Commission recommendations is an Executive Budget proposal to expand SUNY's and CUNY's procurement, construction and administrative flexibility, which will help the universities achieve greater efficiencies and cost savings.

Looking to the future, the Executive Budget proposes the creation of a Higher Education Endowment to be funded by unlocking the value of the State Lottery. The Endowment will serve as a permanent source of recurring revenue to increase full-time faculty, financial aid, and support for cutting edge research and other investments, while allowing the Lottery to continue to fund lower education at anticipated levels.

Collectively, these recommendations begin the dialogue with the Legislature, the Commission and New York's colleges and universities on a framework for a sustainable funding partnership model that recognizes the shared responsibility of taxpayers, students, and campuses.

STATE-OPERATED CAMPUSES AND SENIOR COLLEGES

The Executive Budget recommendations for SUNY's 29 State-Operated campuses and five statutory colleges, and CUNY's 14 senior and professional colleges include investments in the following:

- **SUNY Operations.** A total of \$3.41 billion is recommended for SUNY's gross operating budget, an increase of \$42 million, or 1.2 percent.
- **CUNY Operations.** The Budget commits a total of \$1.7 billion for CUNY's gross operating budget, representing an increase of \$52.6 million, or 3.2 percent.
- **Savings from Efficiencies and Enhanced Flexibility.** Despite overall increases, SUNY and CUNY are asked to reduce spending supported by the General Fund by 2.5 percent below the amount their 2008-09 budgets would have grown (\$34.2 million for SUNY and \$16.7 million for CUNY). The university systems will manage this reduction in a manner that is responsive to student needs and system priorities. Legislation accompanying the Budget will enhance the universities' existing flexibility in procurement and construction to help facilitate cost saving efforts, consistent with recommendations of the Commission on Higher Education.
- **Energy.** State support for SUNY energy spending is reduced by \$26.6 million to better align funding with recent and projected expenditure levels. In addition, a \$45 million contingency appropriation, outside of SUNY's and CUNY's appropriation schedule, is proposed in the event of extraordinary energy cost increases in 2008-09.
- **Stony Brook Collaborative Research Alliance.** The Budget provides \$250,000 to support the initial planning of a strategic research partnership between Stony Brook University, Cold Spring Harbor Laboratory and Brookhaven National Laboratory. This is in addition to capital funding of \$10 million for Stony Brook and \$5 million for Cold Spring Harbor for equipment and other improvements associated with the Alliance. The goal of the Alliance is to link the intellectual and physical resources of these preeminent research institutions to create a life sciences and biomedical research cluster that will attract world class researchers and biomedical-related businesses.
- **Nursing Programs.** New appropriations of \$1 million each for SUNY and CUNY are planned to help address the statewide nursing shortage by expanding the universities' nursing programs. These funds may also be used to expand nursing programs at community colleges.
- **Office of Diversity and Educational Equity.** A \$200,000 increase in funding is allocated for the SUNY Office of Diversity and Educational Equity to support the development and dissemination of model programs to meet the needs of English Language Learners. Total funding for the Office will increase to \$500,000.

COMMUNITY COLLEGES

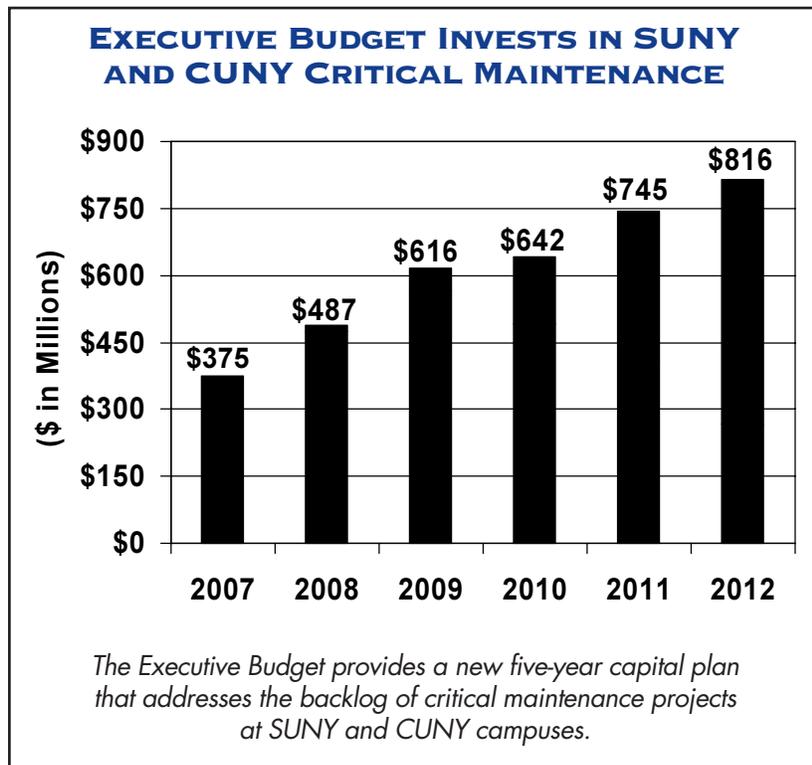
The Executive Budget recommends reducing funding for base operating aid by \$50 per student, from \$2,675 to \$2,625, for SUNY's 30 community colleges and CUNY's 6 community colleges. As a result of this recommendation and current services funding increases to reflect enrollment growth, 2008-09 State aid for community colleges will total:

- \$451.1 million at SUNY community colleges—a net decrease of \$77,000; and
- \$174.5 million at CUNY community colleges—a net increase of \$1.7 million.

CAPITAL INFRASTRUCTURE INVESTMENTS

In the 2007-08 Executive Budget, the Governor called upon SUNY and CUNY to develop new five-year capital plans for the 2008-09 through 2012-13 period. Both universities responded, and the 2008-09 Executive Budget provides a new five-year capital funding framework that will promote stability, predictability and greater discipline in the capital funding process, while ensuring campus priorities are balanced with available resources. This framework will supplement existing reappropriations with a new \$9.3 billion five-year State commitment, consisting of:

- Strategic Initiatives.** The Budget recommends \$2.56 billion for strategic initiatives at SUNY State-operated/statutory campuses (\$1.6 billion) and CUNY Senior Colleges (\$960 million) that will improve, enhance and advance the academic, research, recreational and community support priorities of the universities; such as the University at Buffalo’s “2020” expansion project. Legislation accompanying the Budget establishes the University Capital Projects Review Board which will consider and approve projects submitted by the SUNY and CUNY Boards of Trustees.
- Critical Maintenance.** Appropriations of \$4.17 billion are planned for critical maintenance needs over the five-year plan period (\$2.75 billion for SUNY and \$1.42 billion for CUNY) with \$834 million of appropriation authority available in 2008-09 (\$550 million for SUNY and \$284 million for CUNY).
- Community Colleges.** The Budget commits \$786 million for Community College capital projects (\$526 million for SUNY and \$260 million for CUNY), representing the State’s 50 percent share of project costs.
- Hospitals and Residence Halls.** \$1.02 billion is planned for projects at the self-supporting SUNY hospitals and residence halls.



- **Green Building Projects.** \$75 million is recommended to establish a pilot “Greening of SUNY” initiative to provide campuses with the ability to finance self-supporting projects that yield long-term operational savings through energy conservation.
- **Grants and Donations.** The Budget proposes \$500 million in spending authority to enable SUNY campuses to use non-State funds (i.e. grants and donations) to fully or partially support Educational Facilities Program capital projects.

FINANCIAL AID

New York leads the nation in funding for needs-based student financial aid, and \$796.4 million is proposed for the State’s Tuition Assistance Program (TAP) for the coming year. This amount is a decrease of \$78 million, reflecting the continued implementation of prior-year TAP eligibility reforms, such as increased minimum academic standards and more stringent requirements related to the use of the Ability to Benefit (ATB). Additional 2008-09 savings and revenue actions include:

- **Default Parity.** Currently, students in default on federal loans guaranteed by the Higher Education Service Corporation (HESC) are ineligible to receive TAP payments, but students in default on federal loans guaranteed by organizations other than HESC retain TAP eligibility. The 2008-09 Executive Budget provides that all students in default on federal loans would be ineligible for TAP awards, regardless of guarantor.
- **A Default Collection Initiative.** HESC and the U.S. Department of Education will collaborate to collect on defaulted Federal FFELP and Direct loans. The Executive Budget authorizes the New York State Department of Taxation and Finance to provide HESC with certain information on educational loan borrowers to foster this collaboration.
- **Federal Default Fee Cost Shift.** The Executive Budget assumes that HESC will no longer cover a federally mandated student loan default fee on loans that it guarantees. The fee is assessed to borrowers, and is equivalent to one percent of the loan amount.
- **Veterans’ Tuition Coverage Program.** In recognition of the service of combat veterans from the Vietnam, Afghanistan and Persian Gulf conflicts, the Executive Budget provides for a tuition benefit in the amount up to the full cost of SUNY tuition (\$4,350) for use at any college, university, or approved vocational program in New York State. This program is projected to cost \$2 million.

STATE AID TO INDEPENDENT COLLEGES AND UNIVERSITIES

The Executive Budget recommends a 2.5 percent, or \$1.05 million, reduction from base level funding for Unrestricted Aid for Independent Colleges and Universities (Bundy Aid). After this reduction, funding for Bundy Aid will total \$41 million for the 2008-09 Academic Year. This recommendation is consistent with the 2.5 percent efficiency savings proposed in the Executive Budget for SUNY and CUNY.

SUMMARY OF CHANGES

**STATE UNIVERSITY OF NEW YORK/
CITY UNIVERSITY OF NEW YORK
(\$000s)**

	General Fund 2008-09
Prior Year Estimated Spending	\$ 2,792,081
Prior-year adjustments for CUNY fringe benefits	148,858
Transfer of Optional Retirement Program costs to SUNY/CUNY	8,837
Annualizations and inflationary increases	35,095
Spending re-estimates	10,094
SUNY/CUNY community college enrollment adjustment	9,110
Contractual salary costs	7,316
Increase in SUNY/CUNY community colleges rental aid	2,740
Funding to expand nursing programs	1,466
Elimination of 2007-08 legislative additions	(16,434)
Energy cost re-estimates	(26,322)
Productivity initiatives savings	(37,056)
Recommendation	\$ 2,935,785
Change From 2007-08	\$ 143,704

SUMMARY OF CHANGES

**HIGHER EDUCATION SERVICES CORPORATION
(\$000s)**

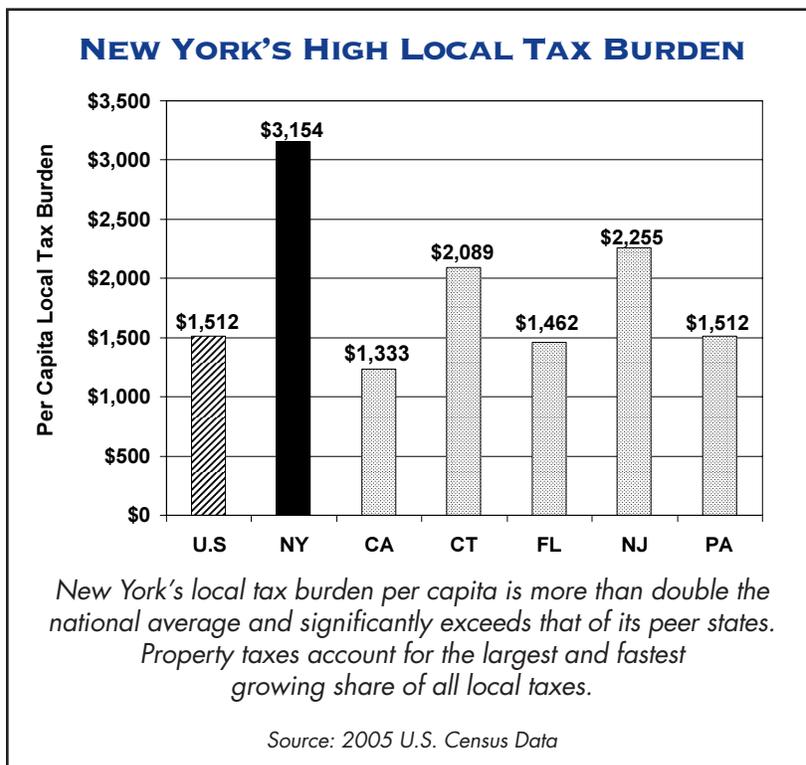
	General Fund 2008-09
Prior Year Estimated Spending	\$ 850,506
Increase for Veterans' Tuition Coverage Program	2,000
TAP re-estimates for prior year TAP reform savings	(1,865)
Establish parity for all borrowers in default on Federal loans	(2,590)
General Fund offset for TAP from HESC operating revenues	(31,600)
Recommendation	\$ 816,451
Change From 2007-08	\$ (34,055)

RELIEVING THE PROPERTY TAX BURDEN

New York's local tax burden has risen dramatically over the past decade to the point where it threatens the financial well being of many residents and poses a risk to our State's economic competitiveness. Our State tax burden remains comparable to the rest of the nation, but our local taxes are by far the highest.

Despite these levels of local taxation, many municipalities continue to experience fiscal distress caused by unrelenting fixed cost increases, as well as longstanding economic and demographic challenges.

In his first year, Governor Spitzer launched a comprehensive program to address both the causes and effects of high local



BUDGET HIGHLIGHTS

STAR: Increases overall STAR Property Tax relief to \$5 billion.

Middle Class STAR Rebates: Provides \$1.25 billion, including a 40 percent increase in the Enhanced Rebate for senior citizens.

Property Tax Commission: Creates a bipartisan Commission with Moreland Act powers to develop a proposal to cap school taxes.

AIM Increases for Municipalities: Includes \$50 million in new funding to support the second installment of a four-year \$200 million increase in AIM funding.

Mandate Relief: Provides relief from Wicks Law requirements, increases local procurement flexibility and facilitates local employee health insurance consortiums.

New York City Impact: Provides a net positive benefit of \$657 million to New York City in its upcoming fiscal year, growing to about \$1.2 billion including savings from the Medicaid Cap and Family Health Plus takeover.

Total Local Impact: Provides a net positive benefit of nearly \$1.8 billion on a local fiscal year basis for all local governments.

PERFORMANCE PROFILE

Property Tax Relief Overview

- An estimated 3 million homeowners will receive Middle Class STAR rebates in 2007-08, totaling over \$1.1 billion.
- The average rebate check provided through the 2007-08 Middle Class STAR program is \$386.
- Over 90 percent of all Middle Class STAR homeowners will have submitted rebate applications in 2007-08.
- A \$50 million AIM increase was provided in 2007-08. Based upon their level of fiscal distress, 17 municipalities received the maximum 9 percent AIM increase, while 18 municipalities received 7 percent increases and 764 municipalities received a 5 percent increase.
- AIM increases of 3 percent were provided in 2007-08 to 744 municipalities that did not meet AIM fiscal distress criteria.
- Of the 150 local government efficiency initiatives now being implemented by local governments and the Commission on Local Government Efficiency and Competitiveness, 90 initiatives relate to consolidating services at the county level in areas such as highway services, property tax assessment and sewer/water district consolidation.

taxes by providing increased aid to distressed municipalities and record increases in property tax relief. Last year's final budget enacted the largest increase in school aid in State history to improve our schools, but also to reduce pressure on school property taxes, which account for 61 percent of the local tax burden outside New York City. Specifically, under the Governor's leadership, the State:

- Provided \$4.8 billion in property tax relief through the School Tax Relief (STAR) program, and targeted over \$1 billion to middle income homeowners who needed it most.
- Restructured the Aid and Incentives for Municipalities (AIM) program to commit more than \$200 million in State aid increases to distressed municipalities over four years and targeted the greatest increases to the communities most in need.
- Created the Commission on Local Government Efficiency and Competitiveness to address local government consolidation as well as promote shared and regional services. The Commission is working with municipalities to identify new approaches to decrease costs and save taxpayer dollars. Nearly 150 initiatives are underway, ranging from forming regional jails and pooling towns' health coverage, to even potentially eliminating one county in its entirety.
- Increased school aid by nearly \$1.8 billion, the highest ever enacted.

PROPERTY TAX COMMISSION

Despite record increases in both property tax relief and school aid last year, the local property tax burden statewide continued to grow at an unsustainable rate. Governor Spitzer believes that this makes clear the need for a new approach.

A bipartisan Property Tax Commission invested with Moreland Act powers will be created by the Governor to identify a package of reforms that address the root causes of this problem, including the high costs borne by localities. The Commission will also examine ways of making the current tax relief system fairer for middle class taxpayers. Finally, it will develop a recommendation for a fair and effective school tax cap that will help limit the burden on New York's taxpayers, without hampering school districts' ability to provide a high quality education. The Governor has appointed County Executive Tom Suozzi to serve as Chair of the Commission.

MIDDLE CLASS STAR: TARGETED PROPERTY TAX RELIEF

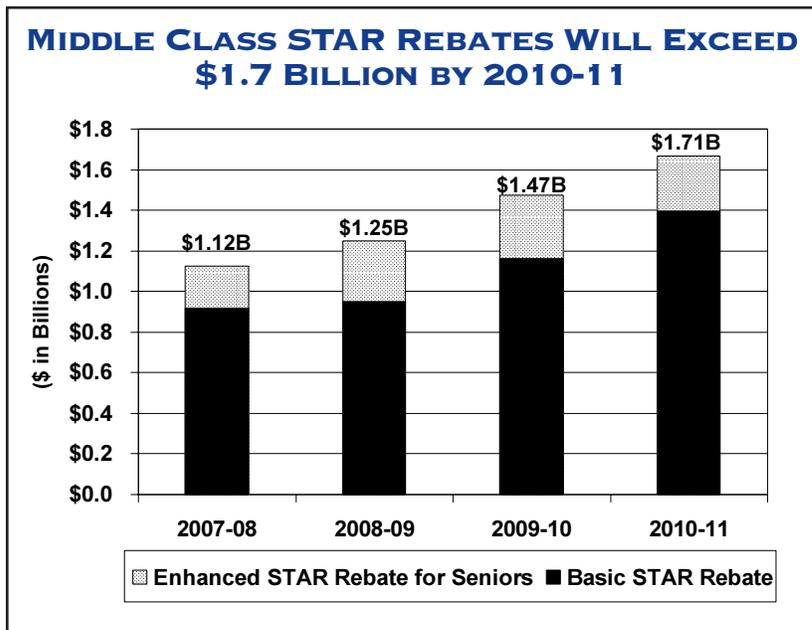
Governor Spitzer's Middle Class STAR Rebate program targets relief directly to taxpayers and provides the largest benefits to homeowners with incomes below \$90,000 Upstate and \$120,000 in the higher cost New York City metropolitan region. In 2007-08, program implementation efforts were highly successful. Participation in Middle Class STAR substantially exceeded expectations, with more than 90 percent of all eligible homeowners submitting benefit applications – and some counties expected to reach 95 percent participation. Taxpayer savings also surpassed original estimates with an average basic rebate of \$386, ranging from \$157 in Hamilton County to \$923 in Westchester County.

In this year's Budget, senior citizens will receive a scheduled 40 percent increase in their Enhanced Rebate, which will raise the average benefit from \$327 to \$458. With this increase, total STAR property tax relief for senior citizens including STAR exemptions will exceed \$1,700 on average.

Given the serious fiscal challenges now facing the State, the 17 percent increase in the basic Middle Class STAR rebate originally planned for 2008-09 will be delayed one year, saving \$169 million in additional spending. This rebate growth would have provided an additional \$65 to the average eligible homeowner. However, even with the proposed one-year delay, total State spending for Middle Class STAR will grow by \$123 million to \$1.25 billion in 2008-09 due to the Enhanced Rebate increases and higher program participation rates. Upon full implementation of the program in 2010-11, total support for this property tax relief initiative will exceed \$1.7 billion.

Along with support for Middle Class STAR Rebates, the 2008-09 Executive Budget provides over \$3.7 billion for other STAR program benefits that include:

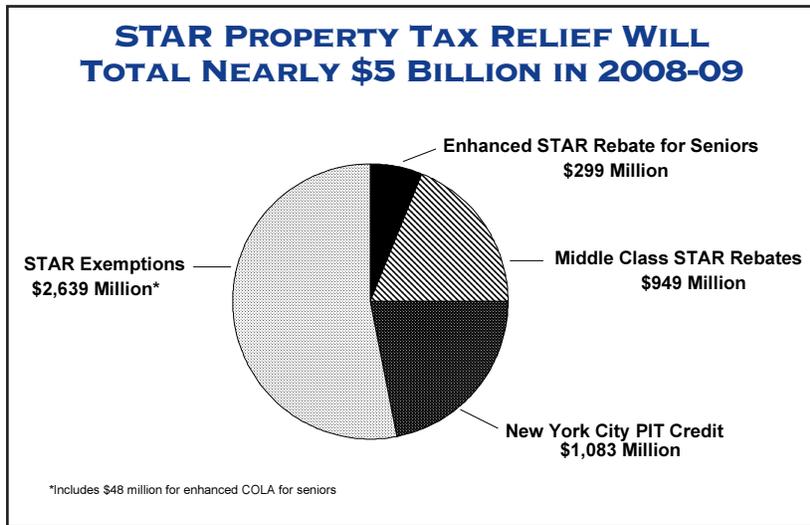
- **STAR Exemptions.** More than \$2.6 billion is recommended to support the enhanced STAR exemption for eligible senior citizens and the basic STAR exemption for other homeowners. The Budget increases from 5 percent to 10 percent the maximum reduction that can occur in a taxpayer's STAR benefit based on changes in assessed value or market value, which will reduce exemption savings by an average of \$40 for taxpayers affected. Despite this necessary cost saving action, State spending for STAR exemptions will increase by \$40 million in 2008-09 primarily due to higher participation and program growth.



- NYC PIT Reduction.** New York City residents will receive \$1.1 billion in STAR assistance through the City's personal income tax rate reduction and refundable tax credit. In 2008-09, the Executive Budget will restructure the NYC STAR income tax program to direct the flat refundable credit currently available to all NYC residents to only those taxpayers with incomes not exceeding \$250,000. This will provide a larger share of total benefits to lower and middle income households, while generating State savings of \$20 million. An estimated 100,000 high income New York City taxpayers will lose the credit.

In total, spending for the STAR program will reach nearly \$5 billion, an increase of \$134 million compared to 2007-08.

	Basic STAR			Senior STAR		
	Average STAR Exemption Savings	Middle Class STAR Rebate	Total Taxpayer Savings	Average STAR Exemption Savings	Enhanced STAR Rebate	Total Taxpayer Savings
Albany County	\$599	\$334	\$933	\$1,072	\$293	\$1,365
Erie County	\$516	\$294	\$810	\$901	\$249	\$1,150
Onondaga County	\$681	\$385	\$1,066	\$1,172	\$328	\$1,500
Suffolk County	\$950	\$535	\$1,485	\$1,691	\$437	\$2,128
New York City	\$194	\$121	\$315	\$369	\$95	\$464



PROVIDING FISCAL RELIEF TO LOCAL GOVERNMENTS

The 2008-09 Executive Budget supports year two of the Governor's four-year strategy for revitalizing New York's local governments, with a special focus on distressed Upstate municipalities. Featuring targeted State aid increases, new economic development initiatives and relief from State mandated costs, this strategy combines the following major elements to further reduce pressure on local property taxes:

- Targeted AIM increases.** Consistent with Governor Spitzer's four-year commitment to increase the Aid and Incentives for Municipalities program by over \$200 million, the 2008-09 Executive Budget provides \$50 million in AIM increases ranging from 3 to 9 percent to cities, towns and villages. The maximum 9 percent increase will be provided to 17 Upstate cities and villages that meet all fiscal stress criteria under the targeted AIM program. Most municipalities qualifying for at least a 5 percent increase will again be required to meet AIM fiscal accountability requirements that promote improved financial management and encourage efficiency. These requirements will be expanded in 2008-09 to promote transparency through the public release of web-based budgetary information and independent financial audits.

- **AIM Equity Adjustments.**

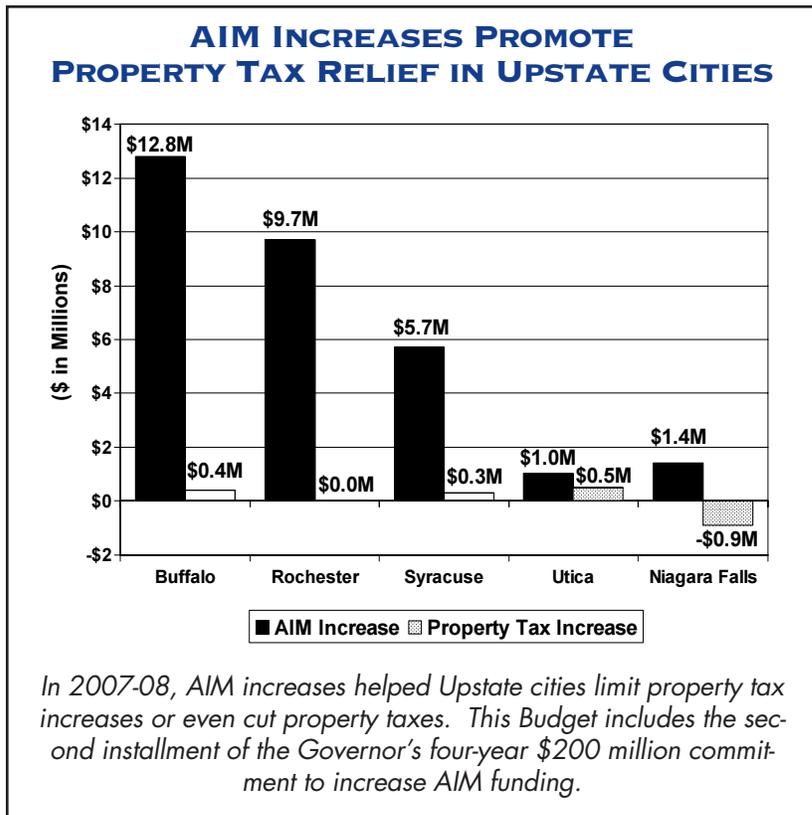
Additional 4.5 percent AIM increases totaling nearly \$6 million will be provided to 26 cities, towns and villages that receive significantly less AIM funding on a per capita basis than their peer municipalities. This AIM equity adjustment helps reduce longstanding variations in the allocation of base AIM funding among municipalities and will be expanded in future years to further enhance equity in the allocation of State aid.

- **Mandate Relief.** The Budget again advances increases in Wicks Law thresholds that will help reduce property taxes by lowering local construction costs. Under the

Governor's proposal, these thresholds would rise from \$50,000 to \$3 million in NYC, \$1.5 million in Nassau, Suffolk and Westchester counties, and \$500,000 in other areas of the State. In addition, local governments will benefit from increased flexibility in forming local employee health insurance consortiums that can help reduce rapidly rising municipal fringe benefit costs. Local government procurement reforms are also recommended to facilitate cost effective municipal purchasing practices.

- **Preschool Special Education Cap.** Similar to the State's cap on local Medicaid costs, the Governor's Budget will cap the annual growth in local preschool special education costs for counties outside New York City to no more than 3 percent when fully implemented. Counties will realize substantial annual fiscal relief under the new preschool special education cap that by 2011-12 would grow to \$90 million.

- **Enhanced Local Revenue Flexibility.** In an effort to help local governments relieve pressure on property taxes, new local revenue options are authorized as part of the 2008-09 Executive Budget. Counties will be given the option to increase one-time mortgage recording fees which have not been raised in nearly twenty-five years. Cities and villages will also be allowed to close a loophole that prevents the collection of local gross receipt taxes on cellular telephone services. In addition, certain cities and counties will be authorized to implement red light camera programs similar to that currently operating in New York City.



- **City-by-City.** Included within the proposed \$1 billion Upstate Revitalization Fund, the Governor's City-by-City initiative will provide \$115 million to finance key economic development projects tailored to the unique needs of Upstate cities. These projects will help grow local tax bases and provide property tax relief for homeowners.

PROMOTING LOCAL GOVERNMENT EFFICIENCY

New York State's local governments can reduce the burden on local taxpayers by minimizing overlap in the provision of public services and becoming more efficient. The Governor's Commission on Local Government Efficiency and Competitiveness is working with local governments on nearly 150 initiatives that will save local taxpayer dollars through shared services and municipal consolidation. The Commission has also issued a series of recommendations in advance of its final report in April 2008 for inclusion in the Executive Budget. Key initiatives include:

- **Local Government Efficiency Grants.** The State's \$25 million Shared Municipal Services Incentive program is restructured in 2008-09 to more effectively and expeditiously direct funding to local consolidation and shared service efforts. As part of this program restructuring, new 21st Century Demonstration Grants will be provided to fund major countywide or regional initiatives ranging from consolidated public safety services to the creation of BOCES-wide school districts. By focusing attention on high profile initiatives likely to have the greatest impact on local property tax bills, 21st Century Demonstration Projects will provide all municipalities with a blueprint for implementing cost saving reforms.
- **Improved Property Tax Administration.** The Office of Real Property Services will provide new financial incentives and technology investments to improve local property tax administration across the State. This initiative will encourage the consolidation of property assessment and tax collection functions at the county level to bring greater efficiency, equity, and transparency to property tax administration.
- **Local Highway Services.** Legislation submitted with the Budget will encourage cost saving shared service arrangements between the State Department of Transportation and local highway departments. In addition, the State's CHIPS aid program will be modified to eliminate statutory provisions which create a disincentive to municipal consolidation.
- **Local Government Efficiency Information.** High quality fiscal and performance data is an essential ingredient in any local government effort to improve efficiency. In 2008-09, the State Comptroller will be asked to expand data collection efforts to provide all localities with new efficiency and performance data that facilitate peer comparisons and help identify new opportunities to share services.

STRENGTHENING THE STATE'S PARTNERSHIP WITH NEW YORK CITY

A robust real estate market and strong financial services sector have helped New York City close its recent fiscal years with record-breaking surpluses. But the recent downturn in the financial markets means that both the City and State now face serious budget challenges. This Budget continues the State's tradition of providing support for New York City during times of fiscal uncertainty with initiatives that include:

- **Education Aid.** New York City will receive an additional \$539 million in State education aid. Combined with the 2007-08 increase, this action will raise support for City schools by \$1.29 billion compared to 2006-07. By 2010-11, the State will have increased annual education aid to New York City schools by \$3.1 billion.
- **Continuation of the Financial Control Board.** In recognition of its historically important role in overseeing New York City's finances, and with the support of Mayor Bloomberg, the Budget will continue the current oversight powers of the Financial Control Board (FCB) beyond July 2008. In addition, the FCB's powers would be expanded to authorize the Board to delay or waive certain fiscal mandates that would negatively impact the City's operating budget.
- **Mandate Relief.** Increasing the Wicks Law threshold from \$50,000 to \$3 million is projected to reduce the City's long term capital construction costs by more than \$200 million in its upcoming CFY 2009 Capital Plan. In addition, legislation submitted with the Budget to increase the debt limit for the Transitional Finance Authority will enable the City to significantly lower its debt costs, generating \$80 million in budget savings over the next four years of the City's financial plan.
- **Restored AIM Funding.** Despite the State's own fiscal difficulties, the Budget restores AIM funding for New York City to \$164 million in 2008-09. In recognition of the City's out year budget gaps, a full AIM restoration to \$328 million is reflected in the State's Financial Plan for 2009-10 and beyond.
- **Economic Development.** The Budget commits essential funds for transportation improvements throughout the City, including Moynihan Station and the 10th Avenue subway station on the 7 line extension. It also commits \$45 million to further the development of both the Hudson River Park and Governor's Island.
- **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, resulting in New York City budget savings estimated at \$520 million in the upcoming City fiscal year.

IMPACT OF THE 2008-09 EXECUTIVE BUDGET ON ALL LOCAL GOVERNMENTS

The Budget Reform Act of 2007 requires the State to annually provide detailed multiyear reporting on the fiscal impact of Executive Budget recommendations on local governments. Key local impacts in the 2008-09 Executive Budget include:

- A total positive local impact of nearly \$1.8 billion for new 2008-09 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 is more than \$2.7 billion.
- An education aid increase of nearly \$1.5 billion, representing the single largest local impact in the Budget.
- A multiyear positive impact of over \$6.7 billion by 2010-11, with increases again driven largely by the Governor's Four-Year Educational Investment Plan.

IMPACT OF THE 2008-09 EXECUTIVE BUDGET ON LOCAL GOVERNMENTS (LOCAL FISCAL YEAR ENDING IN 2009 – \$ IN MILLIONS)

	Total	NYC	School Districts	Counties	Other Cities	Towns & Villages
School Aid*	1,457.0	539.0	918.0	0.0	0.0	0.0
Preschool Spec. Ed.	(15.8)	(21.3)	(25.5)	31.0	0.0	0.0
Revenue Actions	189.3	49.4	0.0	109.3	24.0	6.6
Transportation	22.7	7.4	0.0	15.3	0.0	0.0
Public Protection	(1.2)	0.4	0.0	(1.6)	0.0	0.0
Municipal Aid	187.9	123.9	0.0	(2.0)	64.8	1.2
Welfare	(105.6)	(63.8)	0.0	(41.8)	0.0	0.0
Early Intervention	25.3	17.1	0.0	8.3	0.0	0.0
All Other Impacts	26.9	5.2	12.3	7.1	1.1	1.2
Total 2008-09 Exec. Budget Actions	1,786.5	657.3	904.8	125.6	89.9	9.0
Continuing Medicaid Cap Savings**	454.7	210.6	0.0	244.1	0.0	0.0
Continuing FHP Takeover Savings	459.1	309.8	0.0	149.3	0.0	0.0
Grand Total	2,700.3	1,177.7	904.8	519.0	89.9	9.0

*The \$1.46 billion 2008-09 school year increase includes \$65 million for the increase in EXCEL building aid debt service payments

**Medicaid Cap Savings exclude proposed 2008-09 cost containment initiatives which – if enacted – will lower the State's cost for the cap

IMPACT OF THE 2008-09 EXECUTIVE BUDGET ON LOCAL GOVERNMENTS (LOCAL FISCAL YEAR ENDING 2008-2011 – \$ IN MILLIONS)

	LFY Ending in 2008	LFY Ending in 2009	LFY Ending in 2010	LFY Ending in 2011
NYC	2.6	657.3	1,693.7	2,696.7
School Districts	(3.9)	904.8	2,131.9	3,648.5
Counties	74.9	125.6	152.0	186.7
Other Cities	15.6	89.9	151.6	196.9
Towns & Villages	1.5	9.0	14.4	16.6
Total 2008-09 Exec. Budget Actions	90.6	1,786.5	4,143.6	6,745.4
Continuing Medicaid Cap Savings*	243.6	454.7	715.3	1,044.9
Continuing FHP Takeover Savings	446.8	459.1	474.0	484.0
Grand Total	781.0	2,700.3	5,332.9	8,274.3

*Medicaid Cap Savings exclude proposed 2008-09 cost containment initiatives which – if enacted – will lower the State's cost for the cap

REVITALIZING NEW YORK'S ECONOMY

Each region of New York State faces substantially different economic challenges. Upstate, the long term decline of manufacturing has caused economic stagnation, population loss and a weakening of our urban centers, while the agricultural sector, another pillar of the upstate economy, continues to face unrelenting competitive pressure. For Downstate — the Hudson Valley, New York City and Long Island — the challenge is to continue recent growth and increase affordability to sustain a high quality of life. To attain the goal of “One New York,” both challenges must be addressed.

THE \$1B UPSTATE REVITALIZATION FUND

One of the Governor's top priorities in the 2008-09 Executive Budget is to transform the upstate economy through strategic investments that create high-quality jobs and stimulate economic vitality, and address the need for infrastructure improvements and affordable housing. The Executive Budget includes \$1 billion to drive substantial and immediate investments in the upstate economy.

- **Regional Blueprint Fund.** This \$350 million program will continue the momentum of the regional blueprint initiative, enabling the Empire State Development Corporation (ESDC) to invest in the construction and enhancement of development-ready sites and industrial parks; provide small business loans for machinery, equipment, real estate, and other needs; and fund programs, tools and facilities needed to link idea creation and job creation.
- **Transportation and Mass Transit.** \$100 million of new funding will be dedicated to preserve the network of State and local bridges that are a vital link in our economic infrastructure. In addition, \$30 million will be provided to improve the speed and reliability of rail connections between Upstate and New York City.

BUDGET HIGHLIGHTS

Transforming the Upstate Economy: Creates a \$1 billion Upstate Revitalization Fund to create jobs and spur growth.

Low Cost Power Programs: Extends until 2009 the State's leading low cost power programs, and creates a new power program that provides a long-term commitment to businesses.

Brownfields Reform: Revises the existing brownfields program to ensure that this resource will remain available for critical environmental remediation and economic development projects.

Parks and Recreation Capital Program: Includes \$110 million for critical capital improvements at State parks and other recreational facilities.

Bottle Bill: Expands the Bottle Bill to certain non-carbonated beverages and dedicates these resources to the Environmental Protection Fund.

State and Local Bridge Preservation Program: Dedicates \$100 million of new, annual revenues to ensure that the network of State and local bridges is properly maintained. This will be financed through an increased fee on auto insurance policies.

PERFORMANCE PROFILE

ECONOMIC DEVELOPMENT

Operating Overview

- The Executive Budget recommends an overall Budget for economic development of \$1.1 billion (\$54.8 million State operating funds) for the 2008-09 State fiscal year.
- Economic development programs are administered by the Empire State Development Corporation (ESDC) working in conjunction with the Department of Economic Development. ESDC and the Department work closely with the Foundation for Science, Technology and Innovation to foster technology-related job creation.
- ESDC and the Department develop economic development strategies, and advise the Governor and Legislature on all major economic development issues and decisions.
- Together, the State's economic development agencies provide financial and technical assistance to businesses, local governments and community-based not-for-profit organizations for small- and large-scale economic development projects that create and/or retain jobs in New York State and reinvigorate distressed areas.

\$1 BILLION UPSTATE REVITALIZATION FUND

- Upstate Regional Blueprint Fund: \$350 million
 - City-by-City Initiatives: \$115 million
 - Housing Opportunity Fund: \$100 million;
 - State and Local Bridge Preservation Program: \$100 million
 - Parks Capital Program: \$80 million
 - Upstate Agribusiness Fund: \$50 million
 - Railway Improvements: \$30 million
 - Other Investments: \$175 million
- **City-by-City.** \$115 million in new funding will support the Governor's historic 2007 commitment to break gridlock on critical economic development projects throughout Upstate's cities. In addition, funding will be available for a second round of City-by-City projects in Upstate's larger cities, and new plans for smaller cities, which play a central role in our economic future.
 - **Housing Opportunity Fund.** \$100 million will be dedicated to the development and rehabilitation of affordable, supportive and workforce housing initiatives across Upstate.
 - **Agribusiness Fund.** \$50 million will support the continued growth of the food and agricultural industry by investing in new and expanded food processing centers, access to markets, and development of alternative fuels.
 - **Parks Capital Investments.** \$80 million, as part of the \$100 million statewide initiative, will support preservation and development of parks and recreational facilities which will help draw tourists and new residents to the state;
 - **Other Investments.** \$175 million will be invested in Upstate from other initiatives, including: a new Investment Opportunity Fund (\$100 million); a new arts and cultural program (\$12 million); expanding Universal Broadband Access (\$7 million); a new business marketing program targeting Upstate (\$3.5 million); venture capital investments (\$3 million); enhancements to existing State programs supporting the development of high technology (\$12 million); and other Empire State Development Corporation job and investment programs (\$38 million).

This \$1 billion Upstate Revitalization Fund will be financed with a prudent mix of “pay as you go” spending and debt financing. Specific components of the financing include: \$612 million of Personal Income Tax (PIT) bonds; and \$388 million of pay-as-you-go financing which includes \$130 million from surplus State property sale proceeds, \$100 million from Mortgage Insurance Fund reserves, \$100 million from annual auto insurance surcharge revenues, and \$58 million of General Fund dollars.

SUSTAINING DOWNSTATE GROWTH AND INCREASING AFFORDABILITY

The Executive Budget will support initiatives to ensure continued economic growth and quality of life improvements for residents and visitors of Downstate. These programs include:

- **Housing Opportunity Fund.** Economic growth can be undermined if increased housing costs make it too expensive for workers to live close to their jobs. A new investment of \$300 million will be dedicated to downstate housing needs, including supportive, affordable and workforce housing.
- **Downstate Revitalization Fund.** Despite the New York City metropolitan area’s recent economic success, significant pockets of people and places have been left behind. This \$200 million program will encourage business and community development in distressed communities in the Downstate region.
- **Commuter Transportation Improvements.** Future growth can be stalled by the inability to transport our products and workforce efficiently. The Executive Budget addresses this concern by making resources available for vital transit improvements such as Moynihan Station.
- **Waterfront Access and Opportunities.** The New York City waterfront has the potential to offer residents and visitors world-class open space and recreational opportunities, while enhancing the City’s reputation as “the” location for international business investment. The Executive Budget commits \$45 million toward completion of the Hudson River Park and to transform Governor’s Island into one of the world’s great urban parks.

PROGRAM REFORM

New investments will be coupled with the reform and restructuring of outdated programs. These reforms allow the new investments that will meet the needs of communities across the State.

- **Empire Zone Reform.** In 2008-09, the Empire State Development Corporation will undertake program reforms and administrative changes to improve overall performance, including:
 - Raising the eligibility criteria for the Empire Zone program to ensure that only those projects that offer the promise of significant economic growth will be granted valuable State tax incentives; and
 - Removing from the program businesses that have failed to meet their job creation and investment pledges.
- **Low Cost Power.** The Budget will extend the two primary State power programs — Power for Jobs, and Energy Cost Savings Benefit — through June 30, 2009. In recognition of inefficiencies within these programs, a new program will be implemented on July 1, 2009 to:

- Target companies for which electricity is the primary component of overall costs; and
- Reward companies with the greatest commitment to job creation and energy efficiency with up to seven year contracts.

- **Brownfields Funding Reform.** The Executive Budget revises the existing State Brownfields program to ensure funds are available for critical economic development projects and environmental remediation. This program has proven to be unsustainable in its current form. Millions of dollars of State tax benefits have gone to private developers for projects that would have been undertaken without State incentives; and in many cases, millions of dollars in development tax credits are provided to projects with minimal remediation expenses, counter to the intent of this program.

The Executive Budget recommendations would remedy these deficiencies so that redeveloped brownfields can again contribute to economic growth and livable communities.

PROTECTING OUR NATURAL RESOURCES

Livable communities are the foundation for economic growth. The 2008-09 Executive Budget recognizes the linkage between the protection of natural resources and a vibrant economy. Recommendations include:

- **Investments in Parks and Recreation.** This Budget includes new funding of \$110 million for projects that transform our natural treasures—including State parks, campgrounds, fairgrounds, historic sites, and other facilities—to attract residents, visitors and private investment. Funds will support improvements at facilities of the Office of Parks, Recreation and Historic Preservation, the Department of Environmental Conservation, and the State Fair. This includes \$8 million for the historic “Walkway over the Hudson River” that will preserve a part of our history, while revitalizing communities on both sides of the Hudson.

New Environmental Protection Fund initiatives for 2008-2009 will restore and protect the State’s environmental resources, including funding for a new Catskill Interpretive Center, increased funding for Smart Growth initiatives and funding for the historic Hudson-Fulton-Champlain Quadricentennial celebration.

- **Container Deposit Program Expansion.** Expanding the Bottle Bill to include non-carbonated beverages will significantly reduce the waste stream flowing into landfills and incinerators, reduce litter and boost recycling. In addition, \$25 million in revenue from unclaimed deposits will be invested in the Environmental Protection Fund in 2008-09 for future initiatives. This revenue is expected to grow to \$100 million annually.

These funds will ensure continued investments in air quality, solar and renewable energy initiatives, farmland protection, land acquisition, municipal parks improvements, recycling initiatives and waterfront revitalization.

- **Agricultural Economic Development.** As part of the Upstate Revitalization Fund, the Executive Budget includes \$50 million in capital funding for an agricultural economic development program emphasizing food production and processing. A portion of this funding will support the construction of a Wholesale Farmers’ Market in New York City. The Wholesale Farmers’ Market will bring healthy, fresh, New York-grown produce to New York City consumers, and provide a major outlet for Upstate farmers.

Increased funding and new initiatives are included in a newly created Farmland Protection Account to continue the Environmental Protection Fund's (EPF) commitment to protecting the State's agricultural resources.

- **A New Commitment to Renewable Energy.** Within the EPF, \$2 million will be provided for a solar initiative at community colleges to instruct students how to install solar technologies at commercial and residential buildings. This will help create a workforce ready to support an emerging industry.
- **Environmental Justice and Air Quality.** Also within the EPF, \$3 million will be provided for air quality projects to reduce pollution levels in overburdened low-income communities.

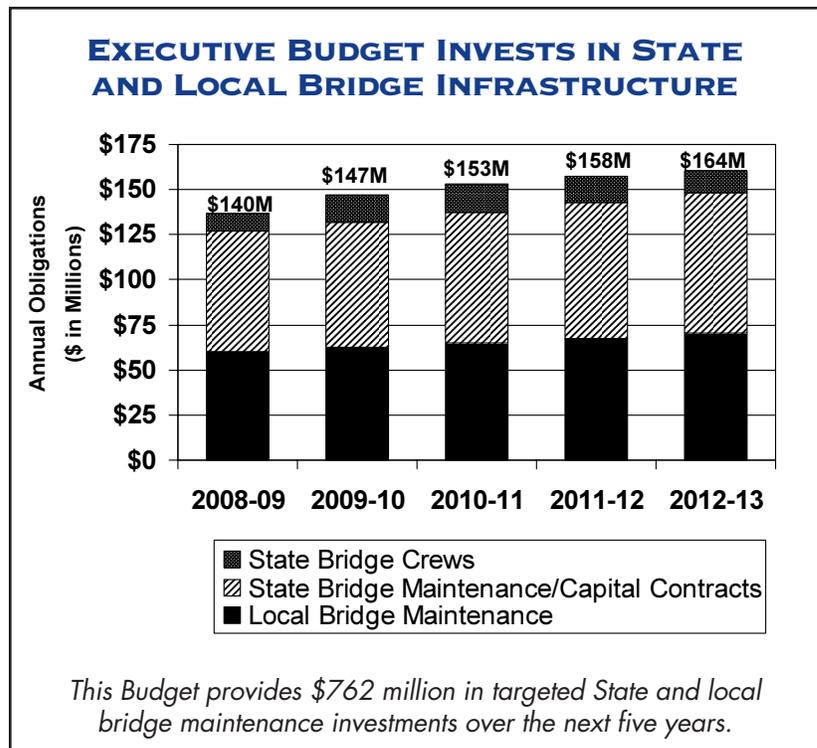
TRANSPORTATION

The 2008-09 Executive Budget continues to support the fourth year of the Department of Transportation (DOT) five-year capital plan. The Budget supplements these investments by identifying approximately \$100 million in annually recurring resources for a State and Local Bridge Preservation Program. This program will fund preventive and corrective maintenance on State and local bridges to stem structural deterioration, ensure the safety of the traveling public and promote economic activity. The Executive Budget also provides resources so that transit systems across the State can support livable communities, economic growth and environmental stewardship.

THE STATE AND LOCAL BRIDGE PRESERVATION PROGRAM

New revenues from an increased auto insurance surcharge will be used for pay-as-you-go infrastructure maintenance and for debt service for bond-eligible costs. Specific elements include:

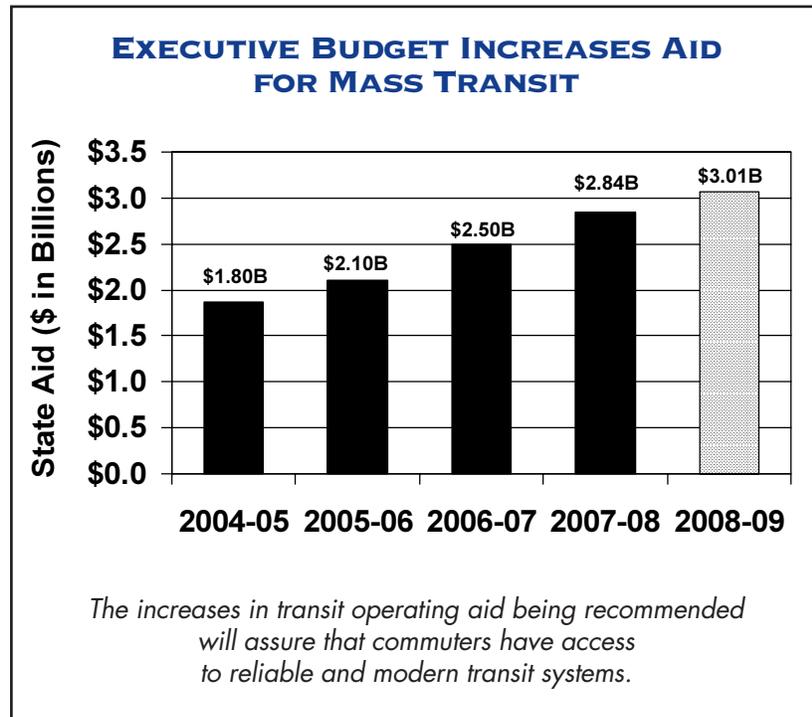
- \$13 million to support 10 new DOT bridge maintenance crews to perform year round bridge maintenance repairs;
- \$67 million for maintenance and capital contracts on State bridges and related oversight to supplement DOT's corrective maintenance and element-specific repair work; and



- \$60 million for capital grants to localities to enhance the maintenance and repair of local bridges. This new program will fund up to 80 percent of project costs.

MASS TRANSIT

Increases in transit operating aid will continue commuter access to reliable and modern transit systems. The 2008-09 Executive Budget provides record-setting State aid to the Metropolitan Transportation Authority (MTA) — up by 5.7 percent over 2007-08 levels — matching the MTA’s approved 2008 financial plan. It also meets operating needs for non-MTA transit systems, providing an additional 6 percent increase over 2007-08 aid levels.



WESTERN HEMISPHERE TRAVEL INITIATIVE

In 2008, the Federal government’s Western Hemisphere Travel Initiative (WHTI) will require all travelers within the Western Hemisphere to present a secure document, such as a passport or other documentation, or a combination of documents, which denote citizenship and identity when entering or departing the United States.

- These new document requirements are the result of recommendations made by the National Commission on Terrorist Attacks Upon the United States and passed into law in the Intelligence Reform and Terrorism Prevention Act of 2004.
- The Department of Motor Vehicles will provide optional enhanced drivers licenses and non-driver photo identification cards, to be designated by the U.S Department of Homeland Security (DHS) as WHTI-compliant documents, for land and sea travel border crossings. These enhanced documents will expedite border crossings by including technology that facilitates scanning, as well as physical security features to guard against tampering.
- This program will facilitate access throughout the Western Hemisphere, in particular, travel to and from Canada. Trade opportunities with our partner to the north also will be made easier.

SUMMARY OF CHANGES

DEPARTMENT OF TRANSPORTATION (\$000s)

	All Funds 2008-09
Prior Year Appropriations	\$ 7,353,926
Increases for transit systems	174,842
Additional funds for Stewart Airport	4,000
Net changes for inflationary adjustments and offsetting efficiencies	2,618
Increase in federal operating grants	9,141
Discontinuation of one-time appropriations	(20,500)
Planned increases for Dedicated Highway and Bridge Trust Fund construction and highway maintenance, net of planned Bond Act reductions	21,312
Increase in federal capital appropriations	37,701
State and Local Bridge Preservation Program	139,820
Recommendation	\$ 7,722,860
Change From 2007-08	\$ 368,934

SUMMARY OF CHANGES

DEPARTMENT OF ENVIRONMENTAL CONSERVATION
 (\$000s)

	<u>General Fund</u> <u>2008-09</u>
Prior Year Estimated Spending	\$ 149,389
Net changes for annual personal service growth, reduced non-personal service spending and other minor actions	(8,954)
Increased salary costs for law enforcement arbitration settlement	2,950
Increased fixed costs and mandates	2,046
Program spending reductions	(4,067)
Recommendation	\$ 141,364
Change From 2007-08	\$ (8,025)

	<u>All Funds</u> <u>2008-09</u>
Capital Funds	
Prior Year Estimated Spending	\$ 522,910
Increased spending for Brownfields and Hazardous Waste	16,100
Increased spending for the Environmental Protection Fund	10,000
Decreased spending for the 1996 Clean Water Bond Act	(20,600)
Other net adjustments	11,400
Recommendation	\$ 539,810
Change From 2007-08	\$ 16,900

SUMMARY OF CHANGES

ECONOMIC DEVELOPMENT
 (\$000s)

	All Governmental Funds 2008-09
Prior Year Estimated Spending	\$ 1,245,153
Adjustment for non-recurring prior year initiatives	(55,842)
Increase in capital disbursements for new and expanded capital programs, including the Upstate Regional Blueprint, Downstate Revitalization Fund, Upstate Agricultural Economic Development Fund and the Investment Opportunity Fund.	381,318
Increased General Fund disbursements for new and expanded economic development programs, including "I♥NY," business marketing, international trade, venture capital, high performance computing and the Economic Development Fund.	25,000
Recommendation	\$ 1,595,629
Change From 2007-08	\$ 350,476

SUMMARY OF CHANGES

OFFICE OF PARKS, RECREATION AND HISTORIC PRESERVATION
 (\$000s)

	General Fund 2008-09
Prior Year Estimated Spending	\$ 154,285
Increased salary costs for law enforcement arbitration settlement and training academy operating costs	1,683
Increased fixed costs and mandates	581
Operating efficiencies, reduced over-time and non-personal service costs and other adjustments	(5,582)
Recommendation	\$ 150,967
Change From 2007-08	\$ (3,318)

	All Funds 2008-09
Capital Cash Disbursements	
Prior Year Estimated Spending	\$ 37,350
Increased State Parks infrastructure spending for new capital initiative	68,500
Estimated decrease in fiduciary fund disbursements	(2,000)
Recommendation	\$ 103,850
Change From 2007-08	\$ 66,500

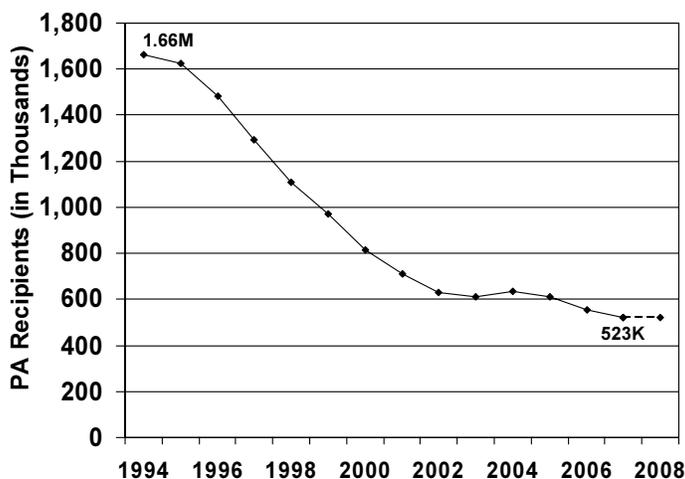
PROMOTING SECURITY FOR CHILDREN AND FAMILIES

The 2008-09 Executive Budget maintains critical supports for children and families as part of the Governor's Economic Security Agenda. These include public assistance, employment supports, and various child welfare programs that offer help to youth in need of permanent homes or children suffering from abuse and neglect.

The number of New Yorkers receiving welfare benefits has declined by 69 percent since 1994, including a 7 percent decline in the past year, to 522,921 in October 2007. A modest downward trend in the average caseload is expected to continue in 2008-09.

For many, leaving the welfare rolls is only the first step to self-sufficiency. In 2007, the Governor created the Economic Security Cabinet and charged it with establishing a seamless, coordinated system that will enable low-income working families to access the State's

NEW YORK STATE CONTINUES TO REDUCE ITS PUBLIC ASSISTANCE CASELOAD



Over the past 13 years, more than 1.1 million New Yorkers have transitioned off public assistance.

BUDGET HIGHLIGHTS

Office of Temporary Disability Assistance Budget: OTDA's 2008-09 Executive Budget will total \$5 billion, including \$1.3 billion in State tax dollar support.

Child Support Increased: Governor Spitzer's Budget will allow families on public assistance who receive child support to retain up to \$100 per month in support payments, an increase of up to \$50 per month.

Office of Children and Family Services Budget: The OCFS 2008-09 Executive Budget will total \$3.7 billion, including \$2.1 billion in State tax dollar support.

Bridges to Health: The Bridges to Health Medicaid Waiver program, designed to keep foster care children out of institutional settings, will provide an additional 561 placements in 2008-09. A total of 3,305 slots will be phased in by December 2010. When fully annualized, the State will invest \$96 million in this program.

Youth Facility Right Sizing: Closing and restructuring underutilized OCFS facilities will allow the reinvestment of scarce resources in more effective educational and community-based services for high-risk youth.

PERFORMANCE PROFILE

SERVICES FOR AT-RISK FAMILIES

Operating Overview

- Gross public assistance costs are expected to total almost \$2 billion in 2008-09.
- An average of approximately 506,000 New Yorkers will receive public assistance in 2008-09.
- Child support collections are expected to reach an historic high of \$1.66 billion.
- Gross spending to address child abuse and neglect and to minimize the need for foster care placements is expected to grow to \$1.2 billion, including \$619.3 million in State appropriation authority.
- OCFS will provide rehabilitative services to an estimated 1,151 youth in 2008-09.
- OCFS youth facilities currently operate at approximately 65 percent capacity, requiring scarce resources to be used to maintain half empty facilities, rather than on at-risk youth. The announced restructuring will improve facility efficiency to 76 percent capacity.
- The number of children in foster care is projected to remain stable at 26,000 in 2008-09.

network of work support benefits, including the Earned Income Tax Credit, child care subsidies, food stamps, Medicaid, Child Health Plus and Family Health Plus, to meet the daily challenges that threaten their economic self-sufficiency. For those on public assistance with serious barriers to employment, a wide array of services is available to assist in achieving entry to employment or access to disability benefits, as appropriate.

Investments in child welfare preventive services—intended to help children at risk of abuse and neglect and to minimize the need for foster care placements—are at the center of the State's commitment to its most vulnerable children. These investments have allowed the number of children in foster care to remain stable over the last three years. State funding for foster care and child welfare services, including child protective and preventive services and the child abuse hotline, is projected to total \$1.08 billion, an increase of \$170 million.

PUBLIC ASSISTANCE

The Executive Budget maintains resources to help those in temporary need of public assistance by investing in programs that will help transition families off welfare and toward economic independence.

The Budget provides the resources needed to achieve the Governor's commitment to enroll an additional 100,000 families in the Working Families Food Stamp Initiative by the end of 2008 by reducing the barriers to food stamp eligibility and launching an e-government online application. This will bring the total number of households receiving food stamps to 1.05 million, giving these families the means to feed their children and achieve greater economic stability.

Other budget actions include:

- **Increased Child Support for Parents on Public Assistance.** The Executive Budget doubles the amount of child support payments that can be passed through to custodial parents on public assistance, up to a maximum of \$100 per month. This measure will give approximately \$12 million in annual child support payments back to 27,000 families on public assistance, and will encourage more non-custodial parents to provide financial support for their children.

- **Services to the Hardest to Serve Public Assistance Population.**

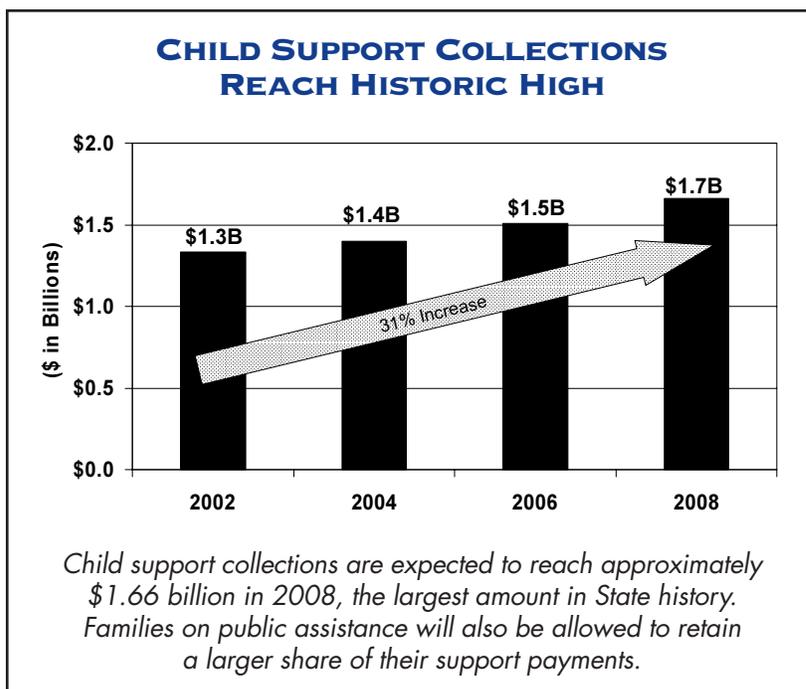
The 2008-09 Executive Budget provides a significant investment for the State's neediest population, including those unable to work due to disability. In 2008-09, the State will spend \$680 million to supplement the benefits of 652,000 Federal Supplemental Security Income (SSI) recipients at no cost to local governments. In recognition of significant public assistance caseload declines, and in order to encourage local districts to maximize their investment in assisting welfare recipients to

gain SSI eligibility or to become work ready, the Executive Budget proposes an increase in the local share of public assistance benefits. The local share would become 52 percent for single adults and for families on public assistance for more than five years, and 27 percent for families receiving Federal Family Assistance for less than five years. As a result, State spending will be reduced by \$40.5 million. Counties will continue to receive \$1.01 billion through the Flexible Fund for Family Services, and \$310.6 million from the Local Administration Fund, to help offset the cost of serving those on public assistance.

- **Support for Special Populations.** The 2008-09 Executive Budget seeks to address the needs of special populations with the following State efforts:

- **Aid for Human Trafficking Victims.** The Executive Budget includes \$450,000 to support recently-enacted legislation to combat human trafficking. The legislation establishes more stringent sentencing guidelines for perpetrators of this egregious crime, while providing victims with important supportive services.

- **Public Assistance Benefits For Special Needs Populations.** The Executive Budget will reverse the prior Administration's policy of reducing the public assistance grant paid to those families also in receipt of SSI. This will include households with members diagnosed with either HIV or AIDS. Families will regain eligibility for an additional \$100 per month in benefits. This will cost \$29 million annually.



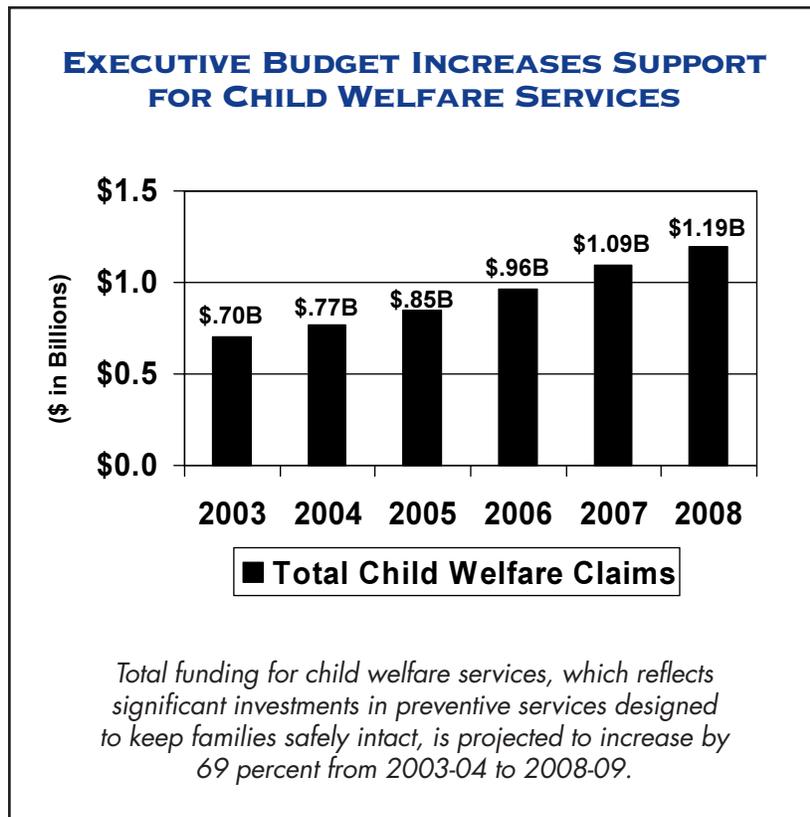
— **Supportive Housing Investments.** Supportive housing offers a cost effective alternative for individuals who, with the proper supports, are capable of living independently. These individuals will benefit significantly from the \$400 million Housing Opportunity Fund which is proposed in the Executive Budget. The Budget also provides approximately \$71 million for other supportive housing initiatives. This includes an increase of \$1.4 million for the Single Room Occupancy program to keep pace with the planned creation of additional supportive housing units in 2008-09.

CHILDREN AND FAMILY SERVICES

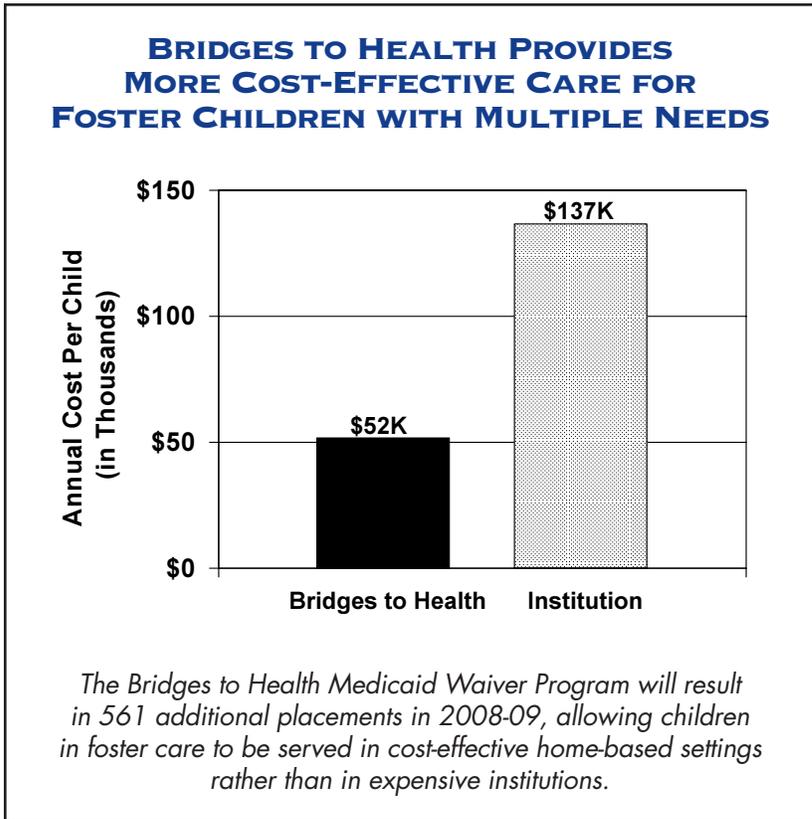
The State’s commitment to reimbursing counties and New York City for 65 percent of their child welfare protective and preventive costs helped to bring about dramatic reductions in the number of children in foster care. Building on this progress, the 2008-09 Executive Budget enhances investments in certain key areas, including:

- **Human Services Cost of Living Adjustment (COLA) Increase.** Foster care providers and foster and adoptive parents will receive a third consecutive COLA on April 1, 2008. This increase will enable counties and New York City to recruit and maintain foster and adoptive parents to better serve the needs of at-risk youth. The cost of the

COLA for the foster care and adoption programs is \$24 million. Recognizing the value of qualified providers and foster and adoptive parents, Governor Spitzer also proposes extending the current COLA for an additional three years.



- Improved Medical Services for Foster Children.** The Bridges to Health Medicaid Waiver Program is designed to improve health care services for hard-to-serve youth in foster care. The program will take an important step in 2008-09 with the addition of 561 new service slots. A total of 3,305 foster care slots will be phased in through 2010-11, at a full annual State cost of \$96 million. Enhanced services provided under this program, including crisis respite and in-school support, are expected to decrease the length of stay in foster care and to reduce the need to place youth in more costly institutional settings. Additionally, the 2008-09 Executive Budget proposes that all eligible former foster children have access to Medicaid until 21 years of age.



- Child Welfare System Upgrades.** The 2008-09 Executive Budget contains \$17 million for the first year cost of modernizing the outdated CONNECTIONS system, the State’s primary vehicle for managing local child welfare information. Proposed enhancements will make the system more stable and user friendly, and allow case workers to devote more time to working with children and families.
- Child Care Funding.** The 2008-09 Executive Budget contains \$540 million, including the use of one-time prior year funds, for the Child Care Block Grant. This amount, along with funds available to counties from the Flexible Fund for Family Services and unexpended prior year resources, will allow counties to maintain current program levels in the face of increased market rates.

JUVENILE JUSTICE AND OPPORTUNITIES FOR YOUTH

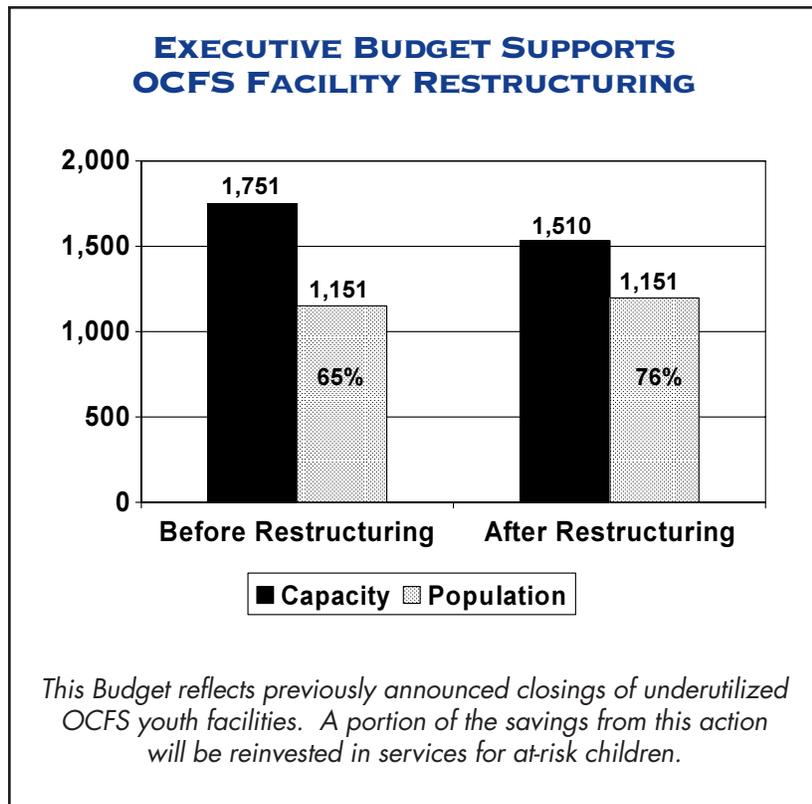
The 2008-09 Executive Budget is committed to fundamental improvements in the quality and efficiency of rehabilitative services for youth assigned by the courts to Office of Children and Family Services (OCFS) juvenile justice facilities. The 2008-09 Executive Budget reflects:

- Elimination of Excess Capacity in OCFS Facilities.** Earlier this month, OCFS announced the January 2009 planned restructuring of several youth facilities.

These measures are necessary to right-size a system that has grown significantly out of balance. OCFS youth facilities currently operate at approximately 65 percent capacity, and scarce resources that could be used to serve at-risk children are instead spent maintaining half empty facilities. The right-sizing will generate \$16 million in annual savings that will be partially reinvested in initiatives that produce positive outcomes for the children served by

OCFS. Throughout the coming year, the State will continue to work closely with impacted communities to mitigate the local economic impact of the restructuring.

- Restructured Detention Reimbursement.** The Executive Budget will increase the county share of local detention facility costs from 50 percent to 100 percent to achieve \$35.4 million in State savings. This should encourage local governments to increase reliance on less costly and more effective community-based alternatives that offer more comprehensive services to address the needs of vulnerable youth. To assist in this effort, the Executive Budget continues \$8 million in funding to support community-based alternatives to detention.
- Expansion of Community-Based Services.** OCFS will continue to expand the use of community-based services designed to reduce lengths of stay or divert youth from more costly placement in facility settings. A total of \$14 million is recommended for these efforts, an eight percent increase from 2007-08, primarily from the reinvestment of savings from facility closures.



SUMMARY OF CHANGES

**OFFICE OF CHILDREN AND FAMILY SERVICES
(\$000s)**

	General Fund 2008-09
Prior Year Appropriations	\$ 1,898,872
Adjust Foster Care Block Grant to reflect COLA and other factors	26,100
Eliminate State share of local detention costs	(43,100)
Adopt COLA and program growth	17,200
TANF to General Fund conversions	71,450
Child Welfare program growth	153,700
Phase-in Bridges to Health Medicaid Waiver	9,661
Committee on Special Education increase	5,100
Youth Facility closings	(2,625)
Increase community-based juvenile justice programs	1,014
Exhaustion of prior years federal reserves	8,065
Non-personal service reductions	(1,870)
Elimination of legislative adds	(47,009)
Other	(11,434)
Recommendation	\$ 2,085,124
Change From 2007-08	\$ 186,252

SUMMARY OF CHANGES

**OFFICE OF TEMPORARY AND DISABILITY ASSISTANCE
(\$000s)**

	General Fund 2008-09
Prior Year Estimated Spending	\$ 1,459,667
Decrease in public assistance expenditures	(111,053)
Increase in SSI expenditures	8,526
TANF to General Fund conversion	(112,370)
Increase in the shelter payment made to public authorities on behalf of public assistance recipients	4,600
New investment for recently enacted human trafficking legislation	450
Increase in child support disregard	990
Enactment of the work incentive bonus legislation	(7,200)
Adjustment for software bonding	(6,395)
Federal Revenue Maximization	(17,000)
Elimination of legislative adds	(3,555)
Other	(2,094)
Recommendation	\$ 1,214,566
Change From 2007-08	\$ (245,101)

KEEPING NEW YORK SAFE

Over the last decade, the crime rate has declined in New York by 36 percent, nearly twice as fast as the national average. Currently, we are the fifth safest state in the nation, and we have the lowest crime rate of any large state.

In addition, New York's prison population is falling and recidivism rates have improved. The key challenge for our State is to preserve these trends, and to do so in a fiscally responsible manner. We must look carefully at our current use of resources, and whether we can invest them in a more efficient and targeted manner to improve on these results.

The 2008-09 Executive Budget provides for critical new needs and meets recent legislative mandates regarding sex offenders and mental health treatment in prisons, primarily through improved management of current resources. Total funding of \$4.7 billion is included in the Budget to support public safety programs, an increase of \$110 million over last year.

More than 63 percent of this increase is dedicated to the operation of the State's prison system and the management of parolees. Another 23 percent will support additional crime fighting, policing and investigatory resources, and preserve a balanced and fair justice system. Additional resources will support disaster preparedness and homeland security programs.

CRIMINAL JUSTICE

Last year, Governor Spitzer began working to make the criminal justice system more effective, just and affordable. The 2008-09 Executive Budget continues that strategy.

FIGHTING CRIME

A year ago, violent crime was on the rise in upstate cities. Today that trend has reversed – down 10 percent in the first 11 months of 2007. This improvement is attributable in part to the continued success of Operation IMPACT. In last year's

BUDGET HIGHLIGHTS

Redeployment of State Police to Local Communities: 200 troopers and investigators will be redeployed to partner with Operation IMPACT communities.

Judicial Pay Raise: A judicial salary increase, retroactive to April 1, 2006, is proposed by the Governor.

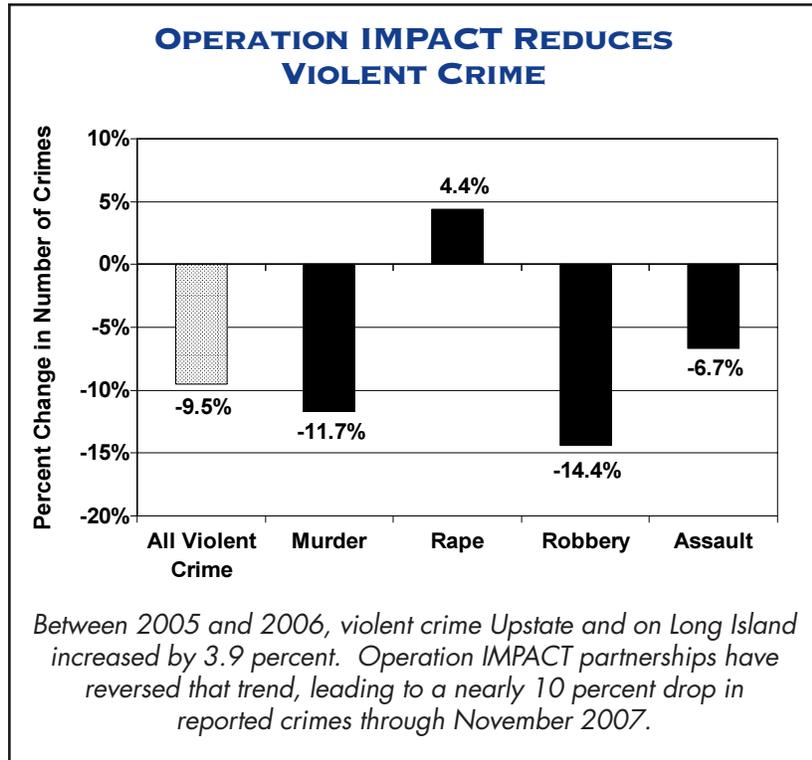
Funding for NY Alert Emergency Notification System: The Budget dedicates \$5.4 million in Federal emergency preparedness funds to continue development of NY Alert, a statewide rapid emergency notification system.

Fee Increase to Cover Increased Cost of State Police: The fee on auto insurance policies will increase from \$5 to \$20 to preserve trooper strength at 4,939 officers, and to support a new bridge preservation program.

Reshaping the Prison System: The Executive Budget anticipates closure of four facilities in accordance with required statutory guidelines, resulting in a net decrease of 153 positions, which will be accomplished without layoffs. The savings will assist the State in meeting legislative mandates for the treatment of sex offenders and inmates with mental illness.

PERFORMANCE PROFILE

- The Executive Budget recommends an overall budget of \$3.0 billion (\$2.7 billion state operating funds) for prisons and parole for 2008-2009.
- DOCS employs 31,600 staff, including 21,300 corrections officers, at 70 institutions.
- The prison population will decline to 62,200 next year, and is expected to continue to decline in the future.
- More than 1,100 parole officers will monitor 33,500 parolees, including an estimated 24,550 who will be released to parole supervision next year.
- The Executive Budget recommends \$1.7 billion for community safety for 2008-2009.
- Nearly 5,000 State Police are deployed statewide, including 1,328 investigators.



Budget, funding for this program was increased by \$2 million to a total of \$17 million.

Operation IMPACT uses intelligence-based policing and crime analysis to help local law enforcement both solve and prevent crimes. Major highlights of the program include:

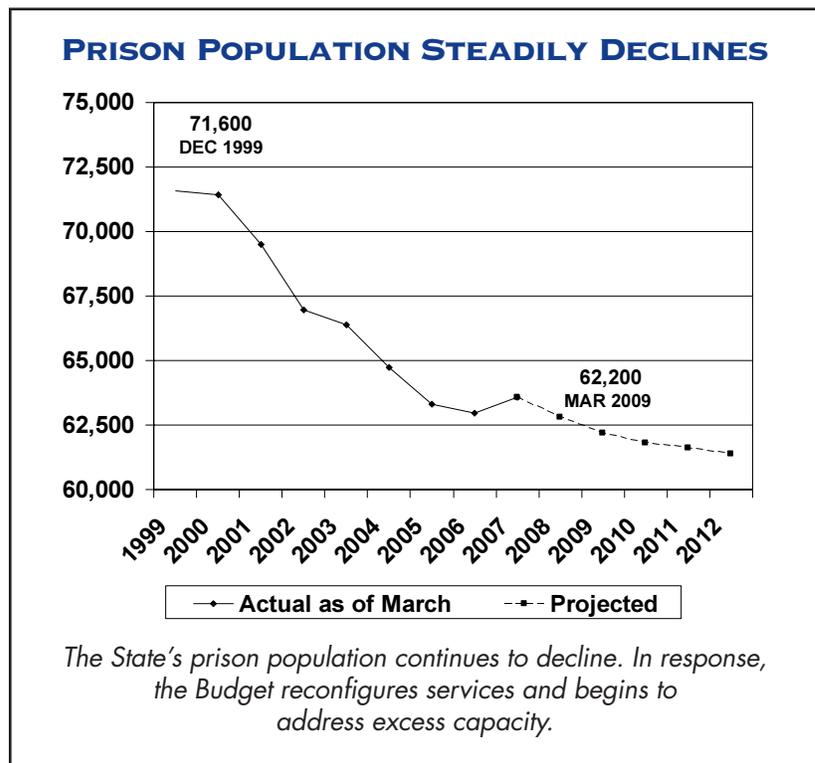
- Targeting 17 counties in upstate New York and on Long Island, where 80 percent of the reported crimes outside New York City occur;
- Providing funding for crime mapping software, digital fingerprinting equipment, laptops, mobile surveillance cameras, crime analysts, field intelligence officers, and investigators;
- Using timely and accurate data, along with intelligence-based policing to combat crime; and
- Continuing the downward trend in the number of crimes in Operation IMPACT municipalities, which decreased by 6,000 in 2007.

Building on this success, the Executive Budget:

- **Redeploys 200 State Police to Local Communities.** State troopers and investigators will work together with local police and sheriffs, within the framework of Operation IMPACT, to develop tailored strategies to fight crime. To meet this critical need within the fiscal constraints of the Budget, 200 officers will be redeployed from existing lower-priority posts in video lottery centers and school districts under a plan prepared by the Acting Superintendent of State Police.
- **Ensures No Decrease in the Member-Strength of the State Police.** Currently, the Budget of the State Police is supported in part by a \$5 surcharge on auto insurance, paid at the time of policy renewal. While State Police costs have grown significantly in the last four years, the fee has remained unchanged. The Executive Budget recommends increasing this surcharge to \$20. Fifty percent of the total proceeds of the fee will be used to continue auto theft and insurance fraud protection programs and to ensure that trooper strength remains at 4,939 officers, as existing revenue doubles from \$64.5 million to \$129 million. The remaining new revenues will be used to support transportation purposes, including a new State and Local Bridge Preservation Program. Overall, this action will create \$193.5 million in new revenue for the State on an annual basis.

MEETING NEW CHALLENGES IN PRISONS

New York's prison system is changing dramatically. Not only is the population projected to fall by 9,000 since its peak of 71,600 in December 1999, but the profile of those incarcerated in prison has changed as well. The proportion of violent offenders has increased, heightening demand for more secure settings, while less secure facilities are increasingly underutilized. Simultaneously, demand has grown for specialized settings and programs to meet the needs of inmates with mental illness, elderly inmates, inmates preparing to transition back to their communities, and offenders who violate the conditions of their parole.



Recognizing that the decline in the prison population is expected to continue and that we must align capacity to address expected future needs, the 2008-09 Executive Budget:

- **Reflects Closure of Underutilized Facilities.** Closing three underutilized prison camps and one medium security facility in early 2009 will save a projected \$33.5 million in annual operating costs and avoid \$30 million in capital projects.

As the Department of Correctional Services eliminates underutilized capacity and reshapes the prison system, the State will:

- Meet all statutory requirements for notification of and dialogue with employee unions and impacted communities;
 - Ensure that displaced employees are offered a new job opportunity; and
 - Work closely with communities to reinvent their economies as part of the Governor's Upstate Revitalization initiative.
- **Expands Services for Inmates with Mental Illness.** Residential treatment capacity for inmates with mental illness will be expanded in response to a new legislative mandate. This will result in an additional 238 positions and capital investments of \$70 million over the next two years, primarily to open a new 100-bed facility at Marcy Correctional Facility.
 - **Enhances Treatment for Sex Offenders.** Enhanced treatment programs for sex offenders, mandated by the Sex Offender Management and Treatment Act of 2007, are being created through the addition of 242 staff. The Department of Correctional Services began hiring last year for this initiative, which will cost \$13 million.
 - **Provides Appropriate Release for Inmates with Severe Conditions.** Legislation is being advanced allowing inmates, whose medical conditions are so severe that they pose no danger if returned to the community, to be released to receive outside medical care. This will free regional medical units from serving as nursing homes and permanent sites for hospice care, reducing costs by \$5 million.
 - **Expands Food Preparation Services.** The "cook/chill" food preparation operation at the Oneida Correctional Facility will be expanded, so that local jails can take advantage of these low cost, nutritious meals. This could save local jails \$730 annually per inmate.
 - **Improves Re-Entry Services.** Support for the full operation of the new re-entry unit at Orleans Correctional Facility is recommended to improve the transition of inmates back to Erie County. This proposal will also create three additional re-entry units in other counties, with an investment of \$1 million.
 - **Addresses Parole Violators.** The Edgecombe Correctional Facility will house up to 230 parole violators by 2010, with programs tailored to address the specific reasons an offender violated parole.

REDUCING RECIDIVISM

Research has shown that efforts toward successful rehabilitation should begin as soon as a person enters prison. These efforts should intensify as the date of release approaches, and must continue uninterrupted through the critical period when an offender returns to the community. In the next year, an estimated 28,200 individuals will leave prison and return to their communities. A coordinated effort by the criminal justice system will prepare these individuals for their successful return. The Executive Budget would:

- **Create Local Re-entry Taskforces.** The Division of Criminal Justice Services will support the creation of three new local re-entry taskforces at a cost of \$800,000. Onondaga, Dutchess and Niagara counties will join nine other counties that currently use these taskforces to prepare for and manage their most high risk offenders released from State prison.
- **Increase Parole Re-entry Staff.** The Division of Parole will add 29 new officers to focus exclusively on directing parolees to housing, employment and addiction services within their community. This represents an investment of \$2.1 million.
- **Assess Risks and Needs.** The Division of Probation and Correctional Alternatives will assist local probation departments in utilizing a single, statewide risk assessment instrument to assess the needs of probationers, make appropriate referrals to services, and evaluate the resulting outcomes.
- **Improve Program Performance.** The criminal justice agencies will develop a single technology platform that allows the sharing and analysis of critical criminal justice data to support successful re-entry programs.

PRESERVING A BALANCED JUSTICE SYSTEM

Equal justice requires all parties – prosecutors, defenders, and judges – to be sufficiently qualified, compensated and supported. The Executive Budget promotes a balanced justice system.

- **Judicial Salary Increases.** The Budget proposed by the Chief Judge requests a judicial salary increase of 21 percent, retroactive to April 1, 2005, provides for increases after April 1, 2008 linked to federal judicial salaries, and is reflected in the Financial Plan at a cost of \$143 million. More recently, the Chief Judge proposed new legislation providing for pay increases retroactive to April 1, 2007, again with additional increases tied to salaries of federal court judges, and creation of a quadrennial salary commission. Legislation proposed by the Governor, as part of the 2008-09 Executive Budget, provides a salary increase of 21 percent retroactive to April 1, 2006, and an additional 2.5 percent on April 1, 2008, at a cost of \$120 million.
- **District Attorney Salary Increases.** District attorneys will receive similar increases, under the current statutory linkage to judicial salaries, and counties will be reimbursed \$3 million for a portion of those costs.
- **A Witness Protection Program.** \$500,000 is provided to create a statewide witness protection program to assist district attorneys in protecting key witnesses to crimes so that they may safely testify.

- **Increased Probation Aid.** Probation aid to counties will be increased by \$3 million, recognizing that local probation departments are a key partner in the justice system.
- **Indigent Defense Reform.** An Office of Indigent Defense will be created to oversee and monitor the provision of criminal defense services statewide, make recommendations for reform and provide attorney training and administration services.
- **A Strengthened Interest on Lawyers Account.** New legislation will strengthen the duties of the IOLA Board, which governs the distribution of grants to providers of civil legal services.

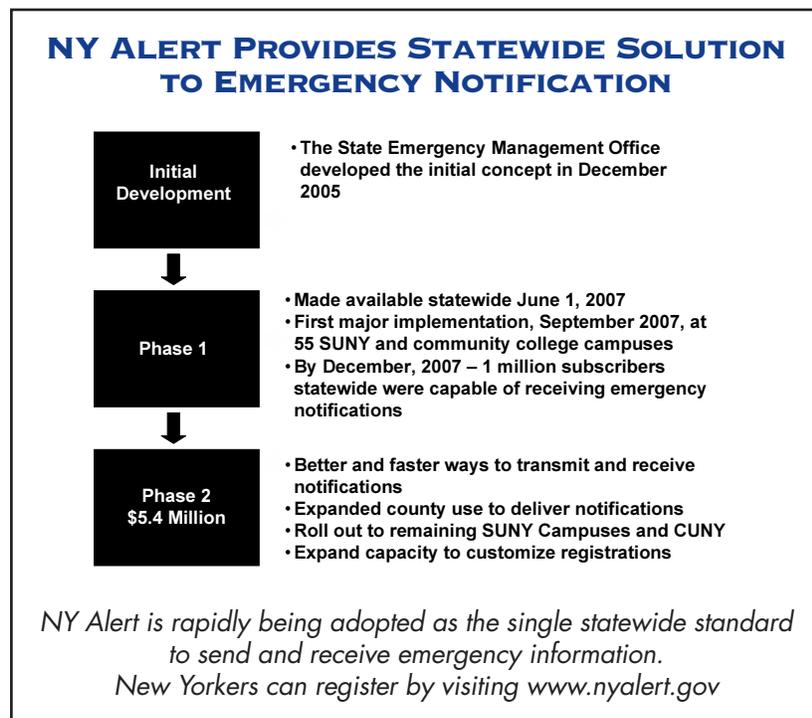
PREPAREDNESS AND HOMELAND SECURITY

The Governor recognizes that, as part of his public safety agenda, the State must proactively prepare for natural disasters and protect New Yorkers against terrorism. This requires State leadership and a working partnership with local governments in preparedness and homeland security endeavors. The 2008-09 Executive Budget provides \$677 million in State and federal funding to support these activities.

BEING PREPARED

Last year, the State delivered more than \$300 million in aid to disaster victims, and responded swiftly to the flooding from the “nor’easter” in April, the flash floods in Delaware County in June, and the tornado in Brooklyn in August. The Governor recognizes that it is not enough just to respond. New York must do more to prepare for new disasters. To meet that goal, the 2008-09 Executive Budget advances three initiatives:

- **Funding for NY Alert Emergency Notification System.** The 2008-09 Executive Budget dedicates \$5.4 million in federal emergency preparedness funds to continue development of a state-of-the-art rapid emergency notification system for use throughout the State. NY Alert offers real-time alerts to motorists, home owners, public schools, and university campuses, and already has more than one million subscribers.



- **Public Safety Interoperability Coordination (PSIC) Grant.** In 2008-09, the State will award \$60.7 million in Federal PSIC grants to local governments as part of the Federal Homeland Security Grant Program. This program will enhance statewide interoperable communications between State and local public safety agencies.
- **Power Plant Security.** For more than five years, the State has provided additional security for nuclear power plants, posting National Guard and Naval Militia at the Ginna, Fitzpatrick, and Indian Point plants at an annual cost of \$11.7 million. These personnel have become long-term additions to the security of these facilities – yet the power companies bear no part of the cost. To ease the financial burden to the State of continuing this protection, and to ensure that other key disaster preparedness programs can be sustained, the 2008-09 Executive Budget would impose an assessment on power plant operators to recover these costs.

REMAINING VIGILANT

Since New York remains a prime target for terrorists, the State must make the most intelligent use of State resources and available federal resources dedicated to homeland security. In the 2008-09 Executive Budget, these resources will support two new initiatives to ensure continued vigilance against terrorism.

- **Empire Shield.** Following a careful review of current deployments, the Division of Military and Naval Affairs plans to create a permanent mission headquartered at Fort Hamilton. The new unit will respond quickly to threats in the New York metropolitan area, mobilizing key equipment and manpower. To accomplish this goal, current missions performing standing patrols at specific downstate locations, will be converted to flexible threat-based, rapid response units.
- **Intelligence Gathering.** Building on the success of the New York State Intelligence Center, the Office of Homeland Security and the Division of State Police will continue to partner on technology projects that enhance their ability to identify potential terrorist threats, and to share information on possible threats with local law enforcement.

SUMMARY OF CHANGES

DEPARTMENT OF CORRECTIONAL SERVICES (\$000s)

State Operations	General Fund 2008-09
Prior Year Appropriation	\$ 2,470,928
Mandated personal service increases offset by savings from increased turnover . . .	12,120
Annualized cost of implementing the Sex Offender Management and Treatment Act of 2007	2,474
Expansion of mental health services	6,002
Increased cost of facility operations, including food, utilities and technology	24,082
Increased cost of inmate medical care, less savings attributed to expansion of the Central Pharmacy, increased utilization of telemedicine, and legislation relating to medical parole	6,645
Expansion of re-entry initiatives	2,100
Savings associated with the closure of three prison camps and one medium security correctional facility	(10,400)
Constraining Correction Officer overtime	(10,000)
Recommendation	\$ 2,503,951
Change From 2007-08	\$ 33,023

STRENGTHENING THE MENTAL HYGIENE SYSTEM

New York State has a proud history of offering services that assist those with physical, mental, and emotional disabilities to live independent, dignified, and productive lives.

In 2007-08, the Enacted Budget committed New York to providing a broader and balanced program to invest in both new services and current programs through improved coordination among agencies that promotes cost-effectiveness. These initiatives:

- **Addressed Unmet Needs.** The Budget developed additional Office of Mental Retardation and Developmental Disabilities (OMRDD) residential opportunities, Office of Mental Health (OMH) community residential beds, expanding OMH community-based services for children, and community residential beds in the Office of Alcoholism and Substance Abuse Services (OASAS).
- **Revitalized Current Mental Hygiene Programs.** The Budget improved care in OMH community residences, continued funding for supported housing, and provided enhancements to the OASAS system.
- **Advanced Health Care Reform.** The Budget initiated several strategies to manage the care of high-cost populations and rationalize provider reimbursement.

The 2008-09 Executive Budget fully supports Governor Spitzer's vision for health care reform and emphasizes the needs of the consumer. It eliminates barriers to effective treatment, proposes reimbursement changes to achieve equity among providers delivering the same services, and improves management of the care of high-cost populations.

Those served by OMH, OMRDD, OASAS, and their networks of non-profit providers, will receive more personalized services in treatment environments that allow full integration into community life, such as opportunities to pursue meaningful

BUDGET HIGHLIGHTS

Transforming the Mental Hygiene System: The proposed Executive Budget for the mental hygiene system will total \$8.1 billion in operating funds. This funding will support initiatives to reorient the delivery of services to vulnerable populations, consistent with the Governor's health care reform.

Meeting Unmet Needs: Investments totaling \$28 million in 2008-09 will strengthen ambulatory care in the mental health service system; family support, respite and employment services in the mental retardation and developmental disabilities service system; and community supports in the chemical dependence service system. Additional investments support expanded bed development in all three agencies, and focus on managing the treatment needs of high cost, multiply-disabled populations.

Increasing Efficiency in State Operations: Through a series of administrative initiatives, the various mental hygiene agencies will realize \$40 million in savings.

PERFORMANCE PROFILE

Operating Overview

- The mental hygiene agencies are projected to serve over 1,040,000 individuals in 2008-09, including some 600,000 persons with mental illness, 300,000 persons with chemical dependence, and over 140,000 persons with developmental disabilities.
- The mental hygiene system operates 54 institutional facilities statewide and almost 10,000 State-operated community beds.
- These resources are complemented by thousands of outpatient and residential programs operated by some 4,300 non-profit providers.
- The mental hygiene service system is the largest in the nation.

employment and other life choices that support their independence and dignity. This comprehensive approach will improve interagency coordination, promote cost-effectiveness, eliminate wasteful practices, and target investments that strengthen and transform the service continuum.

New investments are proposed to improve facilities and program environments, such as community housing for adults and children with mental illness, family support services for those caring for developmentally disabled loved ones at home, and new community support services for those recovering from chemical dependencies. The proposed Budget also expands services for populations still in need, and addresses workforce recruitment and retention issues and other cost pressures for non-profit providers.

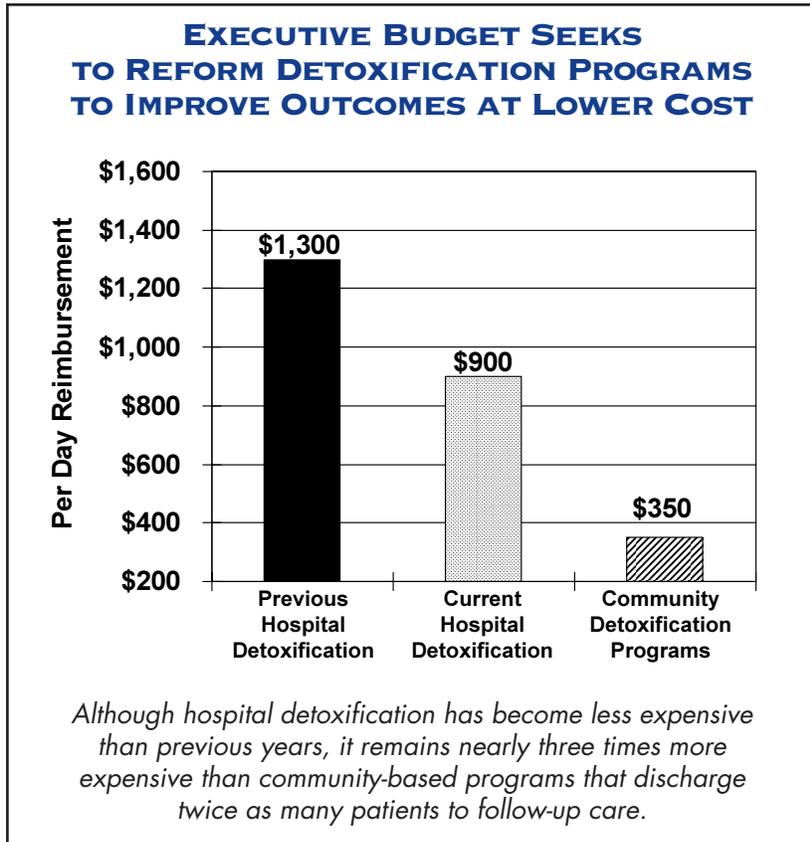
PARTICIPATING IN HEALTH CARE REFORM INITIATIVES

The Governor's recommendations for the mental hygiene system complement and support the key principles of his health care reform agenda. These proposals would:

- **Rationalize Mental Hygiene Reimbursement.** OMRDD, OASAS and OMH will adjust current reimbursement strategies to promote more cost-effective and appropriate service delivery in both State-operated and privately-operated programs. Actions proposed to achieve this goal include:
 - OMRDD revising reimbursement standards for its Individualized Residential Alternatives, Intermediate Care Facilities, Day Habilitation and Article 16/28 Clinic programs to establish more uniform and cost-effective rates. These efforts will produce \$5 million in State savings in 2008-09;
 - OMH ensuring that its non-profit providers adhere to all appropriate reimbursement standards, including contractually-based revenues, resulting in \$12 million in State savings;
 - OASAS saving \$1 million annually by improving provider performance reviews; and

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- All three agencies achieving a combined \$40 million in operations savings by adopting measures designed to minimize the use of overtime and reduce non-personal service spending without compromising quality of care.
 - **Strengthen the Outpatient Continuum of Care in OMH-licensed Article 31 Clinics and Reforming Inpatient Psychiatric Care.** The Governor proposes to strengthen outpatient programs and non-residential services by eliminating unnecessary and costly usage of hospital emergency rooms and more expensive residential settings. The Executive Budget invests \$5 million, expanding to \$10 million when fully annualized in 2009-10, in OMH-licensed Article 31 Clinics and other targeted outpatient programs to strengthen their service delivery infrastructure and treatment efficacy. Further, the recommendation permits OMH, in concert with the Department of Health (DOH), to rationalize inpatient psychiatric reimbursement over a two-year period.
 - **Continue the State's Commitment to Deinstitutionalization.** OMRDD has a nationally-recognized service system of community-based care. Recognizing that this success is built on innovation as well as time-tested policies, OMRDD will continue to deinstitutionalize those individuals who can benefit from an integrated community-based environment. OMRDD will launch a four-year plan to place more than 500 current Developmental Center residents into community care settings. When completed, this effort will allow for additional consolidation and/or closure of developmental centers and make valuable surplus land available for economic development.
 - **Manage the Care of High-Cost Beneficiaries.** The mental hygiene system serves populations with multiple disabilities, whose comprehensive needs are expensive to provide and difficult to manage. Accordingly, OMH and OASAS will work with DOH and other State and local entities to make the system more rational, so that health care and other 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. Specifically:
 - OASAS and OMH will continue collaborating with DOH to develop and implement pilot programs that promote holistic and cost-effective health care to populations with multiple disabilities. The Budget recommends \$2.5 million in new resources — annualizing to \$5.5 million — to support these demonstration programs. Additionally, OMH will utilize \$1.5 million in new resources, \$2 million when fully annualized in 2009-10, to implement managed care demonstration programs in Western New York and New York City;

- OASAS will continue to 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. The goal is to strengthen the ability of lower-cost community-based providers to deal with less complicated detoxification episodes; and
- OMRDD will continue collaborating with the State Education Department and the Office of Children and Family Services (OCFS) to develop critical in-State service options for children placed in higher cost out-of-State placements. An estimated 186 new beds will open in 2008-09 at a cost of \$13 million.



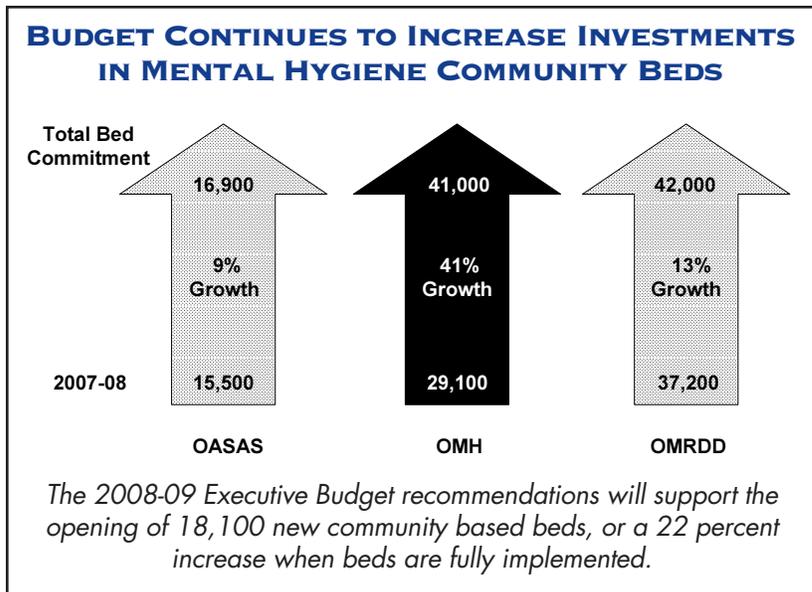
- **Strengthen Anti-Fraud Capabilities.** All three mental hygiene agencies will continue to collaborate with the Office of the Medicaid Inspector General and DOH to target and eliminate fraud or wasteful spending in their programs. Such efforts are expected to achieve over \$14 million in audit recoveries and cost avoidance in 2008-09.

ADDRESSING UNMET NEEDS

This Budget continues to address the unmet needs of the mental hygiene population through several key initiatives that expand services, including:

- **Expanded Family Support and Respite Services in OMRDD.** The Budget provides an increase of \$5 million, annualizing to \$12 million in 2009-10, to help an additional 3,000 families care for their disabled loved ones at home, bringing the total number of families served to over 40,000. These resources will also expand OMRDD’s Respite program as well as services to those caring for individuals with autism.
- **OMRDD Residential Reconfiguration.** \$1 million in new resources will enable non-profit providers to reconfigure high cost residential models into more person-centered and cost-effective alternatives. This investment would annualize to \$2 million.

- Expanded Work Opportunities for OMRDD and OMH Consumers.** This recommendation supports approximately \$2.3 million in new resources, \$6 million when fully annualized, to enhance OMRDD's employment programs, including the establishment of 128 Self-Advocate internships. These resources will facilitate skill development and employment opportunities. In OMH, \$800,000, annualizing to \$1.3 million, will strengthen the supported employment program associated with the Personalized Recovery Oriented Services (PROS) model. Together, these initiatives will permit both Offices to expand employment opportunities to another 528 individuals.
- Integration of Evidence-Based and Culturally Competent Family Services into OMH's Clinic Plus Program.** The Budget provides \$1 million in new resources, increasing to \$5 million when fully annualized in 2010-11, to strengthen family-centered treatment approaches that support engagement of the entire family in the recovery of the individual member.
- New Community Supports for Chemically Dependent Persons.** The Budget provides \$500,000 to launch a three-year initiative to establish 21 community-based Recovery Centers statewide, including 12 Centers in rural areas. These centers are intended to ease the integration of recovering citizens back into the community. When fully implemented, this initiative is expected to provide \$2.7 million annually to support these community-based centers.
- Expansion of Statewide Compulsive Gambling Prevention Programs.** \$500,000 will support the establishment of new compulsive gambling prevention programs in 18 counties in 2008-09. This program will be expanded to a total of 37 counties by 2009-10 at full annualized funding of \$2.3 million in 2010-11.
- Additional OMH and OASAS Mental Hygiene Treatment Beds.** This Budget provides approximately \$4 million in new operating support and \$169 million in new capital funding to strengthen residential care in OMH and OASAS. A total of 2,000 new OMH beds (1,500 Supported Housing and 500 Single Room Occupancy beds) and 245 OASAS beds (125 rental units and six 20-bed residential facilities) are planned to open. When completed, this will bring the total number of funded OASAS treatment beds to about 16,900, and the total number of OMH beds to 41,000.

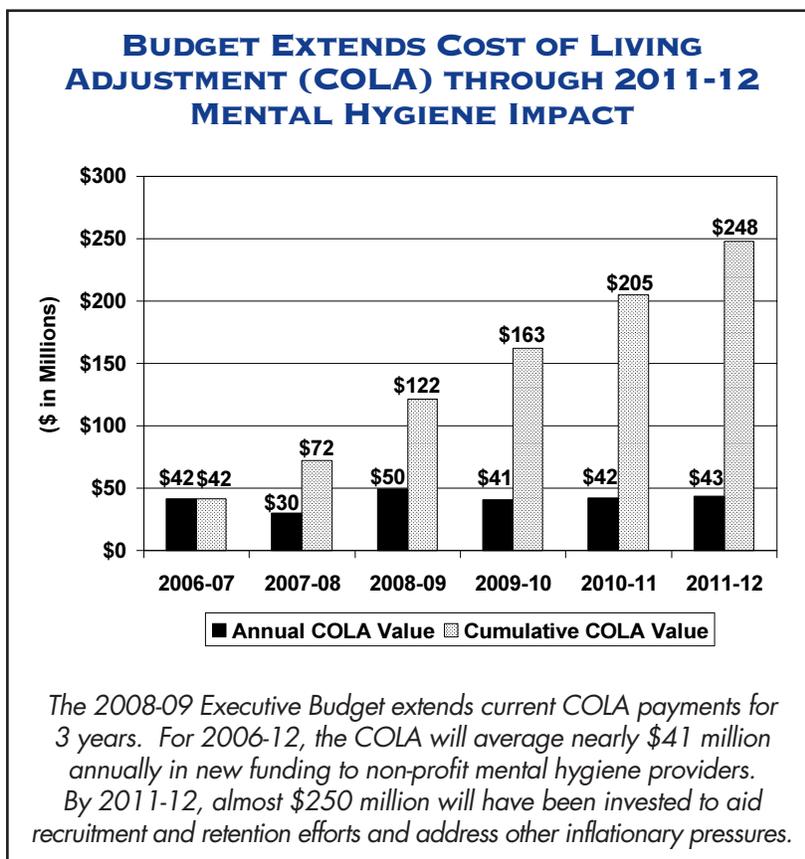


REVITALIZING CURRENT MENTAL HYGIENE PROGRAMS

Investments to enhance the current service delivery network and to maintain a safe and secure physical environment are crucial to the long-term strength of the mental hygiene service system. Such investments can improve both the quality of care for the consumer and the quality of the workplace for those charged with their care. Accordingly, the 2008-09 Executive Budget recommends:

- Three Year Extension in the Cost of Living Adjustment for Non-Profit Human Services Providers.** The Executive Budget honors the last year of the current three-year Cost of Living Adjustment (COLA) for these employees by providing \$49 million in new resources and workforce incentives that will enable OMH, OASAS and OMRDD non-profit programs not receiving a regular health care trend to recruit and retain qualified staff. The Budget also extends the COLA through 2011-12. This extension anticipates new resources totalling \$278 million for targeted providers licensed by OMH, OASAS, OMRDD, DOH, the State Office for the Aging and OCFS.

- Incentives to Retain a Quality State Workforce.** OMH and OMRDD will continue to evaluate overtime usage to ensure that appropriate staffing standards are in place to provide quality care. Additionally, \$2.3 million in new OMH resources, growing to \$12 million when fully annualized, are provided in the clinical area to phase-in incentives, particularly for the hiring and retention of qualified nursing staff and new resources are provided to enhance clinical staff at OASAS addiction treatment centers.



- Improved Care in OMH Community Residences.** This Budget provides second year funding totaling \$12 million to help address staffing deficiencies and other staff recruitment and retention issues in community mental health facilities for children and adults.

SUMMARY OF CHANGES

OFFICE OF ALCOHOLISM AND SUBSTANCE ABUSE SERVICES (\$000s)

	All Funds 2008-09
Prior Year Estimated Spending	\$ 545,198
Additional cost of continuing State-operated programs, including salary increases and other inflationary adjustments	2,129
Cost of continuing community-based chemical dependence and compulsive gambling services, including NY/NY III	6,915
Third year cost-of-living adjustment for eligible chemical dependence and compulsive gambling programs	12,500
Develop 21 recovery centers, address unmet residential need, expand compulsive gambling prevention programs and services to co-occurring populations, and enhance services in Addiction Treatment Centers	4,715
State Operations efficiencies, managing community program development, and eliminating certain legislative adds	(16,200)
Employee fringe benefits	24,423
Recommendation	\$ 579,680
Change From 2007-08	\$ 34,482

SUMMARY OF CHANGES

OFFICE OF MENTAL HEALTH (\$000s)

	All Funds 2008-09
Prior Year Estimated Spending	\$ 2,410,783
Employee salary increases, inflation and other State Operations adjustments (\$14M); and annualization of prior year community program initiatives (\$54.5M)	68,569
Third year cost-of-living adjustment for eligible non-profit programs	23,900
New community services, including 2,100 community beds, sustaining and expanding the ambulatory care system, managing the care of high-cost populations, and salary enhancements for State clinical workforce	14,200
State Operations efficiencies/personal service savings (\$20.2M) and Local Assistance savings achieved through rationalizing provider reimbursement, maximizing third party revenues, eliminating certain Legislative adds, and managing community program development (\$33.5M)	(53,684)
Employee fringe benefits	478,588
Recommendation	\$ 2,942,356
Change From 2007-08	\$ 531,573

SUMMARY OF CHANGES

OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES (\$000s)

	All Funds 2008-09
Prior Year Estimated Spending	\$ 3,356,510
Additional cost of continuing State-operated programs, including salary increases and other inflationary adjustments	54,643
Annualizations of non-profit programs, including NYS-CARES, NYS-OPTS, aging-out consumers and out-of-State placements (Billy's Law)	46,885
Trend factor for eligible Medicaid programs	52,460
Third year cost-of-living adjustment for eligible non-profit programs	5,595
Expanding Family Support Services and Respite opportunities, adding 128 Self-Advocate internships and developing additional non-profit community residential opportunities	8,650
State Operations efficiencies (\$21.9M), Local Assistance cash management efficiencies (\$61.9M), and eliminating certain Legislative adds (\$1.5M)	(85,315)
Employee fringe benefits	1,002,750
Recommendation	\$ 4,442,178
Change From 2007-08	\$ 1,085,668

OVERVIEW OF BUDGET INITIATIVES

Through responsible budgeting and a series of tough but necessary choices, Governor Spitzer has produced an Executive Budget that makes targeted reductions in nearly every spending area. At the same time, the Budget also reflects the Governor's belief that even in challenging fiscal times, we must make investments that are essential for New York's future.

PROTECTING NEW YORK'S PRIORITIES

Despite the State's financial difficulties in the current fiscal year, Governor Spitzer believes we still must make the critical investments necessary to spark economic growth and return New York to its status as a national leader. As such, the Executive Budget includes:

SCHOOL AID

- **Record Aid Increases.** Provides a \$1.46 billion (7.5 percent) increase for school aid – the largest ever increase proposed by a Governor. This brings the cumulative, two-year school aid increase under Governor Spitzer to \$3.2 billion.
- **Foundation Formula.** Retains the key elements of the Foundation Formula created last year, to distribute funding based on objective measures of student need and district wealth, while making adjustments to further target aid to high needs districts.
- **Contracts for Excellence.** Requires that Contracts for Excellence accountability measures apply to districts' annual school aid expenditures for at least three years once they have qualified for the program. Districts that make adequate yearly progress in school improvement would no longer be subject to these requirements.
- **Reforming High Tax Aid.** Provides High Tax Aid and reforms the distribution formula to better target funding to individual municipalities where the property tax burden is greatest relative to income.
- **Universal Prekindergarten.** Increases funding for Universal Prekindergarten to a total of \$452 million, providing funding for over 120,000 four-year-old children to receive these services, an increase of over 27,000.
- **Healthy Schools.** Increases reimbursement to schools for the expansion of access to healthy meals – particularly for low-income students — by \$5 million (\$9 million 2008-09 school year).
- **Public Libraries.** Includes \$14 million in additional funding for the New York State Public Library Construction Grant Program. Funds will be provided to upgrade facilities and buildings at public libraries statewide.

HIGHER EDUCATION

- **Endowment Fund.** Proposes a Higher Education Endowment Fund, which will serve as a permanent funding source for New York's colleges and universities. This will be financed by leveraging funds from the New York State Lottery system in a manner that ensures promised levels of support for school aid will still be delivered.
- **Five-Year Capital Plan.** Begins a new, five-year, \$9.3 billion capital plan for SUNY and CUNY that will help build a world-class infrastructure for our higher education system.
- **Tuition.** SUNY and CUNY tuition will remain unchanged for the 2008-2009 fiscal year.
- **Tuition Support for Veterans.** Provides veterans returning from combat with a tuition grant of up to the value of in-state SUNY undergraduate tuition, which can be used at any public or private college or university in the State. This program is projected to cost \$2 million.

HEALTH CARE

- **Universal Access for Children.** Fully funds the federal share of the expansion of Child Health Plus, which was blocked by the Bush Administration. This will ensure access to health care for all the 400,000 children in New York State who currently lack insurance. This represents an additional investment of \$19 million, bringing total spending to \$37 million in 2008-09. The expansion will be partially funded through an increase in family contribution levels for the program based upon income level.
- **Doctors Across New York.** Provides a new tuition loan repayment program to encourage primary care and specialist physicians either to establish or to join practices and providers in rural and inner-city medically underserved areas.
- **Nursing Scholarships.** An existing scholarship program to assist nurses in their pursuit of higher education will be expanded in the SUNY budget, and a new program will be established in the CUNY budget.
- **Ambulatory and Primary Care.** Offers improved access to primary care and preventive medicine by redirecting \$84 million through the updating of reimbursement methodologies for hospital inpatient care.
- **Public Health Investments.** Provides \$15 million for new investments in public health and aging programs, including anti-smoking, pregnancy and obesity prevention, services for the frail and elderly, and others.
- **Fighting Medicaid Fraud.** Expands the State's ability to combat waste, fraud and abuse through \$5 million of additional funding for the Office of Medicaid Inspector General. This funding will be used to add 75 new staff, including 55 auditors and investigators, upgrade the Office's data mining technology, and to expand its Card Swipe Program. These new investments are expected to increase fraud collections by \$160 million compared to the levels initially projected in the 2007-08 Enacted Budget.

- **Mental Hygiene Investments.** Provides \$28 million for new investments in mental hygiene programs, including mental health ambulatory care, family support services, chemical dependence recovery centers, and others.
- **Human Services COLA.** Includes a third consecutive COLA for eligible human services providers of mental hygiene, public health, aging and foster care services at a 2008-09 cumulative cost of \$191 million. Additionally, the Budget extends the COLA for another three years, through 2012.

PROPERTY TAX RELIEF

- **Property Tax Commission.** Creates a new bipartisan commission to study the root causes of New York's high property taxes, evaluate ways to increase the fairness of current property tax relief programs, identify ways to reduce local government costs, and recommend a school tax cap proposal.
- **STAR Program.** Overall funding for the STAR program will total nearly \$5 billion, an increase of \$134 million over 2007-2008.
- **Tax Relief for Seniors.** Increases property tax rebates for senior citizens participating in the Enhanced STAR program by 40 percent – a total increase of \$91 million compared to last year's levels.
- **Middle Class STAR Rebates.** Maintains property tax rebates for all other taxpayers, excluding seniors, at the level provided in 2007-2008. Expanded participation in the program, however, will increase spending by \$32 million. Combined Middle Class STAR and Enhanced STAR spending will total \$1.25 billion.
- **Mandate Relief.** Increases Wicks Law thresholds, which will help reduce property taxes by lowering construction costs. In addition, local governments will benefit from increased flexibility to form cost-saving municipal health insurance consortiums and realize purchasing savings with procurement reforms.
- **Preschool Special Education Cap.** Caps the annual growth in local preschool special education costs for counties outside of New York City. Under this initiative, counties will realize savings of \$31 million in their 2009 fiscal year, growing to \$90 million by 2011-12.
- **Enhanced Local Revenue Flexibility.** Proposes new local revenue options to help relieve pressure on property taxes. Counties will be given the option to increase mortgage recording fees, a loophole will be closed to allow cities and villages to collect gross receipts taxes on cellular phone services, and certain cities and counties will be able to implement red light camera traffic safety programs similar to that in New York City.
- **Local Government Efficiency.** Advances a series of recommendations from the Governor's Commission on Local Government Efficiency and Competitiveness to help local governments save property tax dollars through shared services and municipal consolidation. Key initiatives include: \$25 million in Local Government Efficiency Grants with a new focus on transforming the structure of local government, financial incentives and statutory changes to promote the consolidation of both highway services and property tax administration, and an initiative to collect fiscal performance data to facilitate peer comparisons on efficiency and help identify opportunities for service consolidation.

**ECONOMIC DEVELOPMENT/UPSTATE REVITALIZATION/
INFRASTRUCTURE IMPROVEMENTS**

- **Upstate Revitalization Fund.** \$1 billion for an Upstate Revitalization Fund that will drive substantial and immediate investments into the Upstate economy. These investments will help fund the Governor's City-by-City Plans; restore our parks; support the development of affordable and supportive housing; invest in our aging infrastructure; and increase access to capital for businesses, municipalities, arts and cultural institutions, and agribusinesses.
- **Bridge Safety.** As part of the Upstate Revitalization Fund, the Budget provides \$100 million in new funding for State and local bridge preservation. This commitment will be financed through an increase in the fee on auto insurance policies, providing a permanent source of revenue for these improvements.
- **Low Cost Power.** Extends the two primary State power programs – Power for Jobs and Energy Costs Savings Benefit – through June 30, 2009. Further, in recognition of inefficiencies within the current programs, a revised program will be implemented on July 1, 2009 that will target those companies for which electricity is the primary component of overall costs; and reward companies with the greatest commitment to job creation and energy efficiency with up to seven year contracts.
- **Brownfields Reform.** Revises the existing State Brownfields program to ensure that this resource will remain available for critical environmental remediation and economic development projects so that brownfields across the State can once again contribute to economic growth and livable communities.

TAX RELIEF

- **Low Income Housing Credit.** Expands the State's low income housing credit by \$4 million in 2008-09 to provide greater incentives for developers to build affordable housing.
- **Expansion of Film Credit.** Increases cap on benefits paid through this credit by \$15 million over three years. Other substantial changes have also been made to the program to ensure that New York remains competitive with other states in attracting film industry businesses. Compared to the level of incentives provided in 2007-2008, the cap will increase by \$5 million in 2008-09, \$10 million in 2009-10, and \$15 million when fully effective in 2010-11.

ENVIRONMENT/ENERGY

- **Parks and Recreation Capital Program.** Provides \$110 million for critical capital improvements at State parks and other recreational facilities. This investment will help revitalize our natural resource assets, and support the Upstate Revitalization Fund.
- **Bottle Bill.** Expands the Bottle Bill to certain non-carbonated beverages and redirects unclaimed deposits to the Environmental Protection Fund.
- **Bioheat.** Creates a tax credit for purchases of clean heating fuel used for residential purposes.

LOCAL GOVERNMENTS

- **Aid and Incentives for Municipalities.** Fully supports the second year of a four-year \$200 million program of increases in Aid and Incentives for Municipalities, targeting that funding based on objective criteria of need and distress. Overall, \$920 million will be provided to 1,548 municipalities in 2008-2009.
- **AIM Equity Adjustments.** Provides \$6 million in additional funding to 26 cities, towns and villages that receive significantly less AIM funding on a per capita basis than their peer municipalities.
- **Local Assistance.** Provides a net increase of \$2.7 billion in aid to all local governments after factoring in reductions in reimbursements in certain human services programs, continuation of the Medicaid Cap and State takeover of Family Health Plus, and other actions.
- **Medicaid Relief.** As part of local assistance, continues the cap on growth in Medicaid Costs and State takeover of Family Health Plus, saving counties and New York City \$914 million in 2009, bringing cumulative savings to \$2.8 billion since the program's implementation in 2005. The growth in county tax levies has slowed as a result of this State program.

PUBLIC PROTECTION

- **Trooper Redeployment.** Provides for the redeployment of 200 State Troopers to assist in local crime fighting initiatives upon the request of local mayors and public safety officials.
- **Operation IMPACT.** Provides \$17.5 million – maintaining the highest funding level ever – for the Operation IMPACT program that has helped reduce crime in 17 communities across the State.
- **National Guard Empire Shield Mission.** Reconfigures this mission in New York City to become a more versatile force capable of providing quicker responses to emergencies in the metropolitan area.
- **Other Public Safety Initiatives.** Provides increased funding for the NY Alert Emergency Notification System of \$5.4 million, re-entry services for offenders returning to communities to prevent recidivism of \$3.5 million, probation aid of \$3 million, the Witness Protection Program of \$200,000, inmate mental health of \$42 million, sex offender management of \$8 million, indigent defense of \$3 million, and other important initiatives.

CHILDREN AND FAMILIES

- **Health Care Coverage for Children in Foster Care:** Includes \$10.2 million to support 610 placements in the Bridges to Health Medicaid Waiver Program that will provide enhanced medical and mental health services to hard-to-serve children in foster care. By the end of 2010-11, a total of 3,305 program placements will be made available, at an annual total State cost of \$96 million. In addition, foster care children will have access to Medicaid until 21 years of age.

- **Child Support.** Families on public assistance who receive child support will keep up to \$100 per month in support payments – double the amount they currently receive. This will result in approximately \$12 million in annual child support payments for families on public assistance.

GENERAL GOVERNMENT

- **Judicial Pay Raises.** Provides judicial salary increase, raising salaries that have been unchanged since 1999. Under the budget request submitted by the Chief Judge, salaries would increase by 21 percent, retroactive to April 1, 2005, and would be linked to the salaries of Federal court judges after April 1, 2008. Under legislation submitted by the Governor with the 2008-09 Executive Budget, salaries would increase by 21 percent, retroactive to April 1, 2006, and would increase an additional 2.5 percent on April 1, 2008.
- **Universal Broadband.** Provides another \$15 million, an increase of \$10 million, to continue efforts to expand access to reach underserved areas, make services more affordable, and improve digital literacy.
- **Consumer Product Testing.** The Executive Budget provides \$205,000 to increase health and safety testing and public notification of hazardous products, especially lead-based toys.
- **Airline Consumer Advocacy.** The Budget provides \$320,000 for the Consumer Protection Board to ensure the health and safety of those traveling through New York's airports.

REDUCING THE DEFICIT

In order to fund the important initiatives contained in his Executive Budget while still maintaining fiscal discipline, the Governor has proposed a number of savings proposals. These measures will ensure that we can achieve a balanced Budget that makes critical investments in education, health care, the environment, economic growth, and other priority areas without raising taxes. Notable actions include:

SCHOOL AID

- **Foundation Aid.** Provides a smaller year-to-year increase than originally anticipated under the Governor's four-year plan. While the Budget still retains the Governor's four-year \$7 billion commitment to increased education funding, the Budget reduces the projected growth of Foundation Aid by \$93 million by phasing in the program at a slower rate and reducing the minimum and maximum increase provided to districts. These reductions are offset by increases in other aid categories, such as expense based aids. The total Foundation Aid increases would be \$899 million and the total 2008-09 school aid increase would be \$1.46 billion.
- **Preschool Special Education.** Requires school districts to assume a portion of the costs associated with administering committees on preschool special education (CPSEs) and providing student evaluations. This action is consistent with the recommendations of the temporary Task Force on Preschool Special Education. The State's commitment to preschool special education will continue to be \$681 million.

- **BOCES Reform.** Alters BOCES Aid to distribute funding through that program in a more equitable manner consistent with the Foundation Aid formula. These actions will provide savings of \$31 million, with overall BOCES funding totaling approximately \$595 million.

HIGHER EDUCATION

- **Operating Efficiency.** Requires SUNY and CUNY to increase operating efficiency by 2.5 percent, resulting in \$50.9 million in General Fund savings for the State, (\$34.2 million from SUNY and \$16.7 million from CUNY). To help campuses achieve these reductions, the Executive Budget advances legislation consistent with the Commission on Higher Education's recommendations that SUNY and CUNY have enhanced flexibility in certain aspects of procurement and administration.
- **Bundy Aid Reductions.** Reduces State Aid to Independent Colleges and Universities (Bundy Aid) by 2.5 percent or \$1.05 million from base level funding estimates. After this action, funding for Bundy Aid will be \$41 million for the 2008-09 academic year.
- **Community College Aid.** The Executive Budget recommends reducing funding for base operating aid by \$50 per student, from \$2,675 to \$2,625, for SUNY's 30 community colleges and CUNY's 6 community colleges. As a result of this recommendation and current services funding increases to reflect enrollment growth, State aid for SUNY community colleges will total \$451.1 million (a net decrease of \$77,000) and \$174.5 million for CUNY community colleges (a net increase of \$1.7 million). This increase was added at the time of Budget enactment last year.

HEALTH CARE

- **Overall Cost Containment.** Reduces overall costs by \$980 million, including decreases in pharmacy reimbursement, significant increases in Medicaid audit savings, modifications in acute and long-term care reimbursement methodologies, a partial elimination of inflationary increases for hospitals, nursing homes and home care providers, increased assessment on insurers, reductions in planned premium increases for managed care, managed long-term care and Family Health Plus, better managing high cost users and eliminating the inflationary increase for the Early Intervention Program. This year, Medicaid spending is projected to be \$46.3 billion, an increase of 2.7 percent.
- **Preferred Drug List.** Saves \$18 million by expanding the State's Preferred Drug List (PDL) to cover additional drugs, including anti-depressants. This will allow the Department of Health to control the inappropriate utilization of these drugs. This proposal would still maintain the provision that the prescribing physician's decision prevails in all instances. Additional savings of \$18 million will be achieved by expanding the Clinical Drug Review Program.
- **Nursing Home Reimbursement.** Saves \$85 million by not allocating nursing home rebasing funds from the prior year because a plan for expending them has not been approved by the Federal government. However, nursing homes will still receive \$90 million in 2008-09.

- **Pharmaceutical Reimbursements.** Saves \$25 million by reducing pharmacy reimbursements for both Medicaid and EPIC. There will be no impact on an individual's ability to obtain needed medications.
- **Reimbursement Standards Revision.** Mental hygiene agencies will revise reimbursement standards to establish more cost effective rates and promote compliance. Savings in 2008-09 total \$15 million for the Office of Mental Retardation and Developmental Disabilities, \$12 million for the Office of Mental Health, and \$1 million for the Office of Alcoholism and Substance Abuse Services.
- **HMO Reclassification.** Classifies HMOs as insurance companies for tax purposes. This will generate \$247 million in 2008-09.

PROPERTY TAX RELIEF

- **Middle Class STAR.** Delays the planned 17 percent increase in the Basic Middle Class STAR rebate for 2008-2009, saving the State \$169 million. This increase would have provided the average homeowner with a benefit increase of \$65.
- **Assessed Value Changes.** Increases from 5 percent to 10 percent the maximum reduction that can occur in a taxpayer's STAR benefit based on changes in assessed value or market value. For the 2.6 million taxpayers likely to be affected, this will reduce exemption savings by an average of \$40 for a savings to the State of \$110 million.
- **NYC Personal Income Tax Credit.** The scheduled increase in the New York City personal income tax credit will be delayed by one year, producing savings of \$40 million. In addition, this credit will be eliminated for New York City taxpayers with incomes above \$250,000, providing savings of \$20 million. If they are homeowners, these taxpayers will continue to receive the benefit of the STAR rate reduction and basic STAR benefits.

LOCAL GOVERNMENT

- **Restored AIM Funding.** The Budget provides \$164 million in AIM funding for New York City in 2008-09, \$164 million less than initially anticipated. In recognition of the City's out year budget gaps, a full AIM restoration to \$328 million is reflected in the State's Financial Plan for 2009-10 and beyond.

ECONOMIC DEVELOPMENT

- **Empire Zone Reform.** Undertakes reforms and administrative changes to improve overall program performance. This will include raising requirements for entry to the program to ensure that only those projects that offer the promise of significant economic growth will gain valuable State tax incentives; and removing businesses from the program that have failed to meet their job creation and investment pledges. These actions are expected to produce savings of \$50 million.
- **Neighborhood and Rural Preservation Program.** Reforms the Neighborhood and Rural Preservation Program, resulting in \$4.9 million of savings.

AGRICULTURE

- **Risk-Based Food Inspections.** Changes the frequency of inspections of retail food stores from an annual basis to a risk-based approach, enabling the Department of Agriculture and Markets to focus its resources on higher risk establishments, such as food processors and food importers, and focus less on lower risk establishments, such as those that sell only pre-packaged foods. This will result in a savings of \$1.2 million. Many other state and local governments perform food inspections based on risk, as does the United State Department of Agriculture (USDA).

TAX EQUITY

- **Tax Equity.** Implements proposals to close tax loopholes and promote equity and fairness in ways consistent with the actions of other states and the Federal government. These loopholes generally have allowed sophisticated taxpayers to shelter income from taxes in ways unintended when the law was created. The changes recommended by the Budget will provide approximately \$434 million in previously uncollected revenue.
- **Merging of Fuel Taxes.** Combines the Petroleum Business Tax, the Motor Fuel Tax, and the State sales tax on fuel into one tax and transforms local sales tax rates into an equivalent excise tax rate. This proposal would index all of the taxes based on the petroleum producer price rate index, providing the State with \$13 million in additional revenue in 2008-09, and a total of \$56 million when fully effective.
- **Non-Profit Organizations.** Requires nonprofit tax-exempt organizations to collect sales tax on retail sales made online, via mail-order catalog, or by auction; sales of certain services; and rentals or leases of tangible personal property. This would treat these organizations the same as for-profit organizations for sales unrelated to their non-profit status, which will result in revenue totaling \$8 million in 2008-09, and \$15 million when fully effective.
- **Vendor Registration.** Requires all 600,000 active sales tax vendors to re-register and to pay a \$50 registration fee. This will allow for the update of taxpayer information, deletion of obsolete registrations, and collection of back tax liabilities. This action will produce \$12 million in additional revenue in 2008-09. Once the re-registration process is complete, new registrations are expected to produce \$4 million annually.
- **E-Commerce Retailer - Registered Vendor.** Creates an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect sales and use taxes. This will correct a competitive disadvantage experienced by New York-based businesses by subjecting out-of-State vendors to the same sales tax requirements. This will raise \$47 million in 2008-09, and \$73 million in 2009-10.

OTHER REVENUE RAISING ACTIONS

- **Fee Increases.** The Budget includes \$305 million in additional revenue from 46 fee increases. These fees are narrowly focused to finance specific functions of State government. Two of these actions are:
 - **The Motor Vehicle Law Enforcement Fee (MVLE):** Raises the MVLE fee imposed on the purchase of auto insurance from \$5 to \$20 and broadens the scope of eligible uses of this

revenue to include bridge and highway safety initiatives. Half the fee will be dedicated to support transportation purposes, including State Police highway patrols and auto theft prevention, while the remaining half supports a new State and Local Bridge Preservation Program. This action will generate \$145.2 million in additional revenue to fund these activities in 2008-09, and \$193.5 million in 2009-10.

— **Real Estate Closing Fees:** Increases the Office of Real Property Services (ORPS) sales fee imposed during real estate closing for those making purchases in excess of \$175,000. For other purchasers, the fee would remain the same. This funding will support efforts to improve the efficiency of local property tax administration and other ORPS operations. In total, the action will raise \$21.5 million in additional revenue in 2008-09, and \$31.5 million in 2009-10.

- **Western Hemisphere Travel Initiative.** Offers a “Western Hemisphere Travel Initiative” (WHTI) compliant driver’s license to eligible U.S. citizens residing in New York State, at an additional cost of \$20. The WHTI-compliant license will permit U.S. citizens from New York to return to the U.S. via land and sea borders without a passport or birth certificate.

PUBLIC PROTECTION

- **Correctional Facility Closures.** Reflects the previously announced closure of underutilized prison facilities including the Hudson medium security facility, Camp Pharsalia, Camp Gabriels, and the Camp at Mt. McGregor, saving \$10.4 million in 2008-09, and \$33.5 million on a full annual basis. Nearly \$30 million in major capital construction projects are avoided as well.
- **Redeployment of State Troopers.** Redeploys State Police personnel from School Resource Office and Video Lottery Unit assignments to higher priority activities, including assistance to Operation IMPACT communities.
- **Assessment on Nuclear Power Plant Operators.** Includes legislation to establish a quarterly assessment on nuclear power plant operators to recoup costs of \$11.7 million associated with National Guard security missions at nuclear power facilities.

CHILDREN AND FAMILIES

- **Youth Facility Closings.** Reflects the previously announced closure of seven underutilized Office of Children and Family Services youth facilities and downsizes another, eliminating 254 positions.
- **Cost Sharing.** Requires counties and the City of New York to pay a greater share of costs for public assistance benefits and the full cost of local youth detention facilities. This will provide total savings of \$76 million to the State in 2008-09.
- **Displaced Homemakers Program (DHP).** Discontinues funding of \$5.3 million for the Displaced Homemakers Program, which provides employment training and placement assistance to unpaid family caregivers. These services overlap with those provided at the Department of Labor’s One Stop Centers.

**ADDITIONAL
PUBLIC INFORMATION**

LEGISLATION REQUIRED FOR THE BUDGET

EDUCATION, LABOR AND FAMILY ASSISTANCE

- Strengthen school district accountability requirements under the Contracts for Excellence, enhance services and incentives for students, and ensure continued local contribution to education.
- Update enhancements and revisions to School Aid formulas and make other changes necessary to implement the Four-Year Educational Investment Plan.
- Healthy Schools Act: Enhance school nutrition standards and increase State reimbursement to school districts to help support the costs of purchasing healthier food options.
- Enhance regulatory flexibility for SUNY and CUNY.
- Monetize the Lottery to support students attending primary, secondary and higher education institutions in New York State.
- Modify the Tuition Assistance Program (TAP) to reform eligibility criteria.
- Authorize the State Education Department to recoup the cost of processing credit card transactions for certain physician license renewals.
- Enforce student lending standards in accordance with the Student Lending Accountability, Transparency and Enforcement (SLATE) Act.
- Extend the Regents Professional Opportunity and Regents Health Care Professional Opportunity Scholarship programs for one year.
- Change the pay basis of the State Employment Relations Board (SERB) members from full time annual salary to per diem.
- Extend the Unemployment Insurance (UI) Interest Assessment Surcharge.
- Amend the Education Law to establish a University Capital Projects Review Board.
- Allow the Higher Education Services Corporation (HESC) to obtain certain information from the Department of Taxation and Finance about borrowers in default on government education loans.
- Amend the Education Law in relation to tuition assistance for veterans.
- Expand the Optional Retirement Program investment choices to include mutual funds or companies that distribute mutual funds.
- Clarify the funding arrangements for the enhanced Optional Retirement Program benefits provided by legislation enacted in 2007.

- Allow offsets against basic Middle Class STAR rebates.
- Eliminate the New York City STAR income tax credit for high-income taxpayers and delay a scheduled increase in the credit.
- Delay for one year the increase in the basic Middle Class STAR rebates.
- Create a new State Employment Relations Board (SERB) arbitration fee.
- Eliminate State reimbursement for locally administered and operated detention facilities.
- Increase Office of Temporary and Disability Assistance access to Department of Taxation and Finance Wage Reporting System records.
- Change the STAR “floor” adjustment from 5 percent to 10 percent, and make other changes to improve STAR administration.
- Provide Supplemental Security Income Federal Cost of Living Adjustment Pass-Through.
- Modify the public assistance cost shares between the State and counties.
- Implement a \$25 service fee for “never assistance” cases in which there is an annual collection of \$500 or more of child support; increase the child support pass through and disregard from up to \$50 to a maximum of \$100; and limit prospective assignments to support rights accruing during the period of time a family receives public assistance.
- Establish performance reporting requirements for certain programs in the Office of Children and Family Services and the Office of Temporary and Disability Assistance.

HEALTH AND MENTAL HYGIENE

- Improve public health services by implementing cost savings measures, advancing programmatic initiatives and consolidating the State’s pregnancy prevention programs.
- Extend and modify the Health Care Reform Act (HCRA).
- Reform and restructure the Medicaid Program to enhance access to health insurance coverage and to authorize cost containment measures.
- Make permanent the Office of Alcoholism and Substance Abuse Services responsibility for programs for compulsive gambling.
- Enable Medicaid to reimburse providers the higher of the Medicare co-pay or up to the Medicaid rate for outpatient programs licensed by the Office of Mental Health for the Medicaid/Medicare crossover population.
- Extend authorization for the Comprehensive Psychiatric Emergency Program.
- Eliminate mental health outpatient services as services that can be considered specialized under section 2807 of the Public Health Law.
- Expand the definition of a voluntary agency to include any entity receiving assistance from the Housing Finance Agency or Division of Housing and Community Renewal for integrated housing projects.
- Extend for three years the human services Cost of Living Adjustment and program eligibility updates.

PUBLIC PROTECTION AND GENERAL GOVERNMENT

- Revise the powers and duties of the Empire State Plaza Arts Commission.
- Amend the Arts and Cultural Affairs Law, in relation to the composition of the board of directors of the Executive Mansion Trust.
- Create a State office to monitor the provision of Indigent Defense Services statewide and to consider and recommend measures to improve the delivery of such services.
- Enhance protective services offered to victims and witnesses who are at risk of physical or emotional harm, intimidation or retaliatory violence as a result of their cooperation with law enforcement.
- Amend and repeal applicable laws to authorize a judicial salary increase.
- Amend the State Finance Law, to make permanent the Procurement Stewardship Act, to expand the role of the State Procurement Council, and to recapture the cost of providing centralized contracts.
- Extend the sunset date of the Temporary State Commission of Investigation.
- Extend the monthly surcharge on wireless communication devices to prepaid cellular phones and make additional conforming and clarifying amendments.
- Authorize the recovery of costs associated with the Department of Civil Service's statutory mandate for review, approval and monitoring of the plan of New York City and other public employers to reduce their number of provisional employees.
- Expand the use of the Criminal Justice Improvement Account.
- Assess nuclear power plant licensees to enable the State to recoup costs associated with National Guard security missions.
- Revise the Medical Parole Statute to authorize the release of State inmates who are seriously ill and incapacitated.
- Increase the Motor Vehicle Law Enforcement fee, expand its uses and make permanent various related provisions.
- Clarify and expand the responsibilities of the board of trustees administering the Interest on Lawyer Account Fund.
- Modify the Aid and Incentives for Municipalities (AIM) Program to improve equity in funding for fiscally distressed municipalities, create a new Local Government Efficiency Grant Program, expand local government financial accountability requirements, and phase-in a scheduled increase in aid for the City of New York.
- Offer additional revenue opportunities to local governments, including an option for counties to increase mortgage recording fees, authorization for cities and villages to collect utilities gross receipts tax on mobile phone services, and authorization for certain cities and counties to establish red light camera traffic safety programs.

- Provide mandate relief for local governments.
- Restructure State aid provided to municipalities in which a video lottery gaming facility is located.
- Extend the powers of the New York State Financial Control Board and make changes to the Board's authority.
- Reform local property tax administration with: (1) targeted increases in the real property transfer fee to fund State and local improvements in property tax administration; and (2) statutory changes to eliminate barriers and strengthen financial incentives for municipalities to improve the efficiency and quality of local property tax administration.
- Enact initial recommendations made by the Commission on Local Government Efficiency and Competitiveness.
- Authorize transfers, temporary loans and miscellaneous capital/debt provisions, including certain bond caps.

REVENUE

- Eliminate the sunset of Quick Draw and eliminate certain restrictions on the game.
- Permanently extend the seven day alcohol license sales law.
- Apply the tax on flavored malt beverages at the low liquor tax rate.
- Reform the Brownfields Cleanup Program and limit the amount of certain tax credits provided with respect to such program.
- Reform the Brownfields Cleanup Program.
- Repeal private label credit card law.
- Require a tax stamp on illegal drugs.
- Merge motor fuel tax, petroleum business tax, and sales tax on fuel into one petroleum business tax.
- Decouple from the Federal Qualifying Production Activities Income (QPAI) deduction.
- Reduce the corporation franchise tax capital base rate and eliminate the liability cap under this base.
- Include for-profit health maintenance organizations as insurance corporations subject to the premiums tax under Article 33 of the Tax Law.
- Require non-profit tax-exempt organizations to collect sales tax on additional retail sales including online, mail-order catalogue, and auction sales, and rentals or leases of tangible personal property.
- Authorize an additional \$4 million of annual low-income housing credits for ten years.

- Require taxpayers to pay the fee charged by the Federal government and other states for offsetting tax refunds to pay for the New York State income tax debts owed by those taxpayers.
- Clarify the Commissioner of Taxation and Finance's powers under Article 21 of the Highway Use Tax.
- Amend definitions in the Tax Law and the New York City Administrative Code pertaining to the determination of residency status of taxpayers.
- Extend for two years the credit for taxicabs and livery service vehicles that are accessible by individuals with disabilities.
- Extend the MTA surcharges on business taxes for four years.
- Restructure and reform the fees and minimum taxes imposed on limited liability companies, partnerships, corporations and Internal Revenue Code §761(f)(2) joint ventures.
- Include gain from the sale of partnership and other similar entity interests as NY-source income to nonresidents to the extent the gain includes gain from sales of real property located in New York.
- Make statutory technical corrections and structural alterations necessary to eliminate remaining Real Estate Investment Trust ("REIT") and Regulated Investment Company ("RIC") loopholes.
- Change the mandatory first estimated tax installment payment for all business taxes from 25 percent to 30 percent.
- Increase the percent, annual credit cap and refundable portion of the empire state film production tax credits allowed, and amend the definition of production costs.
- Establish an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are "vendors" required to collect sales and use tax.
- Classify credit card companies doing a specified level of business in the State as taxpayers under Article 32 of the Tax Law.
- Create a comprehensive program to encourage voluntary disclosure and to increase compliance with the Tax Law.
- Provide tax credits for bioheat to be used for space heating or hot water production for residential purposes.
- Authorize New York City to continue to impose a 4 percent sales and use tax after August 1, 2008.
- Classify little cigars as cigarettes under the Tax Law.
- Authorize video lottery gaming at Belmont Park.
- Prohibit certain tax avoidance schemes.

TRANSPORTATION, ECONOMIC DEVELOPMENT AND ENVIRONMENTAL CONSERVATION

- Provide the annual authorization for the CHIPS and Marchiselli programs.
- Increase the Environmental Protection Fund (EPF) General Fund guarantee and expand the purposes for which the EPF may be used.
- Require transit systems, other than the Metropolitan Transportation Authority (MTA), participating in the State's Omnibus and non-MTA capital programs to purchase replacement buses through the use of consortiums, or demonstrate they can achieve similar savings without the use of a consortium, in order to receive the maximum State grant.
- Extend the Department of Transportation's Single Audit Program.
- Modify the Dedicated Highway and Bridge Trust Fund reporting requirements.
- Amend the Vehicle and Traffic Law and the Transportation Law, in relation to the disqualifications of commercial driver's license holders.
- Amend the Vehicle and Traffic Law in relation to fees for driver licenses and non-driver identification cards.
- Transfer the adjudication of all traffic infractions in the City of Buffalo from the New York State Department of Motor Vehicles Traffic Violations Bureau to the City of Buffalo.
- Eliminate the return of the deposit for plans and specifications associated with Department of Transportation capital project bids.
- Establish the Local Bridge Preservation Program.
- Amend Highway Law §10-c to remove a disincentive to certain transfers of maintenance jurisdiction between municipalities.
- Create the Traffic Congestion Mitigation Fund to receive moneys collected by the Metropolitan Transportation Authority from New York City's congestion mitigation plan.
- Increase penalties for violations of the Agriculture and Markets Law and related legal requirements.
- Amend the Agriculture and Markets Law in relation to establishing risk based food safety inspections.
- Increase the maximum amount that can be assessed to public authorities for centralized State services provided on their behalf.
- Recover State governmental costs from industrial development agencies.
- Make permanent the authority of the Secretary of State to charge increased fees for expedited handling of documents.
- Conform the State's Community Services Block Grant Program to the Federal Community Services Block Grant Program and make the funds distribution formula permanent.

- Authorize annual utility and cable television assessments to provide funds to the Department of Health from cable television assessment revenues and to the departments of Agriculture & Markets, Economic Development and Environmental Conservation, the Office of Parks, Recreation and Historic Preservation, the Consumer Protection Board and Homeland Security from utility assessment revenues.
- Authorize and direct the State Comptroller to deposit to the General Fund an amount of up to \$913,000 from the New York State Energy Research and Development Authority.
- 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.
- Establish a \$150 million Investment Opportunity Fund.
- Make permanent the general loan powers of the New York State Urban Development Corporation.
- Increase the maximum penalties for Insurance Law violations.
- Extend the Power for Jobs and Energy Cost Savings Benefit programs for one year and create the Electricity Cost Discount Program.
- Create an account within the Mortgage Insurance Fund to support a new Housing Opportunity Fund.
- Dedicate the local share of receipts from the Seneca Buffalo Creek Casino to the City of Buffalo.
- Amend the Jacob K. Javits Convention Center enabling legislation.
- Establish the Omnibus Economic Development Investment Act of 2008.
- Authorize and direct the State Comptroller to deposit to the credit of the Office of Parks, Recreation and Historic Preservation payment in the amount of \$8,000,000 from the Power Authority of the State of New York.
- Increase the Operating Permit Program fees for regulated sources subject to the Federal Clean Air Act (Title V facilities).
- Make permanent the current time frames for review of pesticide product registration applications and pesticide product registration fees.
- 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).

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 2008-09 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 Volume* 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 the capital program.

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, General Government, Health, Mental Hygiene, Economic Development, Transportation and the Environment.

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 2007 Budget Reform Act requires that the Executive, to the extent practicable, submit any necessary amendments within 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 Act mandated the use of Conference Committees as part of the legislative budget process. These Committees, which have been used in various forms in the past, must now 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 and subsequent updates are also made available on the Budget Division’s website.

The 2007 Budget Reform Act put in place changes to improve transparency, accountability and timeliness in the Budget process. In addition to the process reforms regarding Budget amendments and Conference Committees, the 2007 Budget Reform Act also:

- Prohibited “lump sum” appropriations for all legislative adds, as well as for Temporary Assistance for Needy Families, the Environmental Protection Fund and Medicaid.
- Created a new 3 percent “Rainy Day” Reserve that can be used during economic downturns or in response to a catastrophic event.
- Required the Comptroller to issue a binding revenue forecast if consensus is not reached by March 1.
- Required the Legislature to enact a balanced budget.
- Required “sunshine” reporting to members before a budget vote.
- Accelerated and expanded “quick start” activities to help ensure timely enactment.
- Expanded Executive reporting on the Budget.

These new requirements governed enactment of the 2007-08 Budget. Enhanced Financial Plan reporting has been provided throughout fiscal year 2007-08, including substantial additional information in the Mid-Year Report, for use as the basis for more intensive “quick start” discussions between the Executive and the Legislature. Those discussions produced a joint report in early November 2007 on the economic revenue and spending outlook for 2008-09.

Going beyond the statutory requirements, the Executive has taken additional actions recently to help expedite legislative deliberations on the 2008-09 Executive Budget and promote openness. Hearings required by the State Constitution and State Finance Law were treated as high profile events, with the public and the press encouraged to attend. For the first time in State history, the Budget Director and Deputy Directors held a series of regional public meetings to communicate the State’s fiscal situation and obtain public input on Budget priorities. Four additional issue-oriented hearings were held in Albany.

In its Financial Plan updates for 2007-08, the Budget Division introduced a revised reporting format which provided a new “operating budget” (spending for current operations) and “capital budget” (long-term capital investment) presentation. By distinguishing between the two types of spending and capturing all State funds in the operating category, this approach provides a more up-to-date view of the Budget than the traditional, more simplistic focus on General Fund/All Funds spending. The Division has proposed using long-term growth in personal income as a benchmark for growth in the State’s spending as measured by the “State Funds Operating” 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.

