State Fiscal Year 2007-08 Budget Analysis

Review of the Enacted Budget

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State Comptroller

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Section 1

Executive Summary

The appropriation and Article VII bills adopted by the Legislature pursuant to the final budget agreement represent the underlying authorization of a State budget. These bills provide the Executive with direction on the collection of revenues and the expenditure of funds to implement the spending policies included within the budget. Hence, any review of the State's annual budget must comment on the efficacy of the programs included within the State Budget, as well as the accuracy and reliability of the assumptions underlying the State's Financial Plan.

The State Fiscal Year (SFY) 2007-08 Enacted Budget contained several significant reforms. It transformed the methodology by which school aid is allocated and adopted significant reductions in the cost of the State's health care programs. The new Foundation Formula for school aid focuses on targeting resources to schools in need, while holding school districts accountable for improving education programs. Reductions in the Medicaid program were enacted, while maintaining the State's commitment to deliver health care to New York's children, adults and the elderly. However, the SFY 2007-08 Financial Plan fails to take into account all spending supported by State revenues, ignores the consensus revenue agreement of March 2007, includes questionable assumptions with regard to revenues and spending, and provides optimistic estimates of future budget deficits.

A review of the SFY 2007-08 Financial Plan for the current fiscal year indicates that spending is undercounted by at least $2.9 billion. In addition, a number of payments were moved between fiscal years at the end of SFY 2006-07 lowering expected spending for SFY 2007-08, while increasing spending for SFY 2006-07. This shift of spending between fiscal years has had the effect of decreasing the rate of growth in disbursements from year to year. Adjusting the All Funds spending estimate for these actions reveals a more realistic estimate of State spending of $123.9 billion. This estimate is $3.2 billion above the Executive estimate and represents a $9.9 billion, or 8.7 percent, increase over SFY 2006-07.

The final budget agreement for SFY 2007-08 increased spending in the General Fund by $1.1 billion after a consensus revenue agreement forecasted a $575 million increase in General Fund revenues for both SFYs 2006-07 and 2007-08. This consensus revenue forecast only served as a base for additional spending with the final budget agreement adding $425 million in General Fund revenues, which along with other actions, financed the spending package. This final budget agreement failed to allocate any of the additional revenues to replenish reserves or to pay down any additional debt to reduce the State's annual debt service bill, which totaled approximately $4.5 billion in SFY 2006-07.

The additional spending to the Executive Budget proposal results in higher estimates of budget deficits for the next three fiscal years as disbursements are expected to outpace revenue growth. These "out year gaps" are now estimated at $3.1 billion for SFY 2008-09, $4.8 billion for SFY 2009-10 and $6.6 billion for SFY 2010-11. The SFY 2007-08 Enacted Budget Report does not outline any specific strategies to eliminate the out year budget deficits.

SFY 2007-08 Financial Plan

The SFY 2007-08 Executive Budget proposal released in February 2007 recommended total spending of $120.63 billion in SFY 2007-08, an increase of $7.1 billion, or 6.3 percent, over SFY 2006-07. As seen in the table below, however, the SFY 2007-08 Enacted Budget Financial Plan projects total spending of $120.67 billion for the current fiscal year, an increase of only $40 million, after adjusting the Financial Plan for the final budget agreement of an additional $1.2 billion in All Funds spending.

Executive Estimates of All Funds Disbursements
(in millions of dollars)

	SFY 2006-07	Change	SFY 2007-08	Change
February 2007	113,532		120,635	
April 2007	112,764	(768)	120,675	40

This apparent discrepancy of adding $1.2 billion in new spending across all State agencies with a minimal impact on the bottom line ($40 million) is resolved by the Executive through: (a) reduced estimates of spending for SFY 2006-07, which are assumed to lower spending in SFY 2007-08, (b) the transfer of approximately $281 million in planned spending from SFY 2007-08 into SFY 2006-07, and (c) rejections of Executive Budget spending initiatives. The combination of these three spending actions lowers SFY 2006-07 disbursements to $112.8 billion and maintains expected disbursements in SFY 2007-08 at approximately $120.7 billion. Therefore, spending is now expected to increase by $7.9 billion, or 7 percent, over the previous fiscal year. These end of year transfers and revised spending estimates obscure the State's fiscal status in SFY 2006-07 and make it difficult to obtain a clear and accurate picture of the State's expenditure levels and fiscal plans.

Spending

The estimate of All Funds disbursements for SFY 2007-08 of $120.7 billion excludes a number of State funded programs. For example, the Executive does not include $2.7 billion in spending for various capital programs in the All Funds estimate.[1] This capital spending includes monies for a variety of capital purposes, such as State economic development projects, new school construction projects authorized in SFY 2006-07 and various capital projects at SUNY and CUNY. The SFY 2007-08 Capital Plan estimates capital spending of $10.1 billion in the current fiscal year, of which $7.4 billion, or 73 percent, is included in the Financial Plan and the remaining 27 percent is categorized as "off budget."

Also, the State of New York currently imposes two separate tax surcharges on residential and commercial utility customers and on public utilities, and directs these funds to the New York State Energy Research and Development Authority (NYSERDA). The Authority, in turn, uses these monies to finance a number of energy-related projects, all outside of the State's Financial Plan. These off budget taxes are expected to result in new spending of $231 million in the current fiscal year.

In addition, a number of payments originally scheduled to occur in SFY 2007-08 were made at the end of March 2007, thereby shifting spending from one fiscal year into another. This mechanism, used in previous years, lowers year end surpluses, as well as year to year growth rates. The Executive transferred a net amount of $281 million in payments into SFY 2006-07 from SFY 2007-08.

Adjusting the Executive estimates to include both off budget capital and energy-related spending raises the SFY 2007-08 All Funds estimate to $123.6 billion, an increase of $2.9 billion over the Executive estimates. Adding back the spending that was originally planned for the current fiscal year, but occurred in March 2007, yields a more realistic estimate of the level of spending for which the State's taxpayers are responsible. This All Funds estimate, at $123.9 billion, is a $9.9 billion, or 8.7 percent, increase over the previous fiscal year. This level of spending is financed not only by higher estimates of receipts, but by allocating $1.1 billion of State reserve funds.

[1] The State Fiscal Year (SFY) 2007-08 Enacted Budget Financial Plan does not include this additional spending in the cash financial plan, but does include the spending in the Generally Accepted Accounting Principles (GAAP) financial plan.

Comparison of All Funds Spending
Addition of "Off Budget" and Timing Related Spending Items
SFY 2006-07 to SFY 2007-08
(in millions of dollars)

	SFY 2006-07	SFY 2007-08	Change	Percent
SFY 2007-08 Enacted Budget Report	112,764	120,675	7,911	7.0
Adjusted for "Off Budget" Spending	113,974	123,906	9,932	8.7

Revenues

Estimates of State revenues, including tax receipts, fee revenue, bond funds, federal funds and miscellaneous payments also saw significant modifications throughout the course of the six-week period between February 2007 and April 2007. General Fund revenue projections for SFY 2007-08 increased by $1.7 billion from February to April through two separate agreements. In early March 2007, the statutorily mandated consensus forecast produced $575 million in additional General Fund receipts. The final budget agreement raised General Fund receipts estimates above the consensus forecast by approximately $425 million, an increase of 74 percent.

The purpose of a revenue consensus agreement is to establish prudent levels of spending for a given fiscal year. Annual spending should not be based simply on the availability and use of all resources to the State at the time the budget is enacted. The final budget agreement for SFY 2007-08 raising available General Fund revenues to $1.0 billion contradicts the intent of the consensus revenue forecast. The State's fiscal condition could be improved by using these additional funds to reduce the State's debt burden and restore reserves for unanticipated shortfalls rather than support additional spending.

The SFY 2007-08 Enacted Budget Financial Plan indicates that All Funds total receipts for the previous fiscal year, SFY 2006-07, were $1.2 billion above the April 2006 forecast. However, this amount obscures significant underlying variations among tax receipts, federal funds and miscellaneous receipts throughout the year. Tax receipts actually increased by $1.8 billion over the original forecast of April 2006. Federal receipts declined by $607 million in the last quarter of the year following three quarters of projected increases totaling $580 million. Finally, the path traveled by estimates of miscellaneous receipts, which include fee revenue and other payments, fluctuated with the release of each Financial Plan update. These changes ranged from an increase of $543 million between July and October 2007 to a decline of $580 million between February and March 2007.

The Financial Plan review contained in this Report lists the number of payments expected by the State that did not occur in the 2006-07 State Fiscal Year. A number of these payments, although included in the original fiscal plan, carried a significant risk of not occurring, as noted by the Executive in various budget reports. For example, a series of payments from New York City related to the Medicaid program was expected to generate additional receipts of $457 million in SFY 2005-06 and $428 million in SFYs 2006-07 and 2007-08. In October 2006, the Executive noted that the payment for SFY 2005-06 did not occur and the expected payments for the current and next fiscal year may also be threatened, especially since the federal government was questioning the purpose of these payments. However, no adjustment to the SFY 2006-07 Fiscal Plan to accommodate this risk occurred until March 2007. Other similar revenue assumptions that did not materialize were included throughout the Financial Plan for SFY 2006-07, and are now also included in the SFY 2007-08 Financial Plan.

In addition, although the final budget agreement did not include the Executive proposal of an expansion in Video Lottery Terminals (VLTs), the SFY 2007-08 Enacted Budget includes a revenue increase of $150 million in SFY 2008-09 from this proposal. The estimates of new revenue from the Executive proposal to require combined reporting for certain corporations also increased by $143 million between February and April 2007, to $328 million. This represents an increase of 77 percent over the original revenue estimate of $185 million.

Structural Balance

Although, by law, any Executive Budget proposal is required to be balanced in the General Fund, over the years, the Executive Budget proposal has included future projections of budget balance, whether a surplus or deficit. These projections are commonly referred to as an "out year" gap when a deficit is expected.

The SFY 2007-08 Executive Budget projected the General Fund to incur deficits of $2.3 billion in SFY 2008-09, $4.5 billion in SFY 2009-10 and $6.2 billion in SFY 2010-11. The SFY 2007-08 Enacted Budget Report states these projected deficits in future years will increase by $813 million in SFY 2008-09 to $3.1 billion, by $288 million in SFY 2009-10 to $4.8 billion and by $380 million in SFY 2010-11 to $6.6 billion.

These revised estimates reflect an increase in the out year deficits over three years (SFYs 2008-09, 2009-10, 2010-11) of $1.5 billion as a result of the final budget agreement, which added $1.2 billion in All Funds spending. Review of the assumptions included in the SFY 2007-08 Enacted Budget Report on the out year deficits indicate that these estimates may be understated.

For example, the final budget agreement rejected approximately $270 million in General Fund Medicaid cost containment proposals and accepted the Executive's proposal to expand participation in the State's Child Health Plus programs. However, the impact of this year's budget agreement is forecast to lower spending in the out years by $147 million in SFY 2008-09, $255 million in SFY 2009-10 and $269 million in

SFY 2010-11. It is unclear how the Executive will achieve these spending reductions in the absence of strategic programs to reduce expenses.

Furthermore, the Executive assumes the expansion of VLTs will go forward in the current legislative session, although no legislation has yet been enacted. The out year revenue estimates include $150 million in revenue associated with an expanded number of VLTs in SFY 2008-09, $357 million in SFY 2009-10 and $766 million in SFY 2010-11.

Debt

Over the ten-year period between March 31, 1997 and March 31, 2007, State funded debt in New York increased 54 percent, from $33.1 billion to $51 billion, while State funded debt per capita increased from $1,781 to $2,645. Since SFY 1997-98, outstanding State funded debt has grown at an average annual rate of 4.6 percent—almost two times the average rate of inflation of the same period. With $51 billion in State funded debt outstanding at the end of SFY 2006-07, New York's debt burden is surpassed only by the State of California. New York has the fifth highest per capita debt ratio and debt as a percentage of personal income in the country.[2]

The SFY 2007-08 Enacted Budget continues to increase the debt burden on New York's taxpayers with an expected increase of $26.3 billion in new bond issuances over the next five years. This number does not include approximately $3.5 billion in new debt by New York City's Transitional Finance Agency backed by future building aid funds from the State. Including this State funded debt for New York City, New York's debt burden is expected to increase to $64.7 billion by the end of SFY 2011-12, a 27 percent increase from SFY 2006-07. Debt service paid by the State is projected to increase to nearly $7.2 billion, an increase of $2.1 billion, or 41.8 percent, from SFY 2006-07.

Further, the percentage of State cash resources, commonly referred to as "pay as you go" (as opposed to bond proceeds) that New York plans to spend on capital projects is low. Between SFY 1984-85 and SFY 2007-08, New York financed, on average, approximately 38 percent of its capital plan with State cash resources. This average is projected to fall to 26 percent between SFY 2007-08 and SFY 2011-12.

Program Modifications

In addition to a 7.0 percent increase in All Funds spending, the SFY 2007-08 Enacted Budget altered the methodology used to distribute a significant portion of this spending. Of significance is the introduction of a new Foundation Aid formula to replace the previous formula for general support for public schools. The new

[2] Moody's Investor Service, 2007 State Debt Medians, April 2007.

Foundation Aid formula distributes school aid based on costs estimates of a "successful school" modified for need and a district's ability to raise revenues. Overall, school aid spending for SFY 2007-08 is expected to increase by approximately $1.8 billion, or 9.6 percent, to $19.6 billion. This school aid package is expected to provide $25.5 billion in aid in the 2010 -11 school year.

In addition, the SFY 2007-08 Executive Budget proposed $1.4 billion in "cost containment" measures as part of a health care reform package. Many of these proposals—reductions in premiums, in graduate medical health payments and in inflationary increases to hospitals, nursing homes and clinics—will slow the expected rate of growth in Medicaid spending. Significant restructuring of the Medicaid program to reduce costs, while improving health care for Medicaid recipients, still remains to be resolved. Approximately $270 million in General Fund cost containment measures proposed by the Executive were rejected in final budget negotiations. The agreement restored partial funding to nursing homes and hospitals via the trend factor, as well as partial funding in the form of reimbursement rates to pharmacies. Also included in the final budget package was the elimination of the proposed 0.35 percent gross receipts tax on hospitals.

Another significant initiative included in the SFY 2007-08 Enacted Budget is a property tax rebate program, which increases the amount appropriated for property tax relief under the rebate program from approximately $675 million in the previous fiscal year to $1 billion in the current fiscal year. The amount of the rebate checks, however, will be dependent on a person's income and geographic location as opposed to last year's across the board value of 30 percent of the taxpayer's School Property Tax Relief (STAR) payment.

The proposed $2.1 billion ten-year stem cell initiative became an eleven-year, $600 million initiative. The original Executive proposal recommended $1.5 billion of the $2.1 billion to be funded by General Obligation bonds and distributed by a new authority created specifically for this purpose. The final budget agreement finances this program through current receipts and creates a Board within the Department of Health to oversee the program.

Programmatic changes to the budgets of other agencies, as well as an explanation of State revenues, are included in the following sections of this report.

Section
2

Financial Overview

The Executive's proposed Budget, updated with the 21-Day Amendments, offered an All Funds spending plan of $120.6 billion for State Fiscal Year (SFY) 2007-08, representing an increase of 6.3 percent, or $7.1 billion, over the amount projected for SFY 2006-07. The SFY 2007-08 Executive Budget increased General Fund spending by $2.2 billion, or 4.2 percent, and State Funds by 7.8 percent, or $6 billion.

The SFY 2007-08 Enacted Budget Financial Plan (Financial Plan) includes All Funds spending of $120.7 billion, an increase of $7.9 billion, or 7 percent, over SFY 2006-07 and an increase of $40 million over the Executive Budget proposal. The Financial Plan includes State Funds spending of $83.8 billion, an increase of $6.5 billion, or 8.4 percent, over SFY 2006-07 and $234 million, or 0.3 percent, over the Executive Budget proposal. General Fund spending in the Financial Plan totals $53.7 billion, representing an increase of $2.1 billion, or 4.1 percent, over SFY 2006-07 and $436 million, or 0.8 percent, over the Executive Budget proposal.

However, several items must be taken into consideration in order to obtain a true picture of the year to year spending growth. Annual increases in All Funds, State Funds and General Fund spending are reduced due to budget actions and revisions made to the Financial Plan at the end of SFY 2006-07. In the General Fund, $434 million in net spending (both increases and decreases), $129 million in receipts and $2 million in reserve transactions were shifted between SFY 2007-08 and SFY 2006-07. These timing related shifts of $565 million lowered General Fund spending in SFY 2007-08 and increased SFY 2006-07 spending. In addition, the All Funds spending number of $120.7 billion for SFY 2007-08 does not include spending for a number of programs supported by the State, such as grants for energy projects and various capital projects.

Adjusting the Financial Plan to reflect the timing related transactions and off budget spending results in All Funds spending of $123.9 billion, an increase of $9.9 billion, or

8.7 percent, over SFY 2006-07. State Funds spending for SFY 2007-08 totals $87 billion, an increase of $8.5 billion, or 10.8 percent, over SFY 2006-07. General Fund spending would total $54.1 billion, an increase of $3.0 billion, or 5.8 percent, over SFY 2006-07.

Although the SFY 2007-08 Enacted Budget adds $1.2 billion in All Funds spending to the Executive's Proposed Budget for SFY 2007-08, the increase in All Funds spending presented in the SFY 2007-08 Enacted Budget Financial Plan is only $40 million over the Executive Proposed Budget. This small increase is due primarily to the timing revisions discussed above and other spending revisions for SFY 2007-08, derived from lower capital and federal spending at the end of SFY 2006-07. These changes effectively lower base level spending in the SFY 2007-08 Enacted Budget.

SFY 2006-07

General Fund

State Fiscal Year 2006-07 ended with a General Fund Closing Balance of $3.045 billion, $562 million below February 2007 Financial Plan projections. This decline is attributable primarily to the transfer of SFY 2007-08 spending into SFY 2006-07. The Executive indicates that $927 million of this amount is available for use in SFY 2007-08. The Enacted Budget Financial Plan projects that by the end of SFY 2007-08, $1.2 billion is expected to be available for use in equal amounts over SFYs 2008-09, 2009-10 and 2010-11.

	21-Day Amendments	Actual	Difference
Statutory Reserve			
Tax Stabilization Reserve Fund	1,025	1,031	6
Contingency Reserve Fund	21	21	--
Community Projects Funds	276	278	2
Refund Reserve			
SFY 2005-06 and SFY 2006-07 Surplus	2,285	1,714	(571)
Closing General Fund Balance	**3,607**	**3,045**	**(562)**

Note: Totals may not add due to rounding.

General Fund receipts, including transfers from other funds, totaled $51.4 billion in SFY 2006-07, representing an increase of $4.2 billion, or 8.8 percent over the previous fiscal year. Tax collections were strong, especially in business and personal income taxes, and together these taxes came in $431 million over the February 2007 Financial Plan projections. This increase was offset somewhat by consumption taxes and miscellaneous receipts, which ended the year below February Financial Plan projections.

General Fund disbursements, including transfers, totaled $51.6 billion in SFY 2006-07, representing an increase of 11 percent, or $5.1 billion, over SFY 2005-06 levels. This total was $500 million above Financial Plan projections updated with the Executive's 21-Day Amendments to the SFY 2007-08 Executive Budget. The majority of the variance came in the form of transfers to other funds ($423.7 million).

In addition to the timing related adjustments, which resulted in a net increase in SFY 2006-07 spending, a number of revenue sources budgeted for SFY 2006-07 did not materialize as follows:

- **$175 Million from the Power Authority of the State of New York (PASNY).** This funding has been part of the Financial Plan for the last two years and is intended to offset General Fund costs associated with the Power for Jobs program (gross receipts tax credit). The Power Authority has not made the "voluntary" payment in either of the last two fiscal years. These funds are now forecast to be received in SFY 2007-08. Article VII language included as part of the SFY 2006-07 Enacted Budget requires the Power Authority to submit books and accounts to the Comptroller for audit if the funds are not received by December 2007.

- **$428 Million from New York City Intergovernmental Transfer (IGT).** These receipts have also been included in each of the last two Enacted Budget Financial Plans. The SFY 2007-08 Enacted Budget removes these receipts from the Financial Plan.

- **$167 Million in Video Lottery Terminal (VLT) Revenues.** The SFY 2006-07 Enacted Budget plans on $358 million in VLT revenues to finance various education needs. In the SFY 2006-07 Mid-Year Financial Plan Update, the projection was lowered to $275 million. The State ended SFY 2006-07 with $270 million in revenue—$88 million below initial Financial Plan projections. Traditionally, VLT projections have been between 29 percent and 41 percent higher than actual collections. As a result, the State transferred $167 million from the General Fund to the VLT account to cover end-of-year education needs.

All Funds

All Funds receipts of $112.4 billion were below the February 2007 Financial Plan projections by $757 million and represented growth of 5 percent, or $5.4 billion, over SFY 2005-06. The reduced receipts from federal grants ($607 million) and miscellaneous receipts ($580 million) more than offset the strong tax collections ($430 million). The reduction in miscellaneous receipts was primarily due to the expected collection of $428 million from a local government revenue and disbursement program (Intergovernmental Transfer or IGT) that did not materialize.

All Funds disbursements of $112.8 billion represented an increase of 8.1 percent, or $8.4 billion, over SFY 2005-06 levels. Spending from federal grants was below the projections contained in the revised Financial Plan that accompanied the Executive's 21-Day Amendments. According to the Division of the Budget's (DOB's) Year-End Report, spending from federal funds was down $565 million in social services (compared to the initial plan). Other shortfalls to the Plan include $229 million in Homeland Security and $57 million in funding for elections (HAVA). These shortfalls were largely offset by an additional $547 million in federal spending associated with Medicaid. The decline in federal spending for certain programs is expected to affect SFY 2007-08 All Funds spending. According to DOB, lower than anticipated spending from federal grants in SFY 2006-07 created a lower base in SFY 2007-08, along with lower projections for ongoing spending, primarily in the area of social services.

In addition, over $300 million in capital spending that was planned for SFY 2006-07 did not occur. This delayed spending is due to timing. As a result of revisions made between the 21-Day Amendments and the end of the fiscal year, base spending for All Funds for SFY 2007-08 is $734 million lower than anticipated in the Executive's proposal. This lower base results in the smaller increase in spending from the Executive's Budget proposal to the Enacted Budget ($40 million), even though the Legislature added approximately $1.2 billion to the Executive's proposal.[3]

Off Budget Capital Spending

Increasingly, public authorities have been given the ability to issue State funded bonds and provide the proceeds directly to projects or recipients outside the Central Accounting System and exempt from the State's many expenditure control and procurement processes. Examples of such programs include the EXCEL Program for School Construction, Community Enhancement Facilities Assistance Program (CEFAP) and the Consolidated Highway Improvement Program (CHIPs).

Currently, the proceeds of bonds sold on behalf of the State by public authorities are either remitted to the State to reimburse State funds spending (on-budget) or are spent directly by the public authorities on capital projects. In each example, the State is responsible for the authority's debt service obligations. While most off budget capital spending, with the exception of the CHIPs program and the EXCEL program, has an appropriation (and subsequent reappropriation), the Financial Plan does not recognize the spending.

The SFY 2007-08 Financial Plan includes All Funds spending growth of $7.9 billion, or 7 percent, over SFY 2006-07. However, this expected growth does not include capital spending that is proposed to occur off budget. If the Financial Plan included all off

[3] The remaining difference is due to $218 million in lower spending for the School Tax Relief Program (STAR), as compared to the Executive's plan, and various spending reductions totaling $166 million.

budget capital spending, totaling $1.3 billion in SFY 2006-07 and $2.7 billion in SFY 2007-08, All Funds spending would increase from 7 percent over SFY 2006-07 to 8.2 percent, and State Funds spending would increase from 8.4 percent over SFY 2006-07 to 10 percent.

According to figures presented in the separate table within the SFY 2007-08 Enacted Budget Financial Plan, off budget capital spending is projected to total nearly $7.7 billion over the four-year period between SFYs 2007-08 and 2010-11.[4] Furthermore, in SFY 2007-08, off budget capital spending is projected to increase by $1.4 billion, or 111 percent, over SFY 2006-07 levels. This increase is primarily attributable to education spending for the EXCEL program, which was added in SFY 2006-07. Off budget capital spending is projected to decline over the four-year period to just under $1.2 billion by SFY 2010-11. The decline in off budget capital spending over the four-year period is primarily related to the full disbursement of EXCEL funds by the end of SFY 2008-09.

According to the Capital Plan, disbursements for capital projects are projected to total $10.1 billion in SFY 2007-08. A significant portion, approximately 27 percent, of these disbursements is related to off budget capital programs. Off budget capital projects spending is projected to decline to 13.8 percent of total capital projects disbursements in SFY 2010-11. A comparable figure for the last year of the Capital Plan is not available since the information related to off budget capital spending provided in the Financial Plan only covers the period through SFY 2010-11.

The following table illustrates off budget capital spending compared to total capital projects spending.

[4] New York State Division of the Budget. *SFY 2007-08 Enacted Budget Financial Plan*. April 2007: 169.

Off Budget Capital Spending Crosswalk – SFY 2007-08 Enacted Budget Financial Plan and SFY 2007-08 Five-Year Capital Program and Financing Plan
(in thousands of dollars)

	Financial Plan - Projected Capital Disbursements	Off Budget Disbursements	Capital Plan - Projected Capital Disbursements	
Economic Development and Government Oversight				
Economic Development	52,950	155,815	208,765	
Empire State Development Corporation	679,285	142,355	821,640	
Other Economic Development and Government Oversight	207,214		207,214	
Total Economic Development and Government Oversight	**939,449**	**298,170**	**1,237,619**	
Transportation				
Transportation, Department of	3,501,312	367,397	3,868,709	(1)
Other Transportation	293,640		293,640	
Total Transportation	**3,794,952**	**367,397**	**4,162,349**	
Health and Social Welfare				
Health, All Other	293,038	8,750	301,788	
Other Health and Social Welfare	57,434		57,434	
Total Health and Social Welfare	**350,472**	**8,750**	**359,222**	
Mental Health				
Mental Health, Office of	156,188	85,759	241,947	
Mental Retardation and Developmental Disabilities, Office of	64,835	49,584	114,419	
Alcohol and Substance Abuse, Office of	48,075	2,879	50,954	
Other Mental Hygiene	-		-	
Total Mental Hygiene	**269,098**	**138,222**	**407,320**	
Education				
EXCEL	-	1,450,000	1,450,000	
All Other Education	36,766	5,210	41,976	
City University of New York	9,100	311,400	320,500	
State University of New York	643,000	140,000	783,000	
Other Education	-	-	10,000	
Total Education	**688,866**	**1,906,610**	**2,605,476**	
Parks and Environment	**601,403**	**-**	**601,403**	
Public Protection	**343,011**	**-**	**343,011**	
General Government	**114,962**	**-**	**114,962**	
All Other	**249,356**	**-**	**239,356**	(2)
Totals	**7,351,569**	**2,719,149**	**10,070,718**	

(1) The Transportation Disbursement table on page 92 of the Capital Program and Financing Plan shows $3.948 billion.
(2) The Capital Spending table on page 44 of the Capital Program and Financing Plan shows $239,356.

Other Off Budget Spending

The State of New York currently imposes two separate tax surcharges on residential and commercial utility customers and on public utilities, and directs these funds to the New York State Energy Research and Development Authority (NYSERDA). The Authority, in turn, uses these monies to finance a number of energy-related projects, all outside of the State's Financial Plan. These off budget taxes are expected to result in new spending of $231 million in the current fiscal year.

System Benefits Charge

The Systems Benefit Charge (SBC) program is administered by NYSERDA and monitored by the PSC and Department of Public Service. SBC receipts are either paid to contractors based on work completed under the New York Energy $mart program or are retained by the utilities to fund their own low-income energy assistance programs. The SBC surcharge is expected to yield $181 million in SFY 2007-08 and $183 million SFY 2008-09.

Renewable Portfolio Standard

The Renewable Portfolio Standard (RPS) is expected to generate $49.4 million in SFY 2007-08 and $67.7 million in SFY 2008-09. It is expected to grow to $167 million by 2013. Through 2013, the RPS is projected to generate approximately $741 million.

NYSERDA administers the RPS program, which is monitored by the PSC and Department of Public Service. Contracts awarded by NYSERDA provide incentives for renewable energy producers who sell and deliver their energy in New York's wholesale electricity market and for companies that provide funding for customers to create renewable electricity generating capabilities.

Timing Related Changes

A net amount of $434 million in General Fund spending and $2 million in reserve transactions was shifted between SFY 2006-07 and SFY 2007-08. In addition, $129 million in revenue actions that were included in the SFY 2006-07 Financial Plan were delayed until SFY 2007-08, thus creating a total of $565 million in "timing related changes." The movement of this funding, both spending and revenue, has the effect of reducing spending and increasing revenue in SFY 2007-08, while increasing spending and reducing revenue in SFY 2006-07. While spending often takes place in different months or even years than initially planned, it is worth illustrating how this affects growth patterns across years—$565 million down one year and $565 million up in another for a total year to year change of over $1.1 billion.

The following is a list of timing related spending actions:

- **$167 Million in Debt Service for SUNY Construction**. The State made a payment to the Dormitory Authority of the State of New York (DASNY) in March 2007 that was originally scheduled for April 2007.

- **$153 Million for Higher Capital Spending.** Due to delayed bond sales and reimbursement from bond proceeds, necessary transfers to capital projects funds were made from the General Fund. Bond proceeds are expected in SFY 2007-08.

- **$116 Million in Higher Medicaid Spending.** The State increased General Fund payments for Medicaid in anticipation of $52 million in prescription drug rebates and a $64 million payment to the federal government related to savings to the State for the Medicare Part D prescription Drug Program (referred to as a "clawback"). Drug rebate revenues are expected in SFY 2007-08. The State will make one fewer clawback payment in SFY 2007-08 as a result of the additional payment made in SFY 2006-07.

- **$30 Million Higher Health Insurance Costs Due to Dividend Delays.** The State can pay for a portion of its State employee health insurance costs from the State Employee Health Insurance Fund from interest earned. The fiduciary appropriation included in the SFY 2006-07 Enacted Budget was insufficient to pay for health insurance costs using dividends already received, so the General Fund made up the difference of $30 million.

- **$48 Million Delayed Non-Public School Aid.** Cash disbursements of $48 million in Aid to Non-Public Schools that were planned for SFY 2006-07 were delayed until SFY 2007-08 as a result of timing delays in processing claims.

- **$25 Million Delayed Disaster Assistance Payments.** These payments were also delayed from SFY 2006-07 until SFY 2007-08.

- **$41 Million All Other.** This is primarily comprised of Supplemental Medical Insurance payments made in SFY 2006-07 and delayed receipt of delinquent nursing home assessments intended to offset General Fund spending.

In addition to the spending items listed above, $129 million in revenues was anticipated to be received in SFY 2006-07, but was delayed until SFY 2007-08.

- **$66 Million Debt Service Payment.** The Local Government Assistance Corporation (LGAC) received these additional funds for debt service in SFY 2006-07 that otherwise would have been transferred to LGAC in SFY 2007-08.

- **$63 Million in Expected Revenue from Casinos.** The Tribal-State Compacts between New York State and the Seneca Nation, as well as New York State and the St. Regis Mohawk Tribe, require the tribes to pay a percentage of slot machine revenues to the State. While both tribes have made payments to the State in past years, no revenues were received for SFY 2004-05. However, the Compacts do not specify a set time for the remittance to be made or any penalties or consequences to be borne by the tribes if they fail to make the payments.

SFY 2005-06 Actual to SFY 2006-07 Actual
(not adjusted for timing or off budget spending)
(in billions of dollars)

	SFY 2005-06 Actual	SFY 2006-07 Actual	Dollar Change	Percent Change
General Fund	46.5	51.6	5.1	11.0%
State Funds	69.7	77.3	7.6	10.9%
All Funds	104.3	112.8	8.4	8.1%

The table above does not take into consideration Financial Plan movements between years or off budget spending. When those adjustments are made, the growth between SFYs 2005-06 and 2006-07 is reduced.

SFY 2005-06 Actual to SFY 2006-07 Actual Disbursements
(adjusted for timing and off budget spending)
(in billions of dollars)

	SFY 2005-06 Actual	SFY 2006-07 Actual	Dollar Change	Percent Change
Reported General Fund	46.50	51.59	5.10	11.0%
Timing		(0.43)		
Adjusted General Fund	**46.50**	**51.16**	**4.66**	**10.0%**
Reported State Funds	69.72	77.31	7.59	10.9%
Timing		(0.28)		
Off Budget Capital Spending	1.02	1.29		
Off Budget Other Spending	0.16	0.20		
Adjusted State Funds	**70.90**	**78.52**	**7.62**	**10.7%**
Reported All Funds	104.34	112.76	8.42	8.1%
Timing		(0.28)		
Off Budget Capital Spending	1.02	1.29		
Off Budget Other Spending	0.16	0.20		
Adjusted All Funds	**105.52**	**113.97**	**8.45**	**8.0%**

SFY 2007-08 Enacted Budget

The SFY 2007-08 Executive Budget increases spending from projected SFY 2006-07 levels by $2.2 billion in the General Fund (4.2 percent), $6 billion in State Funds (7.8 percent) and $7.1 billion in All Funds (6.3 percent).

The SFY 2007-08 Enacted Budget includes an additional $1.1 billion in General Fund spending initiatives over the Executive's proposal as illustrated in the following table.

General Fund Spending Changes
Proposed through Enacted
(in millions of dollars)

Additional Resources (Avails)	**1,066**
Revenue Less New York City IGT	611
Additional Revenue from Abandoned Property	50
STAR	218
Current Service Revisions	101
Spending Cuts	48
Fund Balance Sweeps	187
Net Tax Changes	(149)
Additional Spending	**(1,066)**
Additional Education	(436)
Additional Higher Education	(39)
Health and Medicaid Restorations and Spending	(328)
Human Services	(55)
Criminal Justice	(59)
Mental Hygiene	(15)
Agriculture/Housing	(61)
Economic Development	(23)
Transportation	(11)
Local Government Restoration and Spending	(39)

However, as reported in the SFY 2007-08 Enacted Budget Financial Plan issued by DOB on April 19, 2007, General Fund spending increases by $436 million from the Executive Budget. State Funds increases by $234 million, while All Funds spending increases by only $40 million above the Executive's proposal.

SFY 2007-08 Unadjusted Spending Comparison
Executive Proposed vs. Enacted
(in billions of dollars)

	Executive Proposal	Enacted Budget	Dollar Change	Percent Change
General Fund	53.248	53.684	0.44	0.82%
State Funds	83.545	83.779	0.23	0.28%
All Funds	120.635	120.675	0.04	0.03%

Note: Totals may not add due to rounding.

When the various timing related revisions and Financial Plan adjustments are considered along with off budget capital and other spending, growth is increased from the levels reported in the SFY 2007-08 Enacted Budget Financial Plan.

SFY 2007-08 Adjusted Enacted Budget Compared to SFY 2006-07 Adjusted Actual
(in billions of dollars)

	SFY 2006-07	SFY 2007-08	Dollar Change	Percent Change
Reported General Fund	51.59	53.68	2.09	4.1%
Timing	(0.43)	0.43		
Adjusted General Fund	**51.16**	**54.12**	**2.96**	**5.8%**
Reported State Funds	77.31	83.78	6.47	8.4%
Timing	(0.28)	0.28		
Off Budget Capital Spending	1.29	2.72		
Off Budget Other Spending	0.20	0.23		
Adjusted State Funds	**78.52**	**87.01**	**8.49**	**10.8%**
Reported All Funds	112.76	120.68	7.91	7.0%
Timing	(0.28)	0.28		
Off Budget Capital Spending	1.29	2.72		
Off Budget Other Spending	0.20	0.23		
Adjusted All Funds	**113.97**	**123.91**	**9.93**	**8.7%**

Even without considering the adjustments to the forecasted growth, All Funds spending increases by 7.0 percent, more than twice the projected rate of inflation. State Funds spending is expected to increase by 8.4 percent, more than triple the average rate of inflation since 1996. The All Funds spending increase in SFY 2007-08 represents the fifth highest percentage increase in the last 20 years.

Considering both timing related changes and off budget spending, General Fund spending will increase 5.8 percent in SFY 2007-08. State Funds spending will increase 10.8 percent and All Funds spending will increase 8.7 percent.

New York State All Funds Budget
(in billions of dollars)

SFY	All Funds Disbursements	Growth from Prior Year Dollar	Growth from Prior Year Percent	CPI	Spending Growth as a Multiple of CPI
2007-08	120.7	7.9	7.0%	2.3%	3.04
2006-07	112.8	8.4	8.1%	3.2%	2.53
2005-06	104.3	3.6	3.6%	3.4%	1.02
2004-05	100.7	3.3	3.4%	3.0%	1.16
2003-04	97.3	8.3	9.3%	2.0%	4.62
2002-03	89.0	4.0	4.7%	2.0%	2.33
2001-02	85.0	5.3	6.6%	2.3%	2.92
2000-01	79.8	6.5	8.9%	3.4%	2.60
1999-00	73.3	2.6	3.6%	2.6%	1.40
1998-99	70.7	4.5	6.9%	1.6%	4.30
1997-98	66.2	3.2	5.1%	2.0%	2.58
1996-97	63.0	(0.3)	-0.4%	3.0%	(0.15)
1995-96	63.2	1.3	2.1%	2.8%	0.77
1994-95	61.9	4.0	6.9%	2.7%	2.58
1993-94	57.9	3.1	5.7%	2.8%	2.02
1992-93	54.8	2.5	4.7%	3.1%	1.52
1991-92	52.3	3.4	7.0%	3.6%	1.93
1990-91	48.9	2.5	5.5%	5.4%	1.01
1989-90	46.4	2.9	6.7%	4.9%	1.36
1988-89	43.4	3.6	8.9%	4.3%	2.08
1987-88	39.9	2.5	6.6%	4.1%	1.62

Non-Recurring Resources in SFY 2007-08

The Executive Budget relied on approximately $1.3 billion in one-shots to balance the SFY 2007-08 Budget. The SFY 2007-08 Enacted Budget accepted the majority of these and added an additional $537 million, for a total of $1.9 billion in non-recurring resources.

Non-Recurring Resources in the SFY 2007-08 Enacted Budget
(in millions of dollars)

	Executive Budget	Enacted Budget
DASNY Debt Service Prepayment *	-	167
Power Authority Payment *	175	175
Medicare Part D Clawback *	-	64
SONYMA transfer	100	100
Other Fund Sweeps	-	100
Medicaid - Federal Share Home Care Insurance	82	82
Sweep Lottery for Education Costs	-	76
Additional Abandoned Property	-	50
Medicaid - Waive Statutory Reconciliation Prior Year Hospital Assessment	44	44
Medicaid Drug Rebate Revenue	40	40
Mental Hygiene - Federal PIA Revenues	61	130
Mental Hygiene - Anti-Fraud Recovery and Federal Recovery for OMH	18	18
Sweep Cultural Education Storage	20	20
Debt Service Savings	40	40
Sweep Unemployment Insurance Interest	16	16
Sweep Revenue Arrearage Account	15	15
Sweep DMV Compulsory Insurance	16	16
Sweep Motor Vehicle Law Enforcement Account	-	11
Sweep Various Public Health Accounts	10	10
Cellular Surcharge to Fund Wireless Network	10	10
Sweep Environmental Facilities Fund	10	10
Finance National Guard with Federal Funds	5	5
Sell Vacant Building Planned for Youth Opportunity Center	3	3
Sweep various Welfare/OCFS accounts	3	3
Utilize Federal Funds for Certain Welfare Costs	2	2
Prior Year Surplus (after Deposit to Reserves)	649	649
Total	**1,319**	**1,856**

* Note - These were expected in SFY 2006-07 but not received.

Risks to the Financial Plan

The Financial Plan represents the best estimates of disbursements and receipts to minimize mid-year adjustments. Risks to the Financial Plan are unplanned contingencies that result in mid-year shifts. According to the SFY 2007-08 Enacted Budget Financial Plan, the General Fund is balanced. However, the Plan contains risks, including the possibility of additional spending needs and revenues that may not materialize.

Tax Enforcement

The SFY 2007-08 Enacted Budget includes approximately $170 million from the enforcement and collection of fuel, sales and cigarette taxes from sales by Native Americans to non-Native American consumers, as per statutes authorized in 2005.

The previous administration chose not to enforce statutes enacted in 2005 due to various land claims, and casino and constitutional issues between the State, the federal government and Native Americans. Other administrations have attempted to enforce collections, but encountered resistance on the part of Native Americans. The current administration's plan to collect this revenue has already run into resistance, and full implementation may be delayed and projections for SFY 2007-08 not fully realized.

Increased Medicaid Fraud Savings

The SFY 2007-08 Enacted Budget increased General Fund savings from anti-fraud recoveries in SFY 2007-08 by $30 million, beyond the Executive's $100 million plan. The estimated savings in the plan are based on policies already in place that would provide approximately $300 million in State share relief. The $130 million included in the plan is considered a risk.

Video Lottery Terminals

A risk to the General Fund may exist because Video Lottery Terminal (VLT) receipts offset General Fund spending. Receipts from VLTs have historically not met the original Financial Plan expectations. If VLT collections continue according to historic trends, then they could fall short by approximately 22 percent below projections—representing a risk of $129 million.

Power Authority of the State of New York

Enacted Financial Plans for each of the last three fiscal years have expected payments ranging from $100 to $175 million from the Power Authority of the State of New York (PASNY) as reimbursement for costs associated with the Power for Jobs program. Although the program was not continued in the SFY 2007-08 Enacted Budget, the Enacted Financial Plan continues to expect $175 million from PASNY as payments in past years have been rolled forward.

Comparison of
SFY 2006-07 Actual Results
vs.
SFY 2007-08 Enacted
General Fund
(in millions of dollars)

	SFY 2006-07 Actual	SFY 2007-08 Enacted	Dollar Difference	Percent Difference
Opening Fund Balance (April 1)	3,257	3,045	(212)	-6.5%
Receipts:				
Taxes	38,668	39,264	596	1.5%
Personal Income Tax	22,940	22,885	(55)	-0.2%
Consumer Taxes and Fees	8,186	8,565	379	4.6%
Business Taxes	6,468	6,679	211	3.3%
Other Taxes	1,075	1,135	60	5.6%
Miscellaneous Receipts	2,268	2,485	217	9.6%
Federal Grants	152	59	(93)	-61.1%
Sub-Total	41,087	41,808	721	1.8%
Transfers from Other Funds	10,292	11,864	1,572	15.3%
Total Receipts	51,379	53,672	2,293	4.5%
Disbursements:				
Grants to Local Governments	34,302	37,158	2,856	8.3%
State Operations	9,319	9,620	301	3.2%
General State Charges	4,403	4,530	127	2.9%
Sub-Total	48,025	51,308	3,283	6.8%
Transfers to Other Funds	3,567	2,376	(1,191)	-33.4%
Total Disbursements	51,591	53,684	2,093	4.1%
Changes in Fund Balance	(212)	(12)		
Closing Fund Balance (March 31)	3,045	3,033	(12)	-0.4%
Statutory Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	-	0.0%
Rainy Day Fund	-	175	175	100.0%
Contingency Reserve Fund	21	21	-	0.0%
Community Projects Fund	278	353	75	26.9%
Debt Reduction Reserve Fund	-	250	250	100.0%
Refund Reserve				
2005-06 and 2006-07 Surplus	1,714	1,203	(511)	-29.8%

Note: Totals may not add due to rounding.

Comparison of
SFY 2006-07
vs.
SFY 2007-08
ADJUSTED FOR TIMING CHANGES
General Fund
(in millions of dollars)

	SFY 2006-07 Adjusted	SFY 2007-08 Adjusted	Dollar Difference	Percent Difference
Opening Fund Balance (April 1)	3,257	3,608	351	10.8%
Receipts:				
Taxes	38,668	39,264	596	1.5%
Personal Income Tax	22,940	22,885	(55)	-0.2%
Consumer Taxes and Fees	8,186	8,565	379	4.6%
Business Taxes	6,468	6,679	211	3.3%
Other Taxes	1,075	1,135	60	5.6%
Miscellaneous Receipts	2,268	2,485	217	9.6%
Federal Grants	152	59	(93)	-61.1%
Sub-Total	41,087	41,808	721	1.8%
Transfers from Other Funds	10,421	11,735	1,314	12.6%
Total Receipts	51,508	53,543	2,035	4.0%
Disbursements:				
Grants to Local Governments	34,245	37,215	2,970	8.7%
State Operations	9,319	9,620	301	3.2%
General State Charges	4,373	4,560	187	4.3%
Sub-Total	47,938	51,395	3,457	7.2%
Transfers to Other Funds	3,220	2,723	(497)	-15.4%
Total Disbursements	51,157	54,118	2,961	5.8%
Changes in Fund Balance	351	(575)		
Closing Fund Balance (March 31)	3,608	3,033	(575)	-15.9%
Statutory Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	-	0.0%
Rainy Day Fund	-	175	175	100.0%
Contingency Reserve Fund	21	21	-	0.0%
Community Projects Fund	278	353	75	26.9%
Debt Reduction Reserve Fund	-	250	250	100.0%
Refund Reserve				
2005-06 and 2006-07 Surplus	2,277	1,203	(1,074)	-47.2%

Note: Totals may not add due to rounding.

Comparison of
SFY 2006-07 Actual vs. SFY 2007-08 Enacted
All Governmental Funds
(in millions of dollars)

	SFY 2006-07 Actual	SFY 2007-08 Enacted	Dollar Change	Percent Change
Opening Fund Balance (April 1)	7,068	6,853	(214)	-3.0%
Receipts:				
Taxes	58,740	61,960	3,220	5.5%
Miscellaneous Receipts	18,078	20,402	2,324	12.9%
Federal Grants	35,579	37,128	1,549	4.4%
Total Receipts	112,397	119,490	7,094	6.3%
Disbursements:				
Grants to Local Governments	80,725	85,654	4,929	6.1%
State Operations	17,558	18,726	1,168	6.7%
General State Charges	5,236	5,386	151	2.9%
Debt Service	4,451	4,134	(317)	-7.1%
Capital Projects	4,795	6,775	1,980	41.3%
Total Disbursements (1)	112,764	120,675	7,911	7.0%
Other Financing Sources (uses):				
Transfers from Other Funds	20,203	21,276	1,073	5.3%
Transfers to Other Funds	(20,231)	(21,307)	(1,076)	5.3%
Bond and Note Proceeds	181	358	177	97.6%
Net Other Financing Sources (uses)	153	327	174	113.7%
Changes in Fund Balance	(214)	(858)		
Closing Fund Balance (March 31)	6,853	5,995	(858)	-12.5%

Note: Totals may not add due to rounding.

Comparison of
SFY 2006-07 Adjusted vs. SFY 2007-08 Adjusted
ADJUSTED FOR TIMING CHANGES AND OFF-BUDGET SPENDING
All Governmental Funds
(in millions of dollars)

	SFY 2006-07 Adjusted	SFY 2007-08 Adjusted	Dollar Change	Percent Change
Opening Fund Balance (April 1)	7,068	6,548	(520)	-7.4%
Receipts:				
Taxes	58,739	61,960	3,221	5.5%
Miscellaneous Receipts	18,387	20,093	1,706	9.3%
Federal Grants	35,579	37,128	1,549	4.4%
Off-Budget Capital Receipts	1,291	2,719	1,428	110.6%
Off-Budget Other Receipts	200	231	31	15.7%
Total Receipts	114,196	122,131	7,935	6.9%
Disbursements:				
Grants to Local Governments	80,641	85,738	5,097	6.3%
State Operations	17,527	18,726	1,199	6.8%
General State Charges	5,193	5,416	223	4.3%
Debt Service	4,284	4,301	17	0.4%
Capital Projects	4,838	6,775	1,937	40.0%
Off-Budget Capital Spending	1,291	2,719	1,428	110.6%
Off-Budget Other Spending	200	231	31	15.7%
Total Disbursements	113,974	123,906	9,932	8.7%
Other Financing Sources (uses):				
Transfers from Other Funds	20,679	20,800	121	0.6%
Transfers to Other Funds	(20,707)	(20,831)	(124)	0.6%
Bond and Note Proceeds	181	358	177	97.6%
Net Other Financing Sources (uses)	153	327	174	113.4%
Changes in Fund Balance	375	(1,448)		
Closing Fund Balance (March 31)	7,443	5,100	(2,343)	-31.5%

Note: Totals may not add due to rounding.

Section

3

Revenue and Economic Outlook

All Funds receipts for SFY 2006-07 increased $5.4 billion to $112.4 billion, or 5.0 percent, over SFY 2005-06. This significant increase was driven primarily by business taxes, which grew 21.4 percent in SFY 2006-07 as a result of strong growth in the corporate franchise tax and increased bank and insurance tax receipts. The SFY 2007-08 Enacted Budget Financial Plan projects All Funds revenues to increase by $7.1 billion in SFY 2007-08, a 6.3 percent increase over SFY 2006-07.

All Funds Tax Receipts
SFY 2005-06 to SFY 2007-08
(in millions of dollars)

	Actual SFY 2005-06	Actual SFY 2006-07	Dollar Change	Percent Change	Enacted SFY 2007-08	Dollar Change	Percent Change
Personal Income Tax	30,813	34,580	3,767	12.2%	36,820	2,240	6.5%
User Taxes	13,858	13,456	(402)	-2.9%	14,186	730	5.4%
Business	7,088	8,606	1,518	21.4%	8,919	313	3.6%
Other	1,819	2,097	278	15.3%	2,035	(62)	-3.0%
Total Taxes	**53,578**	**58,739**	**5,161**	**9.6%**	**61,960**	**3,221**	**5.5%**
Miscellaneous Receipts	18,320	18,078	(242)	-1.3%	20,402	2,324	12.9%
Federal Grants	35,129	35,579	450	1.3%	37,128	1,549	4.4%
Total	**107,027**	**112,396**	**5,369**	**5.0%**	**119,490**	**7,094**	**6.3%**

Executive estimates of All Funds revenues, including tax receipts, fee revenue, bond funds, federal funds and miscellaneous payments for SFY 2006-07 fluctuated during the year, increasing approximately $1.66 billion between July and October 2006, and then declining $757 million between February and April 2007. This variability raises concerns about the identification and inclusion of various risks to the All Funds revenue projection in the SFY 2007-08 fiscal plan, whether the receipt of required payments is from other municipalities or from federal funds.

SFY 2006-07

As seen in the table below, estimates of tax revenues for SFY 2006-07 increased $1.8 billion between April 2006 and April 2007. While the forecast for tax receipts gradually increased as the year progressed and actual collection data dictated a stronger revenue picture, receipts from federal funds and miscellaneous receipts (fees, bond proceeds, fund balances and other payments) followed a significant up and down trajectory. For example, the October 2006 Mid-Year Update to the State Financial Plan estimated federal revenues for SFY 2006-07 at $598 million higher than the April 2007 estimate. However, the April 2007 Enacted Budget Financial Plan indicated that federal receipts for SFY 2006-07 dropped by $626 million from the October estimate, with $607 million of this decline occurring between the February and April 2007 forecasts. While the actual decline in federal funds over that forecast in April 2006 was a negative $28 million, the range of forecast errors totaled $1.2 billion.

SFY 2006-07 All Funds Receipts
Change in Executive Estimates of Receipts
April 2006 – April 2007
(in millions of dollars)

	April 2006 - October 2006	October 2006 - April 2007	Net Change
Tax Receipts	928	905	1,833
Federal Funds	598	(626)	(28)
Miscellaneous Receipts	163	(760)	(597)

Miscellaneous receipts estimates for SFY 2006-07 decreased by $371 million in July 2006, only to increase by $543 million in the Mid-Year Budget update, decline by $300 million in January 2007, increase $120 million 21 days later and then drop by $580 million when the final fiscal year numbers were published in April 2007. The net change in collections in miscellaneous receipts from the original April 2006 forecast was $580 million, but the large savings belies the volatility of the Executive estimates.

SFY 2007-08

The April 2007 Executive forecast of All Funds revenues for SFY 2007-08 has increased by $4.8 billion since the April 2006 estimate, $2.5 billion of which appeared in the January 2007 Executive Budget presentation and an additional $1.2 billion in April 2007. This increase of $1.2 billion includes increased tax receipts of $999 million, an increase of $344 million in miscellaneous receipts and a drop of $185 million in expected federal revenues.

The consensus revenue forecast published in March 2007 was an agreement between the Legislature and the Executive on the amount by which General Fund tax, miscellaneous receipts and Lottery revenues exceeded the Executive forecast of February 2007. This agreement covered two years, estimates for SFY 2006-07 and estimates for SFY 2007-08. The published agreement of $575 million did not specify into which of the two fiscal years these additional revenues would accrue.

Tax Proposals

Of the projected increase of $3.2 billion in tax receipts for SFY 2007-08, $368 million is attributed to legislative enactment of, or amendment to, 7 of the 15 Executive revenue enhancing proposals. These tax increases are expected to raise additional revenues of $451 million in SFY 2008-09 and $471 million in SFY 2009-10. The expected receipts from these tax measures are offset by approximately $150 million in business tax cuts, primarily a decline in the corporate tax rate from 7.5 percent to 7.1 percent beginning in SFY 2007-08.

Net All Funds Financial Plan Impact of Tax Proposals
(in millions of dollars)

	SFY 2007-08	SFY 2008-09	SFY 2009-10
Executive Proposed	506	592	558
Enacted Budget	368	451	471

Personal Income Tax

All Funds Personal Income Tax (PIT) receipts increased $3.8 billion (12.2 percent) in SFY 2006-07, to $34.6 billion. This includes the following increases:

- $2.0 billion (8.2 percent) in withholding,
- $1.2 billion (13.1 percent) in tax receipts for estimated payments,
- $253 million (13.7 percent) in final payments, and
- $55 million (7.1 percent) in delinquencies.

In SFY 2006-07 refunds declined $277 million (5.3 percent) while the State/City offset increased $56 million (12.0 percent).

The SFY 2007-08 Enacted Budget Financial Plan projects an estimated $2.2 billion (6.5 percent) increase in PIT receipts for SFY 2007-08.

General Fund Tax Receipts
SFY 2005-06 to SFY 2007-08
(in millions of dollars)

	Actual SFY 2005-06	Actual SFY 2006-07	Dollar Change	Percent Change	Enacted SFY 2007-08	Dollar Change	Percent Change
Personal Income Tax	30,813	34,580	3,767	12.2%	36,820	2,240	6.5%
Withholding	24,761	26,802	2,041	8.2%	28,601	1,799	6.7%
Estimated Tax	9,158	10,355	1,197	13.1%	11,347	992	9.6%
Final Payments	1,849	2,102	253	13.7%	2,226	124	5.9%
Delinquencies	776	831	55	7.1%	909	78	9.4%
Gross	**36,544**	**40,090**	**3,546**	9.7%	**43,083**	**2,993**	**7.5%**
State/City Offset	466	522	56	12.0%	509	(13)	-2.5%
Refunds	5,265	4,988	(277)	-5.3%	5,754	766	15.4%

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget would have increased PIT receipts by a net $36 million in SFY 2007-08, $156 million in SFY 2008-09 and $126 million in SFY 2009-10 as a result of the following initiatives:

Tax Increase Proposals

The PIT “loophole closure” proposals recommended in the SFY 2007-08 Executive Budget would increase receipts by $36 million in SFY 2007-08, growing to $181 million in SFY 2008-09 and $151 million in SFY 2009-10 with the following proposals:

- **Extend and Restructure Higher Limited Liability Corporation (LLC) Fees** - Restructures the fees imposed on LLCs to more accurately capture each entity’s level of business activity in New York ($30 million annually beginning in SFY 2007-08),

- **Reporting of Tax Shelters** - Makes permanent provisions which require the reporting of tax shelters to deter tax avoidance ($6 million in SFYs 2007-08, 2008-09 and 2009-10),

- **Federal S Corporation Election** - Requires *certain* corporations to file as a New York S corporation (no monetary impact in SFY 2007-08 and $100 million annually beginning in SFY 2008-09),

- **Sales Tax Itemized Deduction** - Requires taxpayers to add back the sales tax when calculating New York State tax liability (no monetary impact in SFY 2007-08 and $30 million in SFY 2008-09),[5] and

- **Partnership Tax Abuse** - Prevent partnership tax abuse (no monetary impact in SFY 2007-08, $15 million in SFYs 2008-09 and 2009-10).

Tax Reduction Proposals

The SFY 2007-08 Executive Budget proposal to provide a school tuition tax deduction would have no fiscal impact in SFY 2007-08, but would reduce receipts by $25 million annually thereafter.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's proposals to prevent partnership tax abuse and to require certain corporations to file as a New York S corporation, however, increasing revenue by $115 million in SFY 2008-09 and SFY 2009-10. The Legislature also accepted, with slight modification, the reporting of tax shelters, increasing revenue by an additional $6 million in SFY 2007-08 and in SFY 2008-09. The Executive proposed to make reporting of tax shelters permanent, while the enacted proposal extends the provisions for two years.

The Legislature rejected the remaining Executive PIT proposals to extend and restructure LLC fees, require add back of sales tax when calculating liability and provide an education child tax credit. The projected net impact of the Legislature's rejections of Executive proposals is $30 million in SFY 2007-08, $35 million in SFY 2008-09 and $5 million in SFY 2009-10.

The net fiscal impact of the SFY 2007-08 Enacted Budget PIT proposals increase revenue by $6 million in SFY 2007-08, $121 million in SFY 2008-09 and $115 million in SFY 2009-10.

Consumption/User Taxes and Fees

All Funds tax receipts for consumption and user taxes and fees decreased $402 million in SFY 2006-07 to $13.5 billion. The 2.9 percent year to year decrease is the result of the following:

- $459 million (4.1 percent) decrease in sales and use tax receipts,
- $17 million (3.2 percent) decrease in motor fuel receipts, and

[5] The fiscal impact is limited to SFY 2008-09. If the federal deduction for sales tax is extended beyond 2007, this proposal would generate comparable receipts in SFY 2009-10 and beyond.

- $7 million in highway use receipts.

The decreases were offset by several increases:

- $49 million (6.8 percent) in motor vehicle receipts,
- $16 million (38.1 percent) in the alcoholic beverage control fee,
- $11 million (1.1 percent) in the collection of cigarette and tobacco taxes, and
- $5 million (2.1 percent) in alcoholic beverage and control receipts.

The SFY 2007-08 Enacted Budget Financial Plan projects a $730 million increase in All Funds consumption and user receipts in SFY 2007-08, representing a 5.4 percent increase. The majority of the increase reflects projected growth in the sales tax base from the collection of taxes on sales to non-Native Americans on New York State reservations and continued growth in the economy.

All Funds Consumption/User Tax Receipts
SFY 2005-06 to SFY 2007-08
(in millions of dollars)

	Actual SFY 2005-06	Actual SFY 2006-07	Dollar Change	Percent Change	Enacted SFY 2007-08	Dollar Change	Percent Change
Consumption/User Taxes	**13,858**	**13,456**	**(402)**	**-2.9%**	**14,186**	**730**	**5.4%**
Sales and Use	11,197	10,738	(459)	-4.1%	11,216	478	4.5%
Cigarette and Tobacco	974	985	11	1.1%	1,078	93	9.4%
Motor Fuel Tax	531	514	(17)	-3.2%	537	23	4.5%
Motor Vehicle	720	769	49	6.8%	900	131	17.0%
Highway Use	160	153	(7)	-4.4%	156	3	2.0%
Alcoholic Beverage Tax	192	194	2	1.0%	200	6	3.1%
Alcoholic Beverage Control Fee	42	58	16	38.1%	51	(7)	-12.1%
Auto Rental	42	45	3	7.1%	48	3	6.7%

SFY 2007-08 Executive Budget

The Executive submissions for consumption and user taxes and fees would have had a net positive fiscal impact, increasing revenue by $15 million in SFY 2007-08, $20 million in SFY 2008-09 and $20 million in SFY 2009-10.

Tax Increase Proposals

The Consumption/User tax “loophole closure” proposals recommended in the Executive Budget would have increased revenue by $15 million in SFY 2007-08 and $20 million in SFYs 2008-09 and 2009-10 with the following proposals to:

- **Fully Collect Hotel Sales Tax -** Requires travel companies which purchase hotel rooms at a discounted price to pay sales tax on the full amount charged to customers ($15 million in SFY 2007-08 and $20 million in SFYs 2008-09 and 2009-10), and

- **Alcohol Enforcement Extender** - Extends for two years provisions and penalties of the Alcoholic Beverage Tax (no fiscal impact in SFY 2007-08, 2008-09 or 2009-10).

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to fully collect hotel sales tax, reducing revenue by $15 million in SFY 2007-08 and $20 million in SFY 2008-09 and SFY 2009-10. The Legislature accepted the Executive proposal to extend the provisions and penalties related to the Alcoholic Beverage Tax, which has no fiscal impact.

Business Taxes

All Fund Business tax receipts totaled $8.6 billion in SFY 2006-07, a net $1.5 billion (21.4 percent) increase over SFY 2005-06. The growth is largely attributed to the following:

- $1.2 billion (38.5 percent) to $4.2 billion in corporate franchise receipts,
- $235 million (24.1 percent) to $1.2 billion in bank receipts, and
- $175 million (16.2 percent) to $1.3 billion in insurance tax receipts.

Increases in business tax receipts were offset by the following decreases:

- $56 million (4.9 percent) to $1.1 billion in petroleum business tax receipts, and
- $11 million (1.3 percent) to $821 million in corporate and utilities receipts.

The SFY 2007-08 Enacted Budget Financial Plan projects a $313 million increase (3.6 percent), to $8.9 billion, in All Funds business tax collections in SFY 2007-08. The projected increase is mainly attributed to enacted tax loophole closures which are partially offset by newly enacted tax reductions (discussed below).

All Funds Business Tax Receipts
SFY 2005-06 to SFY 2007-08
(in millions of dollars)

	Actual SFY 2005-06	Actual SFY 2006-07	Dollar Change	Percent Change	Enacted SFY 2007-08	Dollar Change	Percent Change
Business Taxes	**7,088**	**8,606**	**1,518**	**21.4%**	**8,919**	**313**	**3.6%**
Corporation Franchise	3,052	4,227	1,175	38.5%	4,476	249	5.9%
Corporation and Utilities	832	821	(11)	-1.3%	816	(5)	-0.6%
Insurance	1,083	1,258	175	16.2%	1,292	34	2.7%
Bank	975	1,210	235	24.1%	1,150	(60)	-5.0%
Petroleum Business	1,146	1,090	(56)	-4.9%	1,185	95	8.7%

SFY 2007-08 Executive Budget

The combined fiscal impact of the Executive Budget's "loophole closure" and tax reduction proposals would have increased receipts for business taxes by a net $455 million in SFY 2007-08, $416 million in SFY 2008-09 and $412 million in SFY 2009-10.

Tax Increase Proposals

The Executive Budget's "loophole closure" proposals would increase business tax receipts by $459 million in SFY 2007-08 and $424 million in SFYs 2008-09 and 2009-10 with the following proposals:

- **Reporting Tax Shelters** - Makes permanent provisions requiring the reporting of tax shelters to deter tax avoidance ($11 million annually beginning in SFY 2007-08),

- **Corporate Franchise Tax Combined Filing** - Requires combined filing for certain corporations which conduct substantial inter-corporate transactions ($215 million annually beginning in SFY 2007-08),

- **Decouple from Federal Qualified Production Activities** - Decouples from the federal law that provides companies a deduction related to qualified production activities ($29 million in SFY 2007-08 and $35 million annually beginning in SFY 2008-09),

- **Eliminate the Use of Real Estate Investment Trusts (REITs) and Regulated Investment Company (RICs) to Shelter Income** - Conforms to federal rules by requiring corporations to include REIT and RIC distributions in their taxable income base ($104 million in SFY 2007-08 and $83 million in SFY 2008-09 and SFY 2009-10),

- **Use of Grandfathered Corporations** - Prevents banks from using grandfathered corporations to reduce tax liability ($22 million in SFY 2007-08 and $18 million in SFY 2008-09 and SFY 2009-10),

- **Conform to Federal Bad Debt Deduction** - Requires certain banks to use the direct write-off method to calculate debt ($15 million in SFY 2007-08 and $12 million in SFY 2008-09 and SFY 2009-10),

- **Add Back of Subsidiary Expenses** - Requires banks to add back expenses related to subsidiary capital ($40 million in SFY 2007-08 and $32 million in SFY 2008-09 and SFY 2009-10),

- **Extend the Gramm-Leach Bliley Act** - Extends through 2009 provisions of the Gramm-Leach Bliley Act (no fiscal impact in SFY 2007-08, SFY 2008-09 or SFY 2009-10), and

- **Cooperative Insurance Companies** - Limits the current exemption from the insurance tax provided to cooperative insurance companies ($23 million in SFY 2007-08 and $18 million in SFY 2008-09 and SFY 2009-10).

Tax Reductions Proposals

The SFY 2007-08 Executive Budget proposed an increase in the amount of low-income housing tax credits allocated each year and to make the low-income housing credit permanent ($4 million in SFY 2007-08, $8 million in SFY 2008-09 and $12 million in SFY 2009-10).

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive proposals to prevent grandfathered corporations from reducing tax liability and to extend the Gramm-Leach Bliley Act, increasing revenue by $22 million in SFY 2007-08 and $18 million in SFY 2008-09 and SFY 2009-10.

The Legislature also accepted, with slight modifications, several Executive proposals, including the reporting of tax shelters, increasing the amount of the low-income housing tax credit and requiring combined filing for certain corporations. The Executive proposed making reporting of tax shelters permanent; however, the Legislature extended the provisions for two years until 2009. The Legislature also modified the Executive's proposal for low-income housing tax credits by increasing the aggregate amount of State low-income credits by $4 million.

Finally, the Legislature modified the Executive proposal to require combined filing of certain corporations by eliminating the portion of the legislation which would have amended New York City's administrative code. The adopted proposal will increase revenues by $381 million in SFYs 2007-08, 2008-09 and 2009-10. The enacted fiscal impact of this proposal was increased by $166 million from the Executive Budget fiscal impact. The Executive re-estimated the fiscal impact based on prior year liability and increased growth rates.

The Legislature amended the Executive's original proposal to eliminate the use of REITs or RICs to shelter income. The amended proposal will phase out over four years the deduction on certain REIT and RIC income for banks with assets more than $8 billion. Banks with $8 billion or less in taxable assets will not be subject to the phase out. This proposal increases receipts by $102 million in SFY 2007-08, $74 million in SFY 2008-09 and $111 million in SFY 2009-10.

The Legislature rejected the remaining business tax proposals worth $107 million in SFY 2007-08, and $97 million in SFYs 2008-09 and 2009-10, including decoupling from the Federal for Qualified Production Activities, conforming to the federal bad debt deduction method, adding back expenses for subsidiary income and limiting the exemption for cooperative insurance companies.

The SFY 2007-08 Enacted Budget includes several new business tax proposals, which will reduce revenue by approximately $150 million in SFYs 2007-08, 2008-09 and 2009-10:

- **Entire Net Income Rate Reduction** - Reduces the net income rate for banks, corporations and insurance companies from 7.5 percent to 7.1 percent beginning in January 2007 ($75 million annually beginning in SFY 2007-08).

- **Rate Reduction for Manufacturers** - Reduces the entire net income for certain manufacturers from 7.5 percent to 6.5 percent ($5 million in SFY 2007-08 and $55 million in SFYs 2008-09 and 2009-10).

- **Alternative Minimum Tax Reduction** - Reduces the alternate minimum tax from 2.5 percent to 1.5 percent beginning January 31, 2007 ($20 million in SFY 2007-08 and annually thereafter).

- **Accelerate the Single Sales Factor** - Accelerates by one year the phase-in of the single sales factor for apportionment of corporate franchise tax income ($50 million in SFY 2007-08, with no fiscal impact in SFYs 2008-09 and 2009-10).

The net fiscal impact of the SFY 2007-08 Enacted Budget business tax changes increases revenue by $362 million in SFY 2007-08, $330 million in SFY 2008-09 and $356 million in SFY 2009-10.

Other Taxes

All Funds tax receipts for other taxes increased 15.3 percent in SFY 2006-07 to $2.1 billion. Real estate transfer receipts increased $84 million (9.0 percent) to $1.0 billion and estate and gift taxes increased $197 million (23.0 percent) to $1.1 billion in SFY 2006-07.

Decreases included $2 million (8.7 percent) to $21 million in pari-mutuel taxes. In addition, real property gains tax collections continue to decline.

The SFY 2007-08 Enacted Budget Financial Plan projects a $62 million decrease (3.0 percent) in SFY 2007-08 All Funds other tax collections.

All Funds Other Tax Receipts
SFY 2005-06 to SFY 2007-08
(in millions of dollars)

	Actual SFY 2005-06	Actual SFY 2006-07	Dollar Change	Percent Change	Enacted SFY 2007-08	Dollar Change	Percent Change
Other Taxes	**1,819**	**2,097**	**278**	**15.3%**	**2,035**	**(62)**	**-3.0%**
Estate and Gift	856	1,053	197	23.0%	1,114	61	5.8%
Real Property Gains	1	0	(1)	-100.0%	0	0	N/A
Real Estate Transfer	938	1,022	84	9.0%	900	(122)	-11.9%
Pari-Mutuel	23	21	(2)	-8.7%	20	(1)	-4.8%
Other	1	1	0	0.0%	1	0	0.0%

SFY 2007-08 Executive Budget

The Executive's proposals to extend Quick Draw, pari-mutuel racing and child support enforcement provisions have no fiscal impact in SFYs 2007-08, 2008-09 or 2009-10.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposals to extend pari-mutuel racing and child support enforcement provisions.

All Funds
Executive Proposed and Enacted Tax Legislation
(in millions of dollars)

	SFY 2007-08	SFY 2008-09	SFY 2009-10
PERSONAL INCOME TAX			
Executive Proposals	**36**	**181**	**151**
Extend and Restructure LLC Fees	30	30	30
Reporting Tax Shelters	6	6	6
Federal S Corporation Election	0	100	100
Sales Tax Itemized Deduction	0	30	0
Partnership Tax Abuse	0	15	15
Legislative Adopted	**6**	**121**	**115**
Reporting Tax Shelters	6	6	0
Partnership Tax Abuse	0	15	15
Federal S Corporation Election	0	100	100
USER TAXES AND FEES			
Executive Proposals	**15**	**20**	**20**
Tax on Hotel Sales	15	20	20
Alcohol Tax Enforcement Extender	-	-	-
BUSINESS TAXES			
Executive Proposals	**459**	**424**	**424**
Reporting Tax Shelters	11	11	11
Corporation Franchise Tax Combined Filing	215	215	215
Decouple from Federal for Qualified Production Activities	29	35	35
REITS	104	83	83
Grandfathered Corporations	22	18	18
Conform to Federal Bad Debt Deduction	15	12	12
Add Back of Subsidiary Expenses	40	32	32
Extend Gramm-Leach Bliley	0	0	0
Cooperative Insurance Companies	23	18	18
Legislative Adopted	**516**	**484**	**510**
Reporting Tax Shelters	11	11	0
Corporation Franchise Tax Combined Filing	381	381	381
REITS	102	74	111
Grandfathered Corporations	22	18	18
Extend Gramm-Leach Bliley	0	0	0
ALL OTHER			
Executive Proposals	**0**	**0**	**0**
Pari-Mutuel Extender	-	-	-
Quick Draw Extender	-	-	-
Child Support Enforcement	-	-	-
Executive Proposed	**(4)**	**(33)**	**(37)**
Personal Income Tax			
Education Child Credit	-	(25)	(25)
Business Taxes			
Low-Income Housing Credit	(4)	(8)	(12)

	SFY 2007-08	SFY 2008-09	SFY 2009-10
Legislative Adopted			
Business Taxes	**(154)**	**(154)**	**(154)**
Entire Net Income Rate Cut for Corporations	(56)	(56)	(56)
AMT Rate Cut	(20)	(20)	(20)
Special Entire Net Income Rate for Manufacturing	(5)	(55)	(55)
Entire Net Income Rate Cut for Banks	(18)	(18)	(18)
Entire Net Income Rate Cut for Insurance Companies	(1)	(1)	(1)
Accelerate Single Sales Factor for Corporate Franchise Tax	(50)	0	0
Low-Income Housing	(4)	(4)	(4)
TOTAL EXECUTIVE TAX ENHANCEMENTS	**510**	**625**	**595**
TOTAL LEGISLATIVE ADOPTED TAX ENHANCEMENTS	**522**	**605**	**625**
NET EXECUTIVE FISCAL IMPACT	**506**	**592**	**558**
NET LEGISLATIVE ADOPTED FISCAL IMPACT	**368**	**451**	**471**

Net Fiscal Impact of Rejecting Executive Proposals
(in millions of dollars)

	SFY 2007-08	SFY 2008-09	SFY 2009-10
Personal Income Tax	**30**	**35**	**5**
Education Tax Credit	-	(25)	(25)
Sales Tax Itemized Deduction	0	30	0
Extend and Restructure LLC Fees	30	30	30
Consumption and User Taxes	**15**	**20**	**20**
Tax on Hotel Sales	15	20	20
Alcohol Tax Enforcement Extender	-	-	-
Business Taxes	**107**	**97**	**97**
Decouple from Federal for Qualified Production Activities	29	35	35
Conform to Federal Bad Debt Deduction	15	12	12
Add Back of Subsidiary Expenses	40	32	32
Cooperative Insurance Companies	23	18	18
Total Fiscal Impact of Rejections of Executive Proposals	**152**	**152**	**122**

Section

4

Structural Balance

Through a series of actions incorporated in the SFY 2007-08 Budget, the Executive closed a projected General Fund imbalance of $1.5 billion for the current fiscal year. The SFY 2007-08 Enacted Budget added $1.2 billion in new initiatives financed through $1.2 billion in higher estimates of receipts. However, approximately $3 billion in risks to this fiscal plan exist that could put this fiscal balance in jeopardy.

Structural Balance in SFY 2007-08

The Executive proposed a SFY 2007-08 General Fund budget of $53.2 billion in disbursements and $52.7 billion in receipts.[6] Disbursements growth from the 2006-07 State Fiscal Year was proposed to be 4.2 percent; receipts growth was lower, at 2.4 percent.

The Legislature enacted a SFY 2007-08 General Fund budget of $53.7 billion in disbursements and $53.7 billion in receipts, representing unadjusted disbursements growth from SFY 2006-07 of 4.1 percent and receipts growth of 4.5 percent.[7] The State is expected to end SFY 2007-08 with a General Fund closing balance of $3.033 billion, of which $1.2 billion is unused surplus from SFY 2006-07 and planned for use in SFYs 2008-09 through 2010-11, and $353 million is in the Community Projects fund, of which $281 million will be used in out years to finance member items.

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[6] Division of the Budget. *New York State Financial Plan Projections.* Updated February 21, 2007.

[7] The State moved $565 million in revenue ($129 million) and spending ($434 million) between SFYs 2006-07 and 2007-08. Disbursement growth reported in the SFY 2007-08 Enacted Budget Financial Plan is 4.1 percent. However, when adjusting for timing related disbursement changes, year to year growth is actually 5.8 percent. See the Financial Overview section of this report for additional detail.

Structural Balance Between SFY 2008-09 and SFY 2010-11

By increasing spending faster than revenues, the SFY 2007-08 Executive Budget projected a cumulative three-year General Fund gap of $13.0 billion, ranging from $2.3 billion in SFY 2008-09 to $6.2 billion in SFY 2010-11. These gaps assume average annual growth in receipts of 4.3 percent as compared to average annual spending growth of 7.7 percent.[8]

The SFY 2007-08 Enacted Budget increased the out year General Fund gap by $813 million in SFY 2008-09, $288 million in SFY 2009-10 and $380 million in SFY 2010-11. This increases the three-year gap by $1.5 billion, from $13.0 billion to $14.5 billion, and reflects projected annual average revenue growth of 4.3 percent between SFYs 2007-08 and 2010-11 and projected annual average disbursement growth of 8.2 percent.

General Fund Budget Growth
SFY 2008-09 through SFY 2010-11

	2007-08 Enacted	2008-09 Projected	2009-10 Projected	2010-11 Projected
Revenues				
Executive	52,666	54,537	57,154	59,762
Enacted	53,672	55,179	58,258	60,868
Disbursements				
Executive	53,248	57,380	62,188	66,459
Enacted	53,684	58,750	63,495	68,045
Structural Gap (before reserve actions)				
Executive	(582)	(2,843)	(5,034)	(6,697)
Enacted	(12)	(3,571)	(5,237)	(7,177)
Projected Gap (after reserve actions)				
Executive	--	(2,292)	(4,483)	(6,245)
Enacted	--	(3,105)	(4,771)	(6,625)

These gaps are driven by spending that is outpacing receipts and excessive use of non-recurring resources for recurring operational needs.

The SFY 2007-08 Enacted Budget increased estimated General Fund disbursements over the Executive proposal by $1.4 billion in SFY 2008-09, $1.3 billion in SFY 2009-10 and $1.6 billion in SFY 2010-11. Receipts are estimated to grow over the Executive's proposal by $642 million in SFY 2008-09 and $1.1 billion in both SFYs 2009-10 and 2010-11.

[8] These figures assume the disbursement of $401 million in each year from the $1.2 billion projected surplus at the end of 2007-08.

Reserves

The SFY 2007-08 Enacted Budget follows the Executive's proposal by authorizing the deposit of $250 million to the Debt Reduction Reserve Fund and $175 million to the newly established Rainy Day Fund.[9] The remaining surplus from SFY 2006-07 will be divided equally among subsequent years beginning in SFY 2008-09.

Closing General Fund Balance and Use of Reserves
SFY 2007-08 through SFY 2010-11
(in millions of dollars)

	SFY 2007-08	SFY 2008-09	SFY 2009-10	SFY 2010-11
Statutory Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	1,031	1,031
Rainy Day Fund	175	175	175	175
Contingency Reserve Fund	21	21	21	21
Community Projects Fund	353	288	223	72
Debt Reduction Reserve Fund	250	--	--	--
Refund Reserve				
SFY 2006-07 Surplus	1,203	802	401	--
Projected General Fund Closing Balance	**3,033**	**2,317**	**1,851**	**1,299**

History of Non-Recurring Resources

Over the five-year period beginning in SFY 2002-03, New York State used $18.9 billion in one-time revenues to finance the ongoing operations of the General Fund. The use of non-recurring resources to finance recurring expenses worsens the ongoing structural deficit: non-recurring resources should only be used for non-recurring expenses, such as paying down debt or pay-as-you-go (PAYGO) capital spending. The SFY 2007-08 Enacted Budget provides an additional $250 million in surplus funds for deposit to the Debt Reduction Reserve Fund and $175 million to be deposited in the State's new Rainy Day Fund. Nonetheless, the Enacted Budget uses an additional $1.9 billion in non-recurring resources to balance the SFY 2007-08 Budget, equaling 3.5 percent of General Fund spending. Of this amount, $649 million is surplus from SFY 2006-07.

[9] The Rainy Day Fund was established in Chapter 1 of the Laws of 2007.

Non-Recurring Resources
SFY 2002-03 through SFY 2007-08
(in millions of dollars)

2002-03	4,006
2003-04	5,556
2004-05	2,375
2005-06	3,913
2006-07	3,011
2007-08 Enacted	**1,856**

Source: Office of the State Comptroller, *Report on the Enacted Budget*, various years.

Risks to the Out Year Financial Plan

The Office of the State Comptroller has identified over $3 billion in additional risks over the three out years, any one of which could create pressure on the State's fiscal health.[10]

Use of Surplus

The SFY 2007-08 Enacted Budget preserved the Executive's plan to reduce the three-year current services gap by using $1.2 billion of the surplus from SFY 2006-07. However, access to this surplus is not restricted and various spending pressures, along with priorities added by the Legislature or the Executive, could result in additional spending beyond what is already planned, thus reducing the amount available for out year gap reduction.

Video Lottery Terminal Support for Schools

The Division of the Budget (DOB) estimates revenues of $586 million from seven Video Lottery Terminal (VLT) facilities in SFY 2007-08—an increase of $316 million over what was received in SFY 2006-07. According to Comptroller's Office analysis, the SFY 2007-08 projection is approximately $129 million, or 22 percent, higher than what could be expected based on historical performance. Furthermore, since SFY 2003-04, when VLTs began operating, revenue estimates have been overstated despite the State's reductions in Financial Plan projections throughout the fiscal year. For example, in SFYs 2004-05 and 2005-06, estimates were 41 percent and 29 percent higher, respectively, than actual receipts. In SFY 2006-07, the original estimate of $358 million was reduced to $275 million, a 23 percent cut, in the SFY 2006-07 Financial Plan Update submitted with the Executive's proposed budget.

[10] See Section 3, Financial Overview.

In addition to the $586 million projected for SFY 2007-08, DOB expects VLTs to generate *additional* revenues of $476 million in SFY 2008-09, $286 million in SFY 2009-10 and $430 million in SFY 2010-11, resulting in total VLT revenues of $1.8 billion by SFY 2010-11. A portion of the projected increase is attributed to VLT expansion; however, there is no specific expansion proposal for the Legislature's consideration at this time. With lower than anticipated historical performance and the lack of a concrete expansion plan, estimates could be 22 percent higher than actual revenues, thus creating additional General Fund strain in out years. In addition, increased competition from a new casino could reduce funding generated by nearby VLT establishments, thereby lowering revenues for educational needs and increasing stress on the General Fund.

Insurance Conversion Proceeds

The Executive proposed and the Legislature enacted a conversion to for-profit status for another insurance company. According to the Financial Plan, proceeds from the sale of stock would not affect the Health Care Reform Act (HCRA) receipts until SFY 2008-09. DOB projects $284 million in both SFYs 2008-09 and 2009-10, increasing to $334 million in SFY 2010-11. However, as with the Empire conversion in which proceeds from the sale were held in trust pending litigation (since released), actual receipt of the proceeds from the proposed conversion could be delayed should there be court action.[11]

By SFY 2008-09, HCRA fund balances will be significantly diminished, largely due to the lack of tobacco settlement revenues, which were securitized in SFY 2003-04. While the language authorizing the sale of future tobacco settlement revenues authorized a General Fund guarantee that would provide funds to HCRA in case of a shortfall in revenue, under the SFY 2007-08 Enacted Budget that guarantee is "notwithstood" through 2011. Nonetheless, if conversion proceeds do not materialize or are delayed due to legal proceedings, HCRA funds may require additional support from the General Fund or elsewhere.

Statewide Wireless Network

The Statewide Wireless Network (SWN), a radio network for State public safety and public service agencies that is planned statewide, will be implemented through a $2 billion contract with M/A-COM. Completion of the SWN is expected in 2010. OFT, however, acknowledges that both it and the Division of the Budget are aware that the E-911 surcharge revenue may not cover all of the annual SWN lease payments.

[11] Mayor Michael Bloomberg testified before the legislative fiscal committees on February 5, 2007 regarding the HIP/GHI merger that "[y]ou should know that New York City is suing to prevent this outrageously anticompetitive merger that could be detrimental to our taxpayers."

Economic Projections

Finally, the out year Financial Plan assumes continued growth in nearly all sectors of the State's economy. Given New York State's heavy reliance on personal income to generate revenue, the Financial Plan is particularly vulnerable to downturns in the economy.

Section

5

Debt and Capital

Over the ten-year period between March 31, 1997 and March 31, 2007, New York's State funded debt burden grew from $33.1 billion to $51.0 billion, a 54 percent increase.[12] State funded debt per capita increased from $1,781 to $2,645 over the same period.

With $51.0 billion in State funded debt outstanding at the end of SFY 2006-07, New York State's debt burden is surpassed only by the State of California. According to Moody's Investors Service, New York State has the fifth highest debt per capita (3.4 times higher than the national median) and debt as a percentage of personal income (2.8 times the national median) in the country.[13]

Furthermore, under the SFY 2007-08 Enacted Budget Capital Program and Financing Plan, New York's debt burden will continue to grow. The Plan contemplates a total of $26.3 billion in new State supported debt issuances over the five-year period between SFYs 2007-08 and 2011-12. This figure does not include approximately $3.5 billion in new debt issuances backed with future State Building Aid payments that are planned by the Transitional Finance Authority (TFA). Considering these additional issuances, total State funded issuances planned for the next five years increase to $29.8 billion.

The SFY 2007-08 Executive Budget included nearly $3.2 billion in new debt to support new capital initiatives. In the Enacted Budget, the Legislature rejected $2.1 billion of the Executive's proposed increase. The Legislature also added $16 million for transportation projects and $1.3 million for rehabilitation of legislative hearing rooms. Although the Legislature rejected a proposed $300 million appropriation for a new computer chip research and development facility, the SFY 2007-08 Enacted Budget Capital Program and Financing Plan includes $300 million for this purpose and

[12] State funded debt is a comprehensive measure of the State's debt burden developed by the Office of the State Comptroller over the last several years.

[13] Moody's Investors Service. *2007 State Debt Medians*. April 2007.

assumes that bonds will be issued and the proceeds will be spent over the life of the Plan.

When these new debt authorizations are considered, the State's debt burden will grow to nearly $65 billion by the end of 2012, an increase of 194 percent from 1992 (5.6 percent average annual) and 75 percent from 2002 (5.9 percent average annual). This new debt will increase debt service costs to nearly $7.2 billion by 2011-12.

By the Executive's own measure of State related debt, between the period of 1998 and 2005, debt as a percentage of personal income consistently exceeded the national average and the average for peer states.[14] Further, State related debt outstanding is projected to grow 13.9 percent in the first two years of the Five-Year Capital Plan (8 percent and 5.9 percent, respectively). This represents the second and third largest increase in State related debt outstanding over the past 12 years, exceeded only in SFY 2003-04 when it grew by 15.4 percent. State related debt service is projected to increase in each of the next five fiscal years and reach nearly 5 percent of the All Funds budget by the end of SFY 2011-2012. State related debt per capita is also projected to increase in each of the next five fiscal years from $2,493 in 2006 to $3,016 in 2012, an increase of 21 percent.

Based on the SFY 2007-08 Enacted Budget Capital Program and Financing Plan, outstanding State funded debt will increase to $64.7 billion by the end of 2011-12, representing a 27 percent increase from SFY 2006-07 and a 95.4 percent increase from 1997. State funded debt service is projected to increase to nearly $7.2 billion in SFY 2011-12, an increase of $2.1 billion, or 41.8 percent, from SFY 2006-07 and an increase of 118.6 percent from SFY 1997-98. Since SFY 1997-98, State funded debt outstanding has grown at an average annual rate of 4.6 percent—almost two times the average rate of inflation for the same period.

[14] State related debt is not statutorily defined, although it is described in historic budget and disclosure documents. According to the Executive, the "State related" debt levels reported in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan are cash-basis components of the actual Generally Accepted Accounting Principles (GAAP) debt levels reported in the Comptroller's Comprehensive Annual Financial Report (CAFR), including all debt issued by the State (including blended component units) for government activities and business-type activities. However, debt is reported in the CAFR in accordance with GAAP and there is no conversion to cash reporting in the CAFR as described by the Executive. There are also elements of debt reported in the CAFR that are not included in the State related debt figures presented in the SFY 2007-08 Enacted Capital Program and Financing Plan, such as all capital lease obligations, mortgage loan commitments, bond premiums and accumulated accretion on Capital Appreciation bonds. Furthermore, the CAFR does not report Moral Obligation, State Guaranteed or Contingent Contractual Obligations as debt of the State in accordance with GAAP. This debt is disclosed as a contingency commitment of the State in the CAFR. The Office of the State Comptroller presents a different accounting of State related debt in the *State of New York Comptroller's Annual Report to the Legislature on State Funds Cash Basis of Accounting*, which incorporates State supported debt, State funded debt, Moral Obligation debt, Contingent-Contractual and State Guaranteed Obligations. All of the State related figures contained in this report are as presented by the Executive in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan.

What is Counted As State Debt?

Since SFY 2003-04, $7.7 billion in bonds have been issued that provide budget relief to the State and its local governments with no resulting physical asset for the State and its taxpayers. Moreover, this debt is *not* counted as State supported in the Five-Year Capital Program and Financing Plan, even though these obligations are funded with State resources. This is a clear illustration that the definition of State supported debt provided in Section 67-a of the State Finance Law, as added by the Debt Reform Act of 2000, is not a comprehensive measure of the State's outstanding debt obligation.

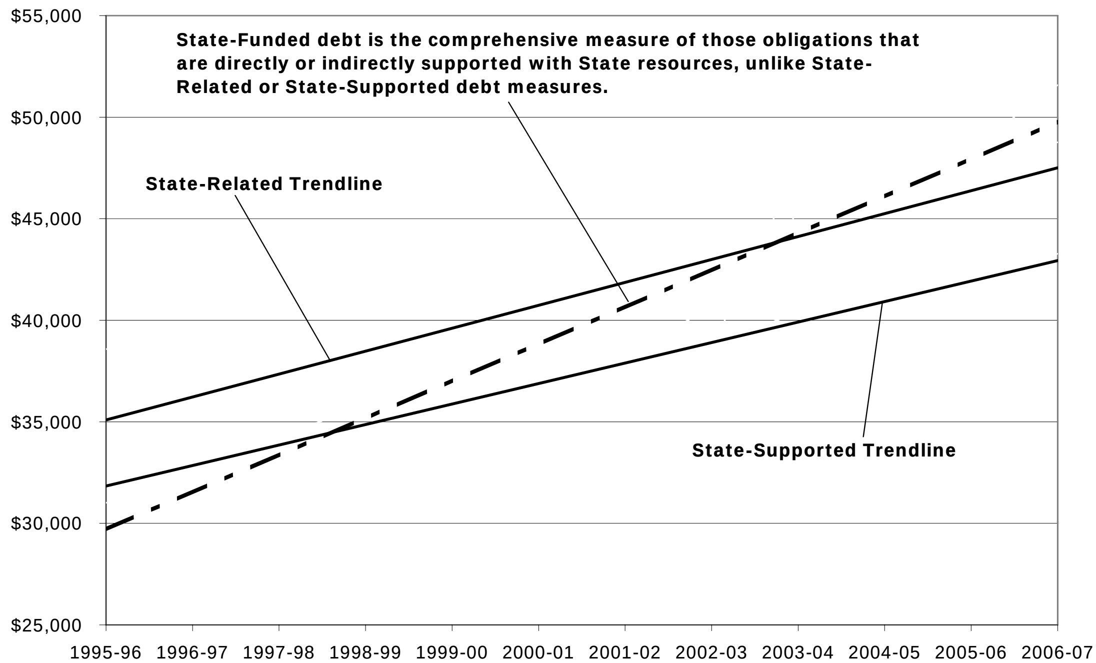
To provide a more comprehensive measure of the State's debt burden, this Office has developed a new measure called State funded debt over the past several years. This concept not only includes State supported debt, as defined and limited by the provisions of the Debt Reform Act of 2000, but also includes other debt that is not counted under statutory caps, but whose payment is nonetheless supported solely with State resources.

Following the lead of this Office and others, including bond rating agencies and fiscal watchdog groups, in SFY 2006-07, the Executive expanded the reporting of debt in the Capital Program and Financing Plan to include a modified version of State related debt in addition to State supported debt (as defined in the Debt Reform Act of 2000). The SFY 2007-08 Enacted Budget Capital Program and Financing Plan continues this practice.

State related debt as presented in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan, however, includes obligations that should not be counted in the State debt burden (such as moral obligation and State guaranteed debt), while it does not include other obligations that should be counted in the State debt burden (such as the refinanced New York City Municipal Assistance Corporation—MAC— debt issued by the Sales Tax Asset Receivable Corporation—STARC—and the recently authorized Building Aid Revenue Bonds—BARBs—issued by New York City's TFA, both of which are funded solely with State local assistance payments).

The implication of counting the State's debt in this manner is that it exaggerates the base year shown for current year comparisons with liabilities the State has not historically supported with State funding. Further, since Moral Obligation debt is not authorized to be issued any longer, the decline of such debt is faster than the decline of other categories of debt. The combined effect of exaggerating the base with debt that is not supported by State revenues coupled with debt that can no longer be legally increased, essentially, paints an overly optimistic picture of the State's current debt burden when contrasted with State funded debt over the last two decades. As illustrated in the following chart, growth trends for State related and State supported debt are similar; however, the trend for State funded debt reveals significantly faster growth.

Trends in Debt Growth
State Supported, State Related and State Funded
SFY 1995-96 through SFY 2006-07
(in millions of dollars)



State Funded vs. State Related Debt Outstanding

The SFY 2007-08 Enacted Budget Capital Program and Financing Plan indicates that that the State ended SFY 2006-07 with approximately $48.1 billion in State related debt outstanding, compared to $51.0 billion in State funded debt outstanding reported by the Office of the State Comptroller. The following table illustrates the difference between State supported debt as defined in statute, State related debt as presented by the Executive in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan and, finally, State funded debt as defined by the Office of State Comptroller.

State Debt Outstanding
SFY 2006-07
(in millions of dollars)

	State Supported	State Related (1)	State Funded
State Supported	42,657	42,657	42,657 (2)
Contingent Contractual			
Secured Hospitals		793	(3)
Tobacco Settlement Financing Corporation (TSFC)		4,084	
Moral Obligation			(4)
HFA		54	
MCFFA		8	
State Guaranteed			(5)
JDA		57	
Other			
TSFC			4,084 (6)
MBBA Prior-Year Claims		484	484 (7)
STARC			2,456 (8)
TFA			1,300 (9)
Total	**42,657**	**48,137**	**50,981**

(1) As presented by the Executive in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan.
(2) As defined by Section 67-a of the State Finance Law.
(3) Issued by Dormitory Authority of the State of New York and the Medical Care Facilities Finance Agency.
(4) Moral Obligation debt was capped in 1976.
(5) The State Constitution unconditionally guaranteed the debt service for certain obligations issued by the New York State Thruway Authority, the Job Development Authority, and the Port Authority of New York and New Jersey. Only State guaranteed debt issued by the Job Development Authority remains outstanding.
(6) The State Comptroller counts debt issued by the Tobacco Settlement Financing Corporation (TSFC) as State funded due to the foregone tobacco settlement revenues, rather than the contingent obligation.
(7) Obligations issued by the Municipal Bond Bank Agency (MBBA) to finance prior-year school aid claims of eight school districts.
(8) The Sales Tax Asset Receivable Corporation (STARC) issued $2.6 billion to refinance New York City Municipal Assistance Corporation debt, and the debt service is funded solely with payments from the State.
(9) The SFY 2006-07 Enacted Budget authorized the Transitional Finance Authority (TFA) of New York City to issue $9.4 billion in bonds that are funded solely with future State Building Aid payments. Two sales totaling $1.3 billion occurred within SFY 2006-07.

The table above illustrates the shortcomings of the statutory definition of State supported debt in the Debt Reform Act of 2000—it does not provide a comprehensive measurement of the State's true debt burden. State related debt, as reported by the Executive, incorporates certain debt categories that exaggerate the State's burden, while avoiding a significant State obligation by not including the $2.5 billion in debt attributed to STARC issued to refinance New York City's outstanding MAC debt and $1.3 billion in BARBs issued by New York City's TFA.

The debt service on STARC debt is paid only with a specific revenue stream provided through an annual State appropriation to New York City and, therefore, should be included in any measure of the State's debt burden.[15] Furthermore, STARC is authorized to pledge that revenue to the bondholders. In the SFY 2006-07 Enacted Budget, the State authorized up to $9.4 billion in new debt that is funded solely with future State Building Aid payments to be issued by the TFA. Similar to STARC, the State authorized the City to assign its future State Building Aid payments to the TFA and pledge the aid as the sole source of payment to bondholders.

New Debt

The Capital Program and Financing Plan submitted with the SFY 2007-08 Executive Budget projected $56.1 billion of outstanding State supported debt by 2011-12, representing a $12.8 billion, or 29.6 percent, increase from projected levels for SFY 2006-07. Legislative actions reduced new debt authorizations by $2.1 billion for a net increase over the Executive's proposal of $1.1 billion, thus reducing projected State supported debt outstanding to $55.3 billion in 2011-12. The new debt authorized in the SFY 2007-08 Enacted Budget will increase debt service costs to nearly $7.2 billion by 2011-12.

[15] The payment is made in an annual $170 million appropriation from the Local Government Assistance Tax Fund, from State sales tax receipts, to New York City.

New Debt Authorized SFY 2007-08
Executive Budget vs. Enacted Budget
(in millions of dollars)

Description	Executive Proposed	Enacted
SUNY/CUNY	646.0	646.0
Stem Cell GO Bond Act	1,500.0	--
Other Economic Development*	600.0	--
Mental Health Facilities	200.0	200.0
Court Facilities	77.9	77.9
Cultural Education Storage Facilities	60.0	60.0
State Police	50.0	50.0
Other Economic Development	50.5	50.5
Education Libraries	14.0	14.0
Miscellaneous Transportation	--	16.0
Legislative Office Building Hearing Rooms	--	1.3
Total	**3,198.4**	**1,115.7**

* Note that $300 million proposed for a computer chip research and development facility is included in the Capital Plan, although no appropriation for this purpose was included in the SFY 2007-08 Enacted Budget. The $300 million for this purpose is not included in the Enacted column on this table since it has not yet been enacted into law.

Projected Outstanding State Funded Debt and Debt Service Levels

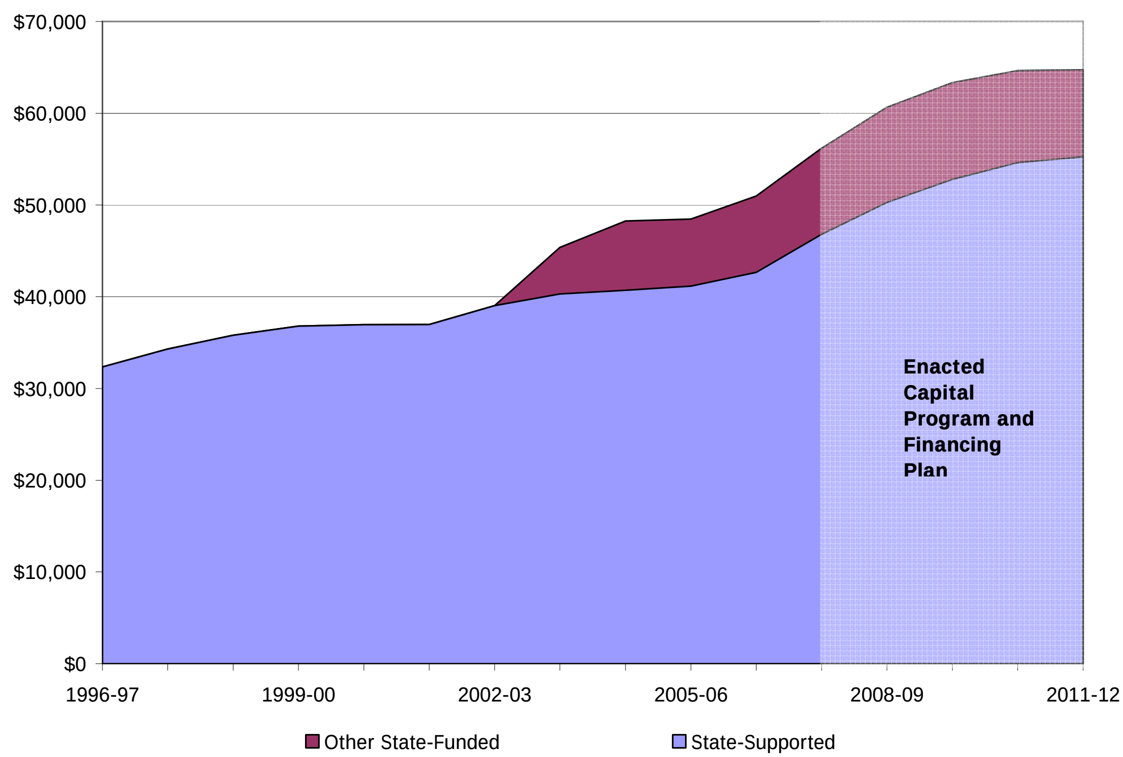
State Funded Debt Outstanding

New initiatives, along with existing debt authorizations included with the Five-Year Capital Program and Financing Plan submitted with the SFY 2007-08 Executive Budget, were expected to increase State funded debt outstanding to over $65 billion by the end of SFY 2011-12. The Executive's proposal included a $1.5 billion General Obligation Bond Act to support capital spending related to Stem Cell research and development. The Executive's proposal also included $600 million for additional economic development projects and initiatives. The SFY 2007-08 Enacted Budget eliminated these capital initiatives.

The Office of the State Comptroller's analysis of State funded debt shows that debt outstanding will increase to $64.7 billion, representing an increase of $13.8 billion, or 27 percent, since SFY 2006-07. The largest share of this growth ($11.9 billion) comes from bonds issued by public authorities on behalf of the State (back-door borrowing) and approximately $3.5 billion in TFA planned issuances of Building Aid Revenue Bonds (BARBs) through 2010. These obligations are backed solely by future State Building Aid payments that have been assigned by New York City to the TFA.

As the chart below illustrates, State supported debt outstanding grows significantly faster annually over the life of the Capital Plan than the annual growth of the previous ten years. In fact, State supported debt increases an average 4.3 percent annually, as compared to 2.6 percent average annual growth between SFY 1996-97 and SFY 2006-07. This is in large part due to the $7 billion in new State supported debt added in the SFY 2006-07 Enacted Budget that will be reflected in debt issuance over the life of the Plan. The largest component of the new debt is attributed to the $2.6 billion EXCEL program that will provide capital funds to schools.

Outstanding and Projected State Supported and State Funded Debt 1997-2012
(in millions of dollars)



The average annual growth in State funded debt over the life of the Five-Year Plan is less than over the previous ten years; however, this is due to the fact that the City forecast for TFA issuances is only through 2010. State Funded debt grew an average of 4.5 percent annually between SFY 1996-97 and SFY 2006-07. Over the life of the Capital Program and Financing Plan, State funded debt outstanding grows annually by an average of 3.6 percent. This growth is primarily due to the growth in State supported authority debt. The new BARBs issued by the TFA add to the growth, but those obligations only account for approximately $3.5 billion of the net $13.8 billion increase in State funded debt—State supported public authority debt comprises 86.4 percent, or $11.9 billion, of the growth. Voter-approved General Obligation bonds comprise only 5.3 percent of the growth. These increases are offset by declines in debt outstanding related to TSFC, STARC and MBBA for bonds issued to support prior year school aid claims.

State of New York Projected State-Funded Debt Outstanding 2006-07 through 2011-12 (in thousands of dollars)								
		Enacted Capital Plan					Total Percent Change Cap Plan	Total Dollar Change Cap Plan
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2007 end - 2012 end	2007 end - 2012 end
General Obligation	3,302,437	3,310,336	3,501,541	3,774,470	3,973,107	4,043,482	22.44%	741,045
Other State-Supported Public Authority	39,354,972	43,504,345	46,779,521	49,029,428	50,647,172	51,215,018	30.14%	11,860,046
2006-07 Capital Plan (State-Supported)	**42,657,409**	**46,814,681**	**50,281,062**	**52,803,898**	**54,620,279**	**55,258,500**	**29.54%**	**12,601,091**
TSFC	4,084,470	3,840,120	3,521,750	3,178,845	2,810,475	2,414,660	-40.88%	(1,669,810)
TFA BARBs	1,300,000	2,671,000	4,046,190	4,641,843	4,580,857	4,504,223	246.48%	3,204,223
STARC	2,456,505	2,406,775	2,355,255	2,301,730	2,245,990	2,187,820	-10.94%	(268,685)
MBBA	484,455	463,685	442,065	419,475	395,775	370,910	-23.44%	(113,545)
Total Other	**8,325,430**	**9,381,580**	**10,365,260**	**10,541,893**	**10,033,097**	**9,477,613**	**13.84%**	**1,152,183**
Projected Outstanding (State-Funded)	**50,982,839**	**56,196,261**	**60,646,322**	**63,345,791**	**64,653,376**	**64,736,113**	**26.98%**	**13,753,274**

New Debt Issuances

Over the next five years, the State will issue $26.3 million in new State supported bonds and the New York City TFA is planning to issue approximately $3.5 billion in State funded BARBs for a total $29.8 billion. Transportation spending will drive the majority of new issuances with 31 percent of total State supported issuance. Education needs, both higher and lower education, will be funded with the next largest share at 26.5 percent of State supported issuances (this share includes the $2.6 billion in EXCEL bonds authorized in SFY 2006-07). However, when $3.5 billion in new BARBs is added, education needs will drive 34.5 percent of new State funded debt issuances.

State of New York Projected State-Funded Debt Issuances 2007-08 through 2011-12 (in thousands of dollars)

		Enacted Capital Plan					Total Cap Plan
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2008-2012
General Obligation	180,475	357,600	545,100	638,100	578,100	455,100	2,574,000
Other State-Supported Public Authority	3,507,325	6,068,659	5,278,021	4,614,994	4,108,747	3,690,716	23,761,137
Total State-Supported Issuances	**3,687,800**	**6,426,259**	**5,823,121**	**5,253,094**	**4,686,847**	**4,145,816**	**26,335,137**
TFA BARBs	1,300,000	1,394,000	1,394,000	698,000	-		3,486,000
Total State-Funded Issuances	**4,987,800**	**7,820,259**	**7,217,121**	**5,951,094**	**4,686,847**	**4,145,816**	**29,821,137**

Note: The amounts shown for Transitional Finance Authority Building Aid Revenue Bonds (TFA BARBs) reflect the Financing Program proposed by the Mayor on April 26, 2007 and $1.3 billion issued in SFY 2006-07.

New Debt Retirements

The SFY 2007-08 Enacted Five-Year Capital Program and Financing Plan projects $13.7 billion in State supported debt will be retired over the next five years, about half of planned issuances. In addition, another $2.2 billion in other State funded obligations are estimated to be retired, bringing total planned State funded debt retirements to slightly under $16 billion over the next five years.

State of New York Projected State-Funded Debt Retirements 2006-07 through 2011-12 (in thousands of dollars)

		Enacted Capital Plan					Total Cap Plan
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2008-2012
General Obligation	352,072	349,701	353,895	365,172	379,462	384,725	1,832,955
Other State-Supported Public Authority	1,727,688	1,919,326	2,002,845	2,365,086	2,491,002	3,122,871	11,901,130
Total State-Supported Retirements	**2,079,760**	**2,269,027**	**2,356,740**	**2,730,258**	**2,870,464**	**3,507,596**	**13,734,085**
TSFC	193,820	244,350	318,370	342,905	368,370	395,815	1,669,810
TFA BARBs			18,810	39,680	61,331	77,904	197,725
STARC	48,145	49,730	51,520	53,525	55,740	58,170	268,685
MBBA	20,025	20,770	21,620	22,590	23,700	24,865	113,545
Total Other	**261,990**	**314,850**	**410,320**	**458,700**	**509,141**	**556,754**	**2,249,765**
Total State-Funded Retirements	**2,341,750**	**2,583,877**	**2,767,060**	**3,188,958**	**3,379,605**	**4,064,350**	**15,983,850**

Debt Service

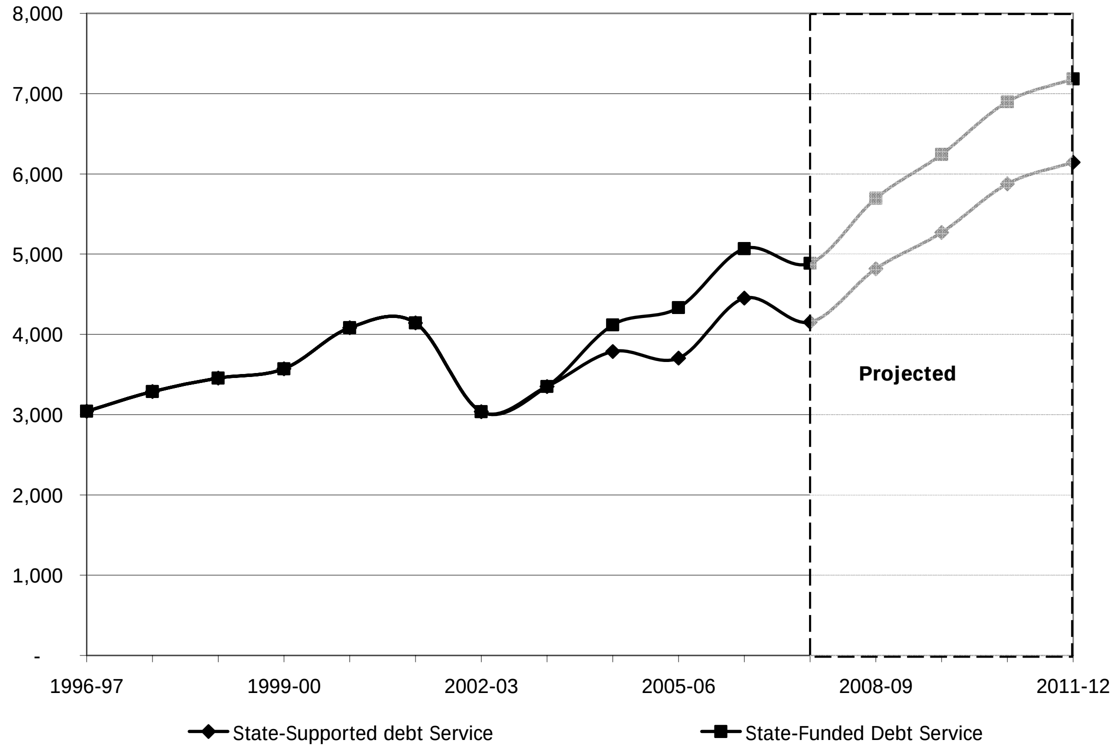
Debt service projections are dependent on how much debt is issued each year and how those bonds are structured, as well as future interest rates. In SFY 2006-07, the State disbursed nearly $4.5 billion for debt service on outstanding State supported debt with an additional $618 million for other State funded obligations, for a total of $5.1 billion. State funded debt service is anticipated to grow to nearly $7.2 billion by 2011-12, a 47.1 percent increase from SFY 2007-08.

State of New York Projected State-Funded Debt Service 2006-07 through 2011-12
(in thousands of dollars)

		Enacted Capital Plan					Total Percent Change	Total Dollar Change
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2008-2012	2008-2012
General Obligation	498,197	489,746	493,921	515,835	547,246	566,982	15.77%	77,236
Other State-Supported Public Authority	3,952,937	3,664,152	4,324,232	4,754,663	5,330,199	5,577,794	52.23%	1,913,642
2007-08 Capital Plan (State-Supported)	**4,451,134**	**4,153,898**	**4,818,153**	**5,270,498**	**5,877,445**	**6,144,776**	**47.93%**	**1,990,878**
TSFC	403,051	443,989	503,296	510,539	517,063	524,190	18.06%	80,201
TFA BARBs		73,320	160,078	247,767	295,796	304,022	314.65%	230,702
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.00%	-
MBBA	45,189	45,186	45,184	45,182	45,189	45,182	-0.01%	(4)
Total Other	**618,240**	**732,495**	**878,558**	**973,488**	**1,028,048**	**1,043,394**	**42.44%**	**310,899**
Projected Debt Service (State-Funded)	**5,069,374**	**4,886,393**	**5,696,711**	**6,243,986**	**6,905,493**	**7,188,170**	**47.11%**	**2,301,777**

Both State funded and State supported debt service grows faster annually over the life of the Plan than over the previous ten years. State funded debt service grows an average of 10.2 percent annually, compared to 6.1 percent between SFY 1996-97 and SFY 2006-07, and State supported debt service increases 10.4 percent annually compared to 4.7 percent annually in the previous ten-year period.

Growth In State Supported and State Funded Debt Service
1996-97 through 2011-12
(in millions of dollars)



Financing Sources

The percentage of State cash used to finance non-federal capital needs increases over the course of the proposed Capital Program and Financing Plan from 22.4 percent to 31.7 percent on an annual basis over the five-year period. General Obligation financing increases from 4.6 percent to 7.6 percent annually, and the use of public authority backdoor borrowing declines, from an annual average of 73.0 percent to 60.7 percent of State funding, primarily due to high levels of authority borrowing in the early years of the plan for initiatives like EXCEL and SUNY/CUNY spending. The following table illustrates the various funding sources.

Capital Financing Sources SFY 2006-07 through SFY 2011-12
Proposed Capital Program and Financing Plan
(in millions of dollars)

	Actual	Enacted Capital Program and Financing Plan					Average 2007-08 through 2011-12
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	
State Pay-as-You-Go (PAYGO)	1,574	1,806	1,832	1,901	1,850	1,891	1,856
Federal Pay-as-You-Go (PAYGO)	1,737	1,999	2,015	2,001	2,005	2,029	2,010
GO Bonds	108	374	562	648	584	454	524
Authority Bonds	3,430	5,891	5,753	4,624	4,124	3,627	4,804
Total Capital Funding	**6,849**	**10,070**	**10,162**	**9,174**	**8,563**	**8,001**	**9,194**
Less Federal Funding	(1,737)	(1,999)	(2,015)	(2,001)	(2,005)	(2,029)	(2,010)
State Capital Funding	**5,112**	**8,071**	**8,147**	**7,173**	**6,558**	**5,972**	**7,184**
State PAYGO as Percentage of State-Funding	**30.8%**	**22.4%**	**22.5%**	**26.5%**	**28.2%**	**31.7%**	**26.2%**
GO as Percentage of State Funding	**2.1%**	**4.6%**	**6.9%**	**9.0%**	**8.9%**	**7.6%**	**8.6%**
Authority Bonds as Percentage of State Funding	**67.1%**	**73.0%**	**70.6%**	**64.5%**	**62.9%**	**60.7%**	**66.3%**

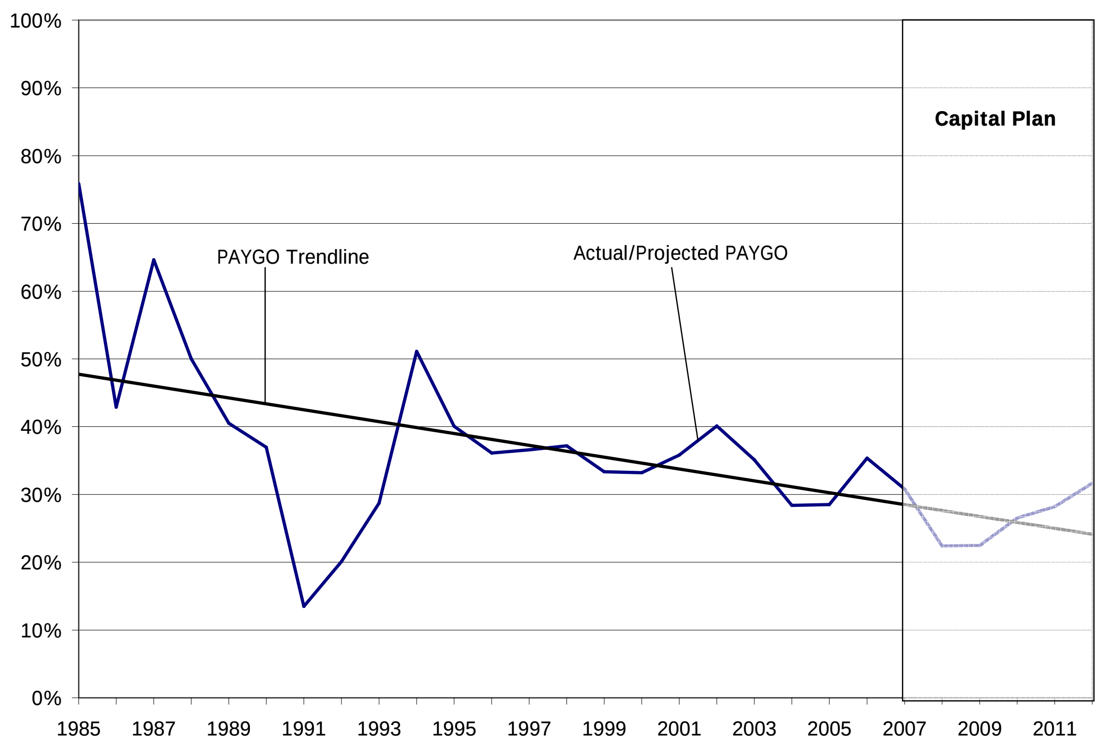
Source: New York State Division of the Budget

The following chart illustrates the history and projected use of State pay-as-you-go (PAYGO) as a percentage of total State funding for capital projects. The amount of cash used to finance capital needs can be indicative of fiscal health. When a state or municipality is financially healthy or has accumulated a surplus, it can be inferred that it has an increased ability to finance with cash, instead of issuing additional debt for capital purposes. Rating agencies view high use of PAYGO very favorably.

New York's use of cash has varied greatly throughout its recent history. In 1985, the State financed approximately 75 percent of its non-federal capital program with cash, instead of incurring additional debt. In 1991, only 13.5 percent of the non-federal share was financed with cash. Since 1996-97, the State has enjoyed a number of surplus years and has utilized surplus funds totaling approximately $1.35 billion to pay down outstanding debt with the Debt Reduction Reserve Fund. However, the annual use of State cash resources as a percentage of State capital spending has generally declined. Between SFY 1996-97 and SFY 2006-07, the State utilized State cash resources for an average of 34 percent of State capital spending needs. State PAYGO resources throughout the next five years are forecast to average only 26.2 percent and climb to only 31.7 percent in 2012.

As a result of the practice of increasing debt and underutilizing cash financing during its years of surplus, the State has been burdened with higher debt service levels in times of need.

State Pay-As-You-Go as a Percentage of Total Non-Federal Capital Spending



Sources: Office of the State Comptroller and New York State Division of the Budget

Debt Management and Related Issues

The Executive proposed a number of administrative and legislative initiatives designed to streamline and improve efficiency in debt management and improve accountability and transparency. The Legislature rejected a number of these initiatives, while including others in the SFY 2007-08 Enacted Budget.

Rejected Proposals

Consolidation of Personal Income Tax Revenue Bond Issuance

The Executive proposed to authorize each of the five issuers of the Personal Income Tax (PIT) Revenue Bonds to issue such bonds for any capital program financed with

PIT bonds.[16] The proposal was intended to streamline the issuance process by authorizing the five authorities to issue PIT bonds for any authorized capital purpose. This initiative has been proposed in the past and was again rejected by the Legislature.

Consolidated Bond Caps

The Executive proposed an initiative to consolidate all State supported bond caps into one section of law, while also standardizing the language to require the caps to be "net" caps (project cost only—not including costs of issuance). This proposal was rejected by the Legislature.

Prohibition of Local Assistance Debt

The SFY 2007-08 Executive Budget included a provision that would have banned any future issuance of debt supported solely with State local assistance payments. The Executive revised this proposal in the 21-Day Amendments to exclude the Transitional Finance Authority's $9.4 billion authorization for debt exclusively supported with State Building Aid (deemed Building Aid Revenue Bonds – BARBs) from the ban.[17] The Legislature rejected this proposal. This Office reports this type of debt as State funded and counts it as part of the overall State debt burden. Although the Executive does not count this debt as part of the State's debt burden, the proposal would have limited the future issuance of such debt.

Accepted Proposals

Consolidated Refunding of Service Contract Debt

The Executive proposed an initiative that would authorize the consolidated refunding of existing service contract debt that may have been issued by a number of issuers. The Legislature adopted the proposal that added language that limits the refunding bonds to the lesser of 30 years or the final maturity of the bonds to be refunded, as well as prohibits the use of Personal Income Tax Revenue Bonds for such purpose.

Variable Rate Debt and Interest Rate Exchange Agreements

The Executive proposed increasing the caps on outstanding variable rate debt and interest rate exchange agreements (swaps) from 15 to 20 percent of State supported

[16] Section 68-a of the State Finance Law authorizes the Dormitory Authority of the State of New York (DASNY), Urban Development Corporation (UDC, also known as the Empire State Development Corporation - ESDC), New York State Thruway Authority (TA), New York State Environmental Facilities Corporation (EFC) and the New York State Housing Finance Agency (HFA) to issue Personal Income Tax Revenue Bonds on behalf of the State.

[17] As authorized in Part A-3 of Chapter 58 of the Laws of 2006.

debt outstanding. Although the Legislature accepted the Executive's proposal, it added language that limits what can be excluded from the caps.

Although the SFY 2007-08 Enacted Budget increases the cap on the amount of variable rate debt that can be outstanding, it should be noted that the State is not projected to exceed the current cap on net variable rate debt outstanding at any point during the next five-year period. The Plan calls for net variable rate exposure to increase from 4.9 percent in SFY 2007-08 to 11.6 percent in SFY 2011-12. Variable rate debt, including a policy reserve, is projected to grow from 10 percent in SFY 2007-08 to 17.6 percent in 2012; however, the amount of the policy reserve is not required to be counted against the statutory cap.[18]

The Legislature also amended Section 69-d of the State Finance Law to require the Division of the Budget to produce an annual performance report for interest rate exchange agreements and similar instruments. The report will outline annual and cumulative performance of each swap agreement and its impact on variable rate debt instruments, including associated savings and/or costs. The report will also provide information regarding excluded agreements and how they reduce or eliminate risk.

Debt Reduction Reserve Fund

The Legislature accepted the Executive's proposal to deposit $250 million into the Debt Reduction Reserve Fund (DRRF). The Fund's general purpose was to "retire or defease bonds and to fund capital projects, equipment acquisitions, or similar expenses which are authorized to be financed by bonds, notes, or other obligations."[19] Although the disbursement of these funds is not reflected in the SFY 2007-08 Enacted Budget Financial Plan, the SFY 2007-08 Enacted Budget Capital Program and Financing Plan indicates that the monies will be used to reduce the State's highest cost debt or to pay for capital projects that would otherwise be financed through the issuance of debt.

Revenue Bond Tax Fund

The Executive proposed and the Legislature accepted language that will amend the flow of funds through the Revenue Bond Tax Fund.[20] Previously, 25 percent of personal income tax receipts, after tax refunds and deposits to the School Property Tax Relief (STAR) fund, would be deposited to the Revenue Bond Tax Fund to pay debt service on outstanding Personal Income Tax Revenue Bonds (PIT bonds).

[18] The Division of the Budget includes a policy reserve equal to 35 percent of the notional amount of outstanding 65 percent of London Inter-Bank Offered Rates (LIBOR) swaps to account for "...the potential that tax policy or market conditions could result in significant differences between payments owed on the bonds and the amount received by the State under their 65 percent of LIBOR swaps..."

[19] Office of the State Comptroller, *Fund Classification Manual.*

[20] Article 5-C of the State Finance Law

Amounts not used for debt service were transferred back to the General Fund. In order to increase debt service coverage on PIT bonds, the transfer to the STAR fund will now happen *after* debt service is paid. This change will have no impact on the Financial Plan.

Capital Program

Capital spending over the life of the SFY 2007-08 Enacted Budget Capital Program and Financing Plan is estimated to be approximately $46.0 billion, or nearly $700 million below the Executive's proposed Enacted Budget Capital Program and Financing Plan. Over three-quarters of spending throughout the proposed Enacted Budget Capital Program and Financing Plan is attributed to transportation, education or economic development/government oversight purposes. Transportation continues to comprise the largest amount of capital spending, increasing throughout the life of the Plan from 41.3 percent in SFY 2007-08 to 61.1 percent in 2011-12. Education makes up the second largest area of capital spending in the proposed Capital Program and Financing Plan. Approximately 24 percent of the spending in the first two years of the Plan is attributed to education spending, primarily for *EXpanding our Children's Education and Learning* (EXCEL) purposes. Disbursements contained within the Plan include off budget spending; however, disbursements from the Capital Projects Fund contained within the SFY 2007-08 Enacted Budget Financial Plan do not include off budget spending.

Transportation

As part of the Department of Transportation's $18.7 billion capital plan, capital spending for transportation is projected to increase to approximately $4.9 billion in 2011-12 from $4.2 billion in SFY 2007-08. The Five-Year Plan includes $10.1 billion for highway and bridge construction/maintenance and $1.9 billion for local transportation projects throughout the State.

Financing for the transportation plan includes federal funding between $1.7 billion and $1.8 billion annually. Federal funding is the largest share of total financing for transportation, averaging nearly 38 percent of annual funding.

The SFY 2007-08 Enacted Capital Program and Financing Plan includes spending financed with General Obligation bonds authorized in November 2005 by the Rebuild and Renew New York Transportation Bond Act. Annual spending financed with Rebuild and Renew General Obligation bonds is projected to increase to a peak of $579 million in SFY 2009-10, then decline to $386 million by SFY 2011-12.

The SFY 2007-08 Enacted Capital Program and Financing Plan estimates remaining funding from PAYGO resources (averaging 27.1 percent annually) and Authority bonds (averaging 25.3 percent annually).

Higher Education

The SFY 2007-08 Enacted Budget includes an additional $379.7 million in capital spending for SUNY and $265.8 million for CUNY, as proposed by the Executive. Specifically, additional spending is proposed for projects at the Old Westbury Academic Complex and the rehabilitation of the Stony Brook Southampton Campus. For CUNY, the Executive proposes $225 million for senior colleges and $21 million for community colleges.

Environment

Capital spending for parks and environment will average approximately $581 million per year over the life of the Plan, with annual average spending for the Environmental Protection Fund (EPF) of $168 million. Appropriations from the EPF are anticipated to increase from $180 million in SFY 2006-07 to $325 million in SFY 2011-12. To support additional spending from the Fund, Real Estate transfer taxes will increase from $147 million in SFY 2006-07 to $212 million each year over the five-year period.

The SFY 2007-08 Capital Program and Financing Plan includes annual capital spending ranging from $50 million to $75 million from the balance of the Clean Water /Clean Air Bond Act. Total spending from other previous General Obligation bond acts is $12.4 million annually over the life of the Plan as authorization is spent down. The Capital Plan also includes $115 million annually, on average, for the refinanced State Superfund Program and Brownfields Cleanup, in addition to $15 million in PAYGO resources.

Economic Development

The proposed Capital Plan projected approximately $4.5 billion in total spending for various economic development programs over the next five years, including $300 million that is included in the Enacted Capital Program and Financing Plan, but not in the SFY 2007-08 Enacted Budget. Total spending for economic development increases to a maximum of $1.3 billion in SFY 2008-09 and declines to $417 million by the end of the Plan. Economic development spending is financed almost entirely with debt issued by public authorities.

The Executive proposed and the Legislature accepted approximately $50 million for various projects, including Roosevelt's Island and Governor's Island. This new funding is in addition to existing economic development programs, $2.9 billion of which is subject to Memoranda of Understanding between the three leaders. Not only is much of this existing appropriation authority in the form of lump sum appropriations, but the majority is also spent off budget, outside of the State's Central Accounting System and exempt from the State's many expenditure control and procurement processes.

Health and Mental Hygiene

Mental Hygiene appropriations and re-appropriations total approximately $2.8 billion for rehabilitation and maintenance projects relating to facilities licensed to the Office of Mental Health, Office of Mental Retardation and Developmental Disabilities, and Office of Alcoholism and Substance Abuse Services, including $200 million for new community residential housing. The Plan includes $1.6 billion for health and social welfare spending, including spending through the Department of Health, Office of Children and Family Services, and the Office of Temporary and Disability Assistance.

Other

The SFY 2007-08 Enacted Capital Program and Financing Plan also includes $78 million for court training facilities and $50 million for expanded Troop G Headquarters for the Division of the State Police.

Capital Spending by Function: SFY 2007-08 Enacted Capital Program and Financing Plan
(in millions of dollars)

	Estimated 2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Average 2007-08 through 2011-12	Total Dollar 2007-08 through 2011-12	Total Percent 2007-08 through 2011-12
Transportation	3,714	4,162	4,454	4,701	4,827	4,891	4,607	23,035	50.1%
Parks and Environment	548	601	583	567	577	577	581	2,905	6.3%
Econ. Dev/Gov Oversight	372	1,238	1,280	914	654	424	902	4,510	9.8%
Health/Social Welfare	138	359	435	387	305	128	323	1,614	3.5%
Education	1,246	2,605	2,156	1,290	1,098	861	1,602	8,010	17.4%
Public Protection	274	343	349	350	374	370	357	1,786	3.9%
Mental Hygiene	368	407	592	693	558	587	567	2,837	6.2%
General Government	104	115	130	124	75	70	103	514	1.1%
Other	86	239	183	147	95	94	152	758	1.6%
Total	**6,850**	**10,069**	**10,162**	**9,173**	**8,563**	**8,002**	**9,194**	**45,969**	**100.0%**

Source: New York State Division of the Budget
Note: Totals may not add due to rounding.

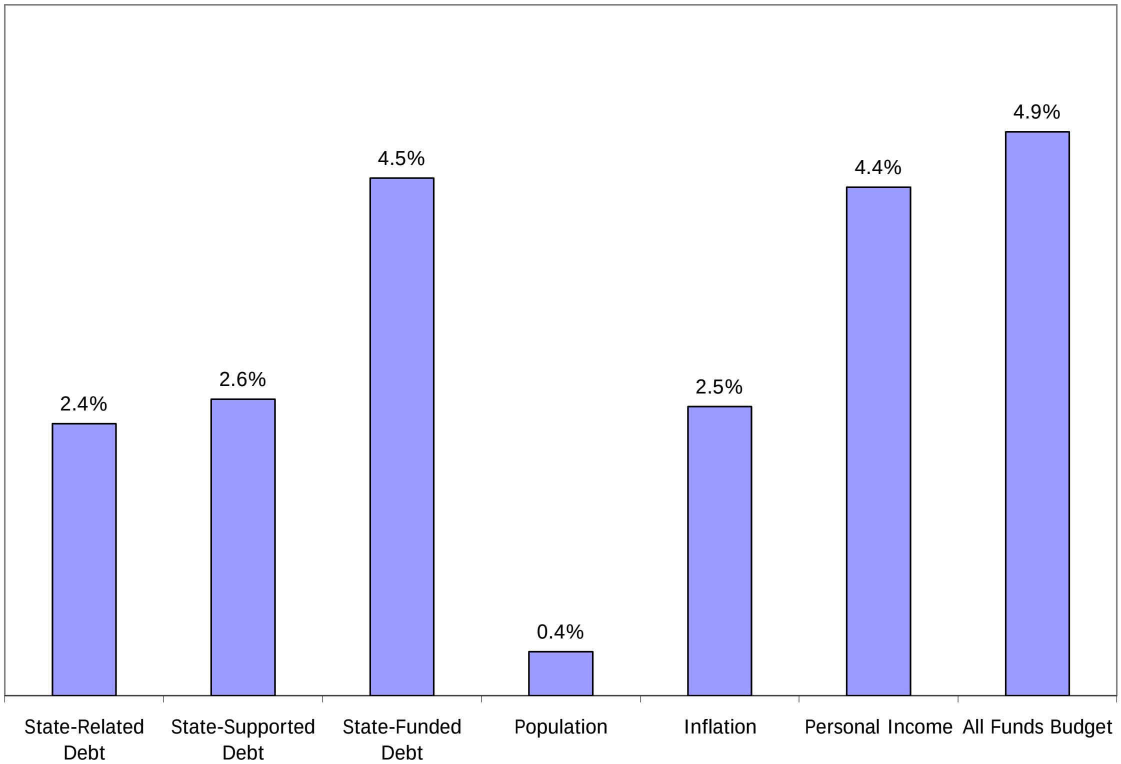
Capital Spending by Function: SFY 2007-08 Enacted Capital Program and Financing Plan
(percent of total)

	Estimated 2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Average 2007-08 through 2011-12
Transportation	54.2%	41.3%	43.8%	51.2%	56.4%	61.1%	50.8%
Parks and Environment	8.0%	6.0%	5.7%	6.2%	6.7%	7.2%	6.4%
Econ. Dev/Gov Oversight	5.4%	12.3%	12.6%	10.0%	7.6%	5.3%	9.6%
Health/Social Welfare	2.0%	3.6%	4.3%	4.2%	3.6%	1.6%	3.4%
Education	18.2%	25.9%	21.2%	14.1%	12.8%	10.8%	16.9%
Public Protection	4.0%	3.4%	3.4%	3.8%	4.4%	4.6%	3.9%
Mental Hygiene	5.4%	4.0%	5.8%	7.6%	6.5%	7.3%	6.3%
General Government	1.5%	1.1%	1.3%	1.4%	0.9%	0.9%	1.1%
Other	1.3%	2.4%	1.8%	1.6%	1.1%	1.2%	1.6%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100.0%**

Debt Affordability

The different methodologies used to account for the State's debt outstanding can show very different pictures of the growth rate of State debt and, therefore, the perception of affordability. For example, between SFY 1996-97 and SFY 2006-07, State funded debt outstanding increased, on average, approximately 4.5 percent annually, nearly twice the rate of inflation and even higher than the average annual increase in personal income.

Average Annual Growth Rate Comparison
SFY 1996-97 through SFY 2006-07



Source: Office of the State Comptroller. Inflation data from Bureau of Labor Statistics. Personal Income and Population data from Global Insight.

State Funded Debt as Percentage of Personal Income

The Debt Reform Act of 2000 limited outstanding State supported debt to 4 percent of personal income with caps that were phased in through 2011. The State is well within the caps statutorily established in the Debt Reform Act. However, this Office estimates, according to the SFY 2007-08 Capital Program and Financing Plan, that the State will end the 2007-08 fiscal year with $56.2 billion in State funded debt outstanding, equaling 6.8 percent of personal income. By SFY 2011-12 State funded debt outstanding as a percentage of personal income will fall to 6.4 percent, but only after reaching 7.0 percent in SFYs 2008-09 and 2009-10. While debt outstanding continues to grow, debt as a percentage of personal income declines primarily due to the faster rate of growth in personal income.

State Funded Debt Per Capita

Over the life of the SFY 2007-08 Plan, State funded debt per capita is expected to increase from $2,908 at the end of SFY 2007-08 to $3,317 in 2011-12, representing an average annual increase of 3.4 percent. Unlike predicted growth in personal income, the State's population is expected to grow more slowly than outstanding State funded debt over the next five years.

State Funded Debt Service as a Percentage of All Funds Receipts

The State funded debt service as a percentage of All Funds receipts was 4.5 percent at the end of SFY 2006-07. The Debt Reform Act of 2000 limited debt service on State supported debt to 4 percent of All Funds receipts as phased in over 13 years. By the close of SFY 2007-08, State funded debt service will be just under 4.1 percent of All Funds receipts, but will rise to 5.1 percent by the last year of the Capital Plan.

Section

6

Local Governments

The Legislature restored aid for the 81 municipalities that would have lost all of their revenue sharing money under new Aid and Incentives for Municipalities (AIM) funding formulas contained in the Executive Budget proposal. New York City, which also would have lost all of its revenue sharing allocation under the proposed AIM formula, will now receive $20 million in SFY 2007-08, with a promised full restoration of $328 million in SFY 2008-09. AIM funding formulas target high need areas and tie dollar increases to various fiscal accountability requirements. The Office of the State Comptroller will play a significant role in reviewing and assessing municipalities' compliance with these requirements.

All municipalities that host video gaming facilities will continue to receive Video Lottery Terminal (VLT) Aid due to the Legislature's rejection of the Executive's proposal to link this aid to poverty rates. The Legislature restored VLT funding to six counties, two cities and five towns, which would have lost their VLT funding in SFY 2008-09.

The Legislature rejected a number of Executive proposals, including provisions for increasing Wicks Law thresholds, procurement reform and tort reform. The Legislature also rejected the Executive's proposal to expedite the removal of technical parole violators from local correctional facilities, a move that would have reduced the financial burden of housing these inmates in county jail facilities.

Medicaid

SFY 2007-08 Executive Budget

Medicaid Cap

The SFY 2007-08 Executive Budget continued the Medicaid cap originally enacted in the SFY 2005-06 State Budget. The cap limits 2006 county Medicaid cost increases to

3.5 percent of 2005 base year expenditures, 2007 Medicaid cost increases to 3.25 percent and 2008 Medicaid cost increases to 3.0 percent. Also, in 2008, counties will have the option of "swapping" a percentage of sales tax revenues (in perpetuity) in lieu of the 3 percent cap.

Fraud Initiatives

Reducing Medicaid fraud was a major theme in the Executive Budget. The Executive proposal included a plan to create a "Martin Act for Health Care Fraud," which would have expanded the powers of the Attorney General in prosecuting healthcare fraud, as well as a "Medicaid False Claims Act," to improve the detection of fraud and encourage whistleblower actions.

Nursing Homes

The Executive advanced a number of cost containment proposals, including the elimination of the nursing home inflationary trend factor, elimination of the Nursing Home Quality Improvement Demonstration Program, phase-out of the Workforce Recruitment and Retention allocation, imposition of a Medicaid only case-mix and a permanent 6 percent reimbursable nursing home assessment.

The Executive also continued funding for nursing home grants, which provide fiscal relief to public nursing home facilities. Under the plan, nursing homes would receive $15 million in SFY 2007-08, $35 million in SFY 2008-09 and $100 million in SFY 2009-10.

SFY 2007-08 Enacted Budget

Medicaid Cap

The SFY 2007-08 Enacted Budget continues the implementation of the Medicaid cap.

Fraud Initiatives

The creation of a Medicaid False Claims Act was approved by the Legislature, while the expanded powers for the Attorney General, under a "Martin Act for Health Care Fraud," were rejected. The Legislature increased Medicaid fraud targets by $30 million to $130 million in SFY 2007-08.

Nursing Homes

Instead of completely eliminating the 2.5 percent nursing home trend factor, as proposed in the SFY 2007-08 Executive Budget, the Legislature lowered the trend factor to 1.875 percent.

Additionally, the Legislature:

- Partially restored funding (through June 30, 2007) for the Nursing Home Quality Improvement Program,

- Postponed implementation of a Medicaid-only case mix calculation for public nursing homes until April 1, 2009,

- Did not make permanent the 6 percent nursing home assessment, which was set to expire on March 31, 2009, but rather extended the assessment until March 31, 2011,

- Reduced spending in the Workforce Recruitment and Retention Program by $20.8 million and continued the current allocation methodology for public nursing facilities for 50 percent of payments. The current allocation is based on 1999 payroll costs. The remaining 50 percent of payments will be based on reported Medicaid revenue, and

- Preserved funding for nursing home grants.

Aid and Incentives for Municipalities

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget continued the AIM program, but with significant structural changes. The Executive proposal would target more AIM money to high need areas of the State. Moreover, those municipalities receiving the largest increases would be required to meet certain fiscal accountability measures.

Beginning in SFY 2007-08, the Executive proposed AIM increases of $50 million annually over a four-year period, for a total of $200 million targeted to distressed municipalities. In aggregate, the amount allocated for AIM would have decreased by $280 million, or 28.7 percent, from $977 million in SFY 2006-07 to $697 million in SFY 2007-08. Included in this reduction was the elimination of revenue sharing to New York City ($328 million) and elimination of AIM funding for 81 other towns and villages considered to be "high wealth" ($2.0 million).[21]

In all, under the Executive proposal, 1,413 of 1,603 municipalities (88 percent) would receive either 3 percent or 5 percent increases over their SFY 2006-07 allocations, 52 municipalities (3 percent) would receive increases ranging from 7 to 13.5 percent and 138 municipalities (9 percent), including all 57 counties and 81 other towns and

[21] These municipalities include towns and villages that rely on Aid and Incentives for Municipalities (AIM) for less than 1 percent of their revenue and exceed 250 percent of the statewide average property wealth on a per capita basis.

villages, would receive no AIM funding in SFY 2007-08. New York City would also lose all AIM funding in SFY 2007-08.

Fiscal Distress Aid

The SFY 2007-08 Executive Budget based AIM increases on a formula using demographic and financial criteria. Under the proposed formula, all cities (other than New York City), and towns and villages not considered “high wealth” municipalities received base level grants equivalent to their SFY 2006-07 AIM distributions. In addition, all cities (other than New York City), towns with populations greater than 15,000 and villages with populations greater than 10,000 would qualify for AIM increases ranging from 5 percent to 9 percent, based on their level of fiscal distress. Fiscal distress levels were determined by the following four indicators:

- Full valuation per capita less than 50 percent of the statewide average,
- Real property tax capacity of less than 40 percent,
- Population loss greater than 10 percent since 1970, and
- Poverty rate greater than 150 percent of the statewide average.

Cities, large towns and villages meeting one or two of these fiscal distress criteria would have received 5 percent increases in aid. Those meeting three of the criteria would have received 7 percent increases, and those meeting all four of the criteria would have received 9 percent increases.

All towns and villages, which did not meet any of the criteria for fiscal distress and were not considered “high wealth,” would have received 3 percent annual increases. Towns with populations of less than 15,000 and villages with populations of less than 10,000, which meet at least one of the fiscal distress criteria, would have been eligible for 5 percent increases in aid.

Per Capita Adjustment

Another strategy to provide additional aid to distressed municipalities came in the form of the “per capita adjustment.” If a city or large town or village had a per capita full value less than or equal to the average per capita full value of other municipalities in its class (Big Four cities, all other cities, towns with populations greater than 15,000 and villages with populations greater than 10,000) and received aid less than or equal to 75 percent of the average municipalities in its class, that municipality would have been eligible for an additional 4.5 percent increase in aid on top of its SFY 2006-07 payments. The per capita adjustment was intended to make the AIM grant distribution more equitable for municipalities within each municipal category. Twelve cities, three towns and four villages would have qualified for this additional increase.

Multi-Year Planning and Accountability Criteria

In exchange for the additional aid, the SFY 2007-08 Executive Budget strengthened accountability standards for certain local governments. Legislation passed in 2006 required cities not under a fiscal control board to develop and certify completion of multi-year Financial Plans in order to receive a large portion of their State Aid. However, the law did not require these cities to submit those plans to either the Division of the Budget (DOB) or the Office of the State Comptroller.

The SFY 2007-08 Executive Budget required municipalities receiving $100,000 or more in new aid to develop fiscal performance plans and to use the additional AIM funding to provide property tax relief, support essential economic development investments or fund cost-saving technology investments.

Under the Executive proposal, 41 municipalities (all cities) would have been required to submit a fiscal performance plan to the Director of the Budget and the Office of the State Comptroller within 60 days of adoption of their budget. Fiscal performance plans would have been required to include:

- A multi-year Financial Plan, consistent with SFY 2006-07 AIM requirements,
- A fiscal improvement plan, describing key fiscal performance goals and action plans necessary to achieve long term fiscal stability, and
- A fiscal accountability report describing accomplishments toward achieving efficiency and improvements.

These fiscal performance plans would be subject to review by the Office of the State Comptroller to ensure that all fiscal accountability requirements are met. If necessary, the State Comptroller could direct a municipality to modify and resubmit its plan to comply with the requirements. In the event that the State Comptroller finds that a municipality failed to comply with the new fiscal accountability requirements, the Director of the Budget and the municipality would be notified, and the State Comptroller may recommend to the Director of the Budget that additional State Aid be withheld. The Director of the Budget could then direct the State Comptroller to withhold the additional aid.

SFY 2007-08 Enacted Budget

The Legislature accepted the SFY 2007-08 Executive Budget, with few changes. Funding for the 81 municipalities that were slated to lose their entire allocations was restored and increased by 3 percent, leaving counties as the only municipal entities not receiving revenue sharing aid. The Legislature also provided New York City with

$20 million (a 94 percent reduction) in aid for SFY 2007-08 and pledged to fully restore the City's aid to $328 million in SFY 2008-09.

The SFY 2007-08 Enacted Budget continues to use a municipality's taxing capacity as one criterion for determining aid. The negative incentive for local governments to report a lower taxing capacity in order to qualify for additional aid remains a concern.

In addition, the Enacted Budget accepts the fiscal accountability requirements for municipalities receiving the greatest increases in aid and expands the multiyear planning requirement to three villages (Johnson City, Endicott and Massena) receiving 9 percent increases in aid.

	SFY 2006-07 AIM and Unrestricted Aid	SFY 2007-08 Base Level Grants	SFY 2007-08 Total Aid	SFY 2007-08 Dollar Change	SFY 2007-08 Percent Change
Cities	580.56	580.56	628.38	47.82	8.2%
Towns	48.25	48.25	49.97	1.72	3.6%
Villages	19.86	19.86	20.72	0.86	4.3%
New York City	327.69	0.00	20.00	(307.69)	-93.9%
Counties	0.00	0.00	0.00	0.00	--
Totals	**976.36**	**648.67**	**719.07**	**(257.29)**	**-26.4%**

Shared Municipal Services Incentives

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget continued funding for the Shared Municipal Services Incentive Program (SMSI) at SFY 2006-2007 levels ($25 million). This year, eligibility was expanded to include special improvement districts; however, fire protection and fire alarm districts were excluded from eligibility. Local matching funds equal to 10 percent of the total approved project costs were required for accepted grant proposals.

The program no longer allocated specific outlays for individual awards categories, as in the previous two grant cycles, but rather provided grants of up to $200,000 per municipality with priority given to initiatives that include:

- Distressed municipalities,
- Consolidations or mergers of municipalities,
- Shared services involving school districts,
- Shared highway services,
- Shared health insurance, and
- Countywide shared services programs.

A new $10 million consolidation incentive aid was created under SMSI that provided a recurring 25 percent AIM increase, up to $1 million, to municipalities that merge or consolidate beginning in SFY 2007-08. The Department of State would continue to be responsible for the establishment of eligibility requirements, application forms, and the review of criteria and grant approval guidelines.

Additionally, the Executive proposal included a statewide shared health benefit plan option for municipalities. The new plan option was made available under the New York State Health Insurance Program (NYSHIP), but at a cost below the option currently offered to municipalities and with premiums varying by region.

SFY 2007-08 Enacted Budget

SMSI was accepted as proposed by the Executive. However, the shared health benefit plan option for municipalities was rejected.

The Legislature also provided an additional $5 million in funding to help mitigate the costs associated with the flooding that occurred in June 2006 and affected 20 counties.

Buffalo Efficiency Incentive Aid

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget provided $12 million for an Efficiency Incentive Grant to support efforts to reduce the cost of government in the City of Buffalo. This reflected a $2 million increase for the City of Buffalo from SFY 2006-07, but a $16 million net decrease from the overall SFY 2006-07 Efficiency Incentive Grant, which had previously included $18 million for Erie County.

SFY 2007-08 Enacted Budget

Buffalo Efficiency Incentive Aid was accepted as proposed by the Executive.

Education

SFY 2007-08 Executive Budget

STAR and School Aid

The SFY 2007-08 Executive Budget proposed major increases to both school aid and the STAR program. The purpose of the new school aid formula was to target aid to needy schools, while the intent of the new "Middle Class STAR" initiative was to provide tax relief to middle class taxpayers. Since the actual impact of these programs on school district spending and citizen property tax bills is difficult to separate, analysis by the Office of the State Comptroller considered them together. Although the four-year increase of $7 billion in school aid would provide a substantial infusion of revenue for New York City and other high-need districts, after the STAR increases, the relative distribution of funding would remain largely unchanged in SFY 2007-08. However, the distribution within districts would be affected as middle class homeowners would benefit more than renters, high-income homeowners or other taxpayers.

SFY 2007-08 Enacted Budget

Although the SFY 2007-08 Enacted Budget slightly reduced the proposed amount of new revenue dedicated for STAR, this reduction was more than offset by increases to State school aid. The Legislature added additional amounts across all categories of school districts, on top of the generous increases provided in the Executive Budget. Although these changes had relatively little effect on the final distribution of School Aid and STAR across the State Education Department's Need-Resource categories, as measured according to how much State assistance each type of district receives per capita compared with the statewide average, the biggest per capita increases over the Executive Budget occurred in suburban districts (both high and low need), followed by New York City.

State Education Expenditure Increases
Executive vs. Enacted
State Aid and STAR

	Per Capita		
	Executive	***Enacted***	***Difference***
State Aid and STAR			
New York City	8,800	8,934	134
Big Four	13,010	13,050	40
High Need Urban/Suburban	10,973	11,179	206
High Need Rural	12,578	12,600	22
Average Need	9,063	9,145	82
Low Need	5,104	5,376	272
Total	**9,256**	**9,357**	**101**
State Aid			
New York City	7,398	7,568	170
Big Four	11,809	11,923	114
High Need Urban/Suburban	9,048	9,426	378
High Need Rural	10,857	10,986	129
Average Need	6,874	7,084	210
Low Need	2,618	2,963	345
Total	**7,142**	**7,357**	**215**
STAR			
New York City	1,402	1,366	-36
Big Four	1,201	1,126	-75
High Need Urban/Suburban	1,924	1,753	-171
High Need Rural	1,721	1,614	-107
Average Need	2,189	2,061	-128
Low Need	2,486	2,413	-73
Total	**2,114**	**2,000**	**-114**

Expected Contribution

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget school aid proposal also included an “expected local contribution” based upon a formula that takes into account the amount necessary to fund an adequate education and a district’s ability to pay. The “expected local contribution” was optional, even for underperforming districts, except for the Big Four cities with dependent school districts, which would be required to maintain funding at the prior year level. Such a requirement does not take into consideration differences in the amounts contributed between cities or the impact of inflation on school district budgets.

SFY 2007-08 Enacted Budget

The Legislature enacted both the “expected local contribution” and the maintenance of effort requirement with minimal changes to the Executive proposal.

Dependent School District Board Representation

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed that the mayors of Buffalo, Rochester and Syracuse be represented on their local school boards, since they are the only fiscally dependent districts that are politically independent of the city executive.

SFY 2007-08 Enacted Budget

This proposal was rejected by the Legislature.

Accountability

In the wake of discoveries of fraud and mismanagement in Roslyn and other school districts on Long Island, two school fiscal accountability bills were enacted in 2005 (Chapters 263 and 267), which included provisions requiring training for school board members and requiring the Office of the State Comptroller to audit all 832 school districts, charter schools and BOCES within five years “within such funds as are made available for such purpose.” To meet this new responsibility, the Office of the State Comptroller has issued audits on over 150 school districts to date and over 190 audits are currently underway or have been announced.

SFY 2007-08 Executive Budget

To support the work on the school accountability initiative, the Office of the State Comptroller requested a 21-Day Amendment for additional resources in SFY 2007-08. This additional funding would ensure that the required audits are completed by the statutory deadline of March 2010. The Executive did not include this request in the 21-Day Amendments.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget included an additional $2.7 million in operational support to help the Comptroller’s Office meet this important goal while continuing its vital work with other local governments.

Video Lottery Terminal Aid

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget amended a State aid program created in SFY 2006-07 for certain municipalities with video gaming facilities. Under the Executive proposal, eligible municipalities would have received $33.5 million in Video Lottery Terminal (VLT) Aid in SFY 2007-08 and $21.7 million in SFY 2008-09.

In the Executive Budget, SFY 2007-08 VLT Aid disbursements and restrictions of use were based on population. Under this proposal, the city of Yonkers would have received all of its VLT Aid, while smaller municipalities with VLT facilities would have been required to share their VLT Aid with their counties. The City of New York would have received no VLT Aid.

Eligibility requirements would have changed in SFY 2008-09, since under the Executive's proposal, aid would be tied to poverty rates. In addition to the population requirements, only those municipalities containing VLTs with poverty rates at least 50 percent higher than the statewide average would have received VLT Aid. Yonkers would have qualified for $20 million, but all other municipalities, with the exception of those in Sullivan County ($1.7 million), would have lost all of their VLT revenue.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to link eligibility for VLT aid to poverty rates. As a result, aid is restored for the six counties, three cities (including New York City) and five towns that would have lost VLT revenue in SFY 2008-09 under the Executive's proposal.

Overall, municipalities hosting video lottery gaming facilities will receive $33.5 million in VLT aid in SFY 2007-08 and $52.3 million in SFY 2008-09.

Revenue Initiatives

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget advanced certain sales tax enforcement actions, which would have reportedly generated $36 million in additional revenues for counties Under the proposal, travel companies would have been required to collect tax on the cost of hotel rooms plus an estimated 20 percent mark-up to capture the entire cost for sales tax purposes.

The Executive Budget also reflected the enforcement of sales tax collection on cigarettes/tobacco products and motor fuel sold to non-Native Americans on reservations in the State.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to close loopholes on Internet hotel bookings, but accepted the provision to collect sales tax on tribal and Indian goods and services sold to non-tribal members.

Social Services

Child Welfare Reform

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed that particular 2002 provisions of child welfare reform, such as the provision that provides 65 percent State reimbursement for community-based services that prevent the placement of children in foster care or juvenile detention, be made permanent. An Article VII provision would require local governments to develop performance-based contracts per regulations to be developed by the Office of Children and Family Services (OCFS), with the goal of reducing the number and length of foster care placements beginning January 1, 2008 to achieve estimated savings of $10 million in SFY 2007-08.

The Executive also recommended that another 2002 child welfare reform provision, one that holds school districts responsible for 20 percent of the cost of the residential placement of their special education students, be made permanent.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget extends the 2002 child welfare reform provisions related to State reimbursement until 2009. The Legislature also accepted the Executive's proposal to require localities to provide these services via the use of performance-based contracts starting January 1, 2008, with a provision for OCFS waivers for current programs that extend past this start date.

Similarly, the Enacted Budget extends the 2002 child welfare reform provision related to the placement of special education students in residential facilities until 2009.

Youth Facility Rates

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget also sought to retroactively increase the rates that are charged to localities for certain youth facility placements for fiscal years going back to 2001.

SFY 2007-08 Enacted Budget

This measure was accepted by the Legislature and included in the SFY 2007-08 Enacted Budget. Estimated by the Executive to generate $27.6 million in State savings during the 2007-08 local fiscal year, this action shifts costs to counties and could pose a hardship since counties (with a fiscal year ending on December 31) already have their 2007 budgets in place. These retroactive payments will have an estimated negative local impact of $96 million.

Early Intervention

The New York State Early Intervention (EI) Program is part of the national Early Intervention Program for infants and toddlers with disabilities and their families. EI is administered by the New York State Department of Health through the Bureau of Early Intervention.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget projected $2.3 million in savings for the counties and New York City with a proposal to make private insurance companies more responsible for accepting claims from EI participants. Historically, insurers have only accepted a small percentage of claims, which have increased costs to localities. The savings were expected to be realized in SFY 2008-09, with $1.5 million for counties and $800,000 for New York City.

SFY 2007-08 Enacted Budget

The Legislature rejected all of the Executive's programmatic proposals for the EI Program, including enhanced third-party insurance reimbursement and provider fees.

Transportation

Consolidated Highway Improvement Program

The Consolidated Highway Improvement Program (CHIPs) assists localities in financing the construction, reconstruction and improvement of local highways, bridges and/or highway-railroad crossings. Approximately 21 percent of CHIPs aid is distributed to counties and New York City based on motor vehicle registrations; another 21 percent goes to the same entities based on highway mileage. The remainder is distributed to counties, cities, towns and villages based on local highway mileage and vehicle travel.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed $296.5 million in CHIPs assistance, a $13 million decrease from SFY 2006-07.

SFY 2007-08 Enacted Budget

The Enacted Budget includes $312.5 million in CHIPs assistance, representing a full restoration of the Executive's proposed decrease, as well as an additional $3 million.

Municipal Streets and Highway Program

The Municipal Streets and Highway Program (Marchiselli) is a State component of a federal, State and local partnership that administers transportation improvements for local highway systems. Although federal government funds comprise most Marchiselli assistance, State and local governments are required to share in the costs of approved projects.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget did not propose an increase in Marchiselli aid.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget continues funding the Marchiselli Program at $39.7 million, which has remained constant since SFY 2001-02.

Local Transit Aid

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed a $298.8 million operating assistance increase over SFY 2006-07 enacted levels, to be divided between the MTA ($269.2 million) and all other transit systems ($29.6 million).

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget provides an additional $5 million for a total operating increase of $303.8 million over SFY 2006-07 enacted levels, with $3 million for the Rochester Genesee Regional Transportation Authority and $2 million allocated to the Capital District Transportation Authority. The Enacted Budget maintains the increase for the MTA at $269.2 million, but increases the additional amount for other transit systems from $29.6 million to $34.6 million. The $34.6 million includes $17 million for other local transit systems statewide, $10.9 million for Nassau, Suffolk and Westchester Counties, $5 million for the New York City Department of Transportation and $1.7 million for Staten Island Ferry operations. The Enacted Budget also includes $17.5 million in capital aid to non-MTA transit systems for the procurement of buses that use alternative fuels and $11.7 million in one-time funding for the Roosevelt Tram service.

Criminal Justice

Funds Distribution

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget sought to change the basis on which local governments receive certain kinds of criminal justice funding. In particular, the Executive's proposal directed that funds appropriated to the Division of Criminal Justice Services (DCJS) for prosecutorial and defense services be distributed to counties at the same level received in SFY 2006-07, with any additional funding distributed according to the proportion of violent crime reported for 2005. Funding for participants in the Crimes Against Revenue Program would be distributed proportionally according to a formula to be developed by DCJS that is based upon population and personal income tax revenue. Finally, funds appropriated to the Division of Probation and Correctional Alternatives for the intensive supervision of sex offenders would be distributed proportionally based upon the number of registered sex offenders under supervision.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget accepted the Executive's proposal to specify the basis on which these criminal justice funds are distributed to local governments. However, the Enacted Budget reduces the amount of funding for prosecution and defense services.

Furthermore, the Enacted Budget allows the cities of Buffalo, Syracuse, Rochester and Yonkers to retain parking violation surcharge revenues.

Parole Violators

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included Article VII language that would have allowed counties to enter into an agreement with the Department of Correctional Services (DOCS) to have DOCS incarcerate parole violators if the county where the arrest is made has the facilities required to conduct a parole revocation hearing via video teleconference. The Executive estimated that this measure would result in a $12 million reduction in State payments to counties for the housing of parole violators.

SFY 2007-08 Enacted Budget

While the Legislature rejected the video teleconference proposal, it did eliminate the previously required minimum period of incarceration for parole violators. This may serve to reduce the amount of time parole violators spend in local detention facilities. The SFY 2007-08 Enacted Budget increases spending by $10 million to cover the full cost of reimbursing counties for housing parole violators in local jails.

Justice Courts

SFY 2007-08 Executive Budget

To support the Office of Court Administration's comprehensive plan for the reform of justice court operations, the SFY 2007-08 Executive Budget recommended a total of $10 million.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget accepted the Executive's funding recommendation and includes $10 million in support for justice court improvement programs.

Indigent Legal Services

The Indigent Legal Services Fund (ILSF) was established in 2003 to support indigent legal defense services, with the first $25 million of the Fund's revenues used to reimburse the State for its assigned counsel costs.

The Office of the State Comptroller is required to distribute any remaining ILSF monies to counties according to their proportional share of the total local funds expended statewide on all indigent legal services programs, as indicated by data that counties submit to the Office of the State Comptroller.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included a $25 million appropriation to the Judiciary's Law Guardian program for assigned counsel costs.

The 2007-08 Executive Budget also included an $80 million ILSF appropriation for distribution to counties for all indigent legal services programs. Based on the ILSF balance on December 31, 2006, $67.8 million was distributed to local governments on March 31, 2007.

In SFY 2006-07, three counties—Schoharie, Seneca and Wayne—did not receive a distribution from the ILSF because these counties failed to meet a statutorily required "maintenance of effort" requirement.

SFY 2007-08 Enacted Budget

The Legislature accepted both of the Executive's ILSF-related aid amounts. Accordingly, the SFY 2007-08 Enacted Budget includes a $25 million appropriation within the Judiciary's budget and an $80 million ILSF appropriation for the distribution of ILSF monies to local governments.

In addition, the Legislature provided $86,000 for Schoharie County, $77,000 for Seneca County and $291,000 for Wayne County to restore funding lost under the SFY 2006-07 ILSF distribution.

Economic Development

SFY 2007-08 Executive Budget

The Executive proposed eliminating $2.3 million in funding to counties for Empire Zone administrative expenses.

SFY 2007-08 Enacted Budget

The Legislature fully restored the $2.3 million in the SFY 2007-08 Enacted Budget.

Mandate Relief

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included a proposal to reform the State's Wicks Law. This law requires local governments to award multiple construction contracts for plumbing, electrical work and heating, ventilation and air conditioning for projects over $50,000, rather than consolidating the work. The Executive Budget proposed an increase of the Wicks threshold to $1 million ($2 million in New York City).

The Executive Budget also proposed tort/litigation reform with two initiatives. The first would have offset personal injury awards with payments from workers' compensation or other "collateral sources." The second would have limited the interest that local governments are required to pay on judgments.

In addition, the Executive Budget called for the restructuring of the competitive bidding thresholds for local governments. The proposal included an increase of the amount at which a local government must issue competitive bids from $20,000 to $50,000 for public works construction and from $10,000 to $20,000 for purchase contracts. Also, local governments would have had the option to award contracts based on the concept of "best value," instead of the "lowest responsible bidder," allowing local governments to purchase higher cost products for the best value over time. Additionally, the Executive Budget put forward an initiative that would have allowed local governments to purchase information technology and telecommunications goods and services from federal contracts.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposed mandate relief measures. However, these issues may be addressed later in the 2007 Legislative Session.

Section

7

New York City Budget Impact

The SFY 2007-08 Enacted Budget increased State education aid to New York City by $714 million in City Fiscal Year (CFY) 2008, but reduced other aid to the City by $366 million over the course of CFYs 2006-07 and 2007-08. Most of the negative impact comes from the elimination of revenue sharing payments to New York City next year (see table below), but the Legislature did not accept the Executive's proposal to permanently eliminate such aid.

Impact of the Enacted State Budget on New York City
(in millions of dollars)

Better/(Worse)

	CFY 2007	CFY 2008	CFY 2009	CFY 2010	CFY 2011
Education Aid	---	714	1,400	2,264	3,170
Impact on Other Parts of the City Budget					
Eliminate Revenue Sharing	---	(308)	---	---	---
Increase PIT Administrative Charge	(7)	(30)	(30)	(30)	(30)
Other Budget Changes	(20)	(1)	(5)	(7)	(7)
Total without Education Aid	**(27)**	**(339)**	**(35)**	**(37)**	**(37)**

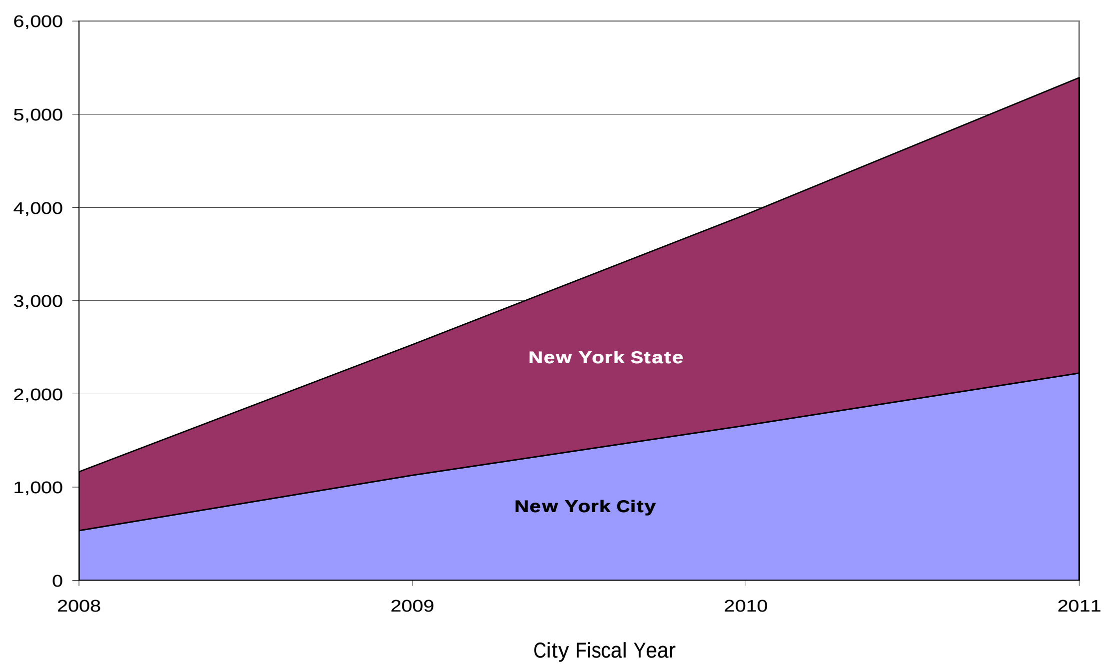
Source: New York State Division of the Budget

In subsequent years, the City is expected to reap a net benefit of $1.4 billion in CFY 2009, growing to $3.2 billion in CFY 2011, because of planned increases in education aid. New York City will continue to benefit from State initiatives implemented in prior years, with the recurring impact previously reflected in the City's Four-Year Financial Plan. These initiatives include the State cap that limits the annual growth in the local share of Medicaid to 3 percent and the State takeover of the local share of the Family Health Plus program, which together will benefit the City by $708 million in CFY 2008.

Education Aid - The SFY 2007-08 Executive Budget proposed to increase education aid statewide by $7 billion over the next four years and to allocate $3.2 billion of that amount to New York City.

The SFY 2007-08 Enacted Budget includes an increase in education aid to the City of $714 million in CFY 2008, which is larger than the $637 million increase proposed in the SFY 2007-08 Executive Budget. These estimates, however, credit the State for funding the debt service on the first debt issuance of $750 million in bonds issued by the Dormitory Authority of the State of New York for capital projects in the City, as part of the resolution of the CFE litigation. Thus, the net benefit to the City Department of Education's operating budget under the SFY 2007-08 Enacted Budget equals $620 million. This is still substantially higher than the SFY 2005-06 increment of $454 million in last year's adopted budget, which was considered large.

Enacted Increases in Education Funding
To New York City Public Schools
(in millions of dollars)



Sources: New York State Division of the Budget and New York City Office of Management and Budget

In SFY 2007-08, New York City will receive $7.5 billion in State education.

Revenue Sharing - The SFY 2007-08 Enacted Budget eliminated the SFY 2007-08 revenue sharing payment to the City under the Aid and Incentives for Municipalities (AIM) program and redistributed the funds to localities in distress. The payment is expected to be restored in SFY 2008-09.

PIT Administrative Charge - The SFY 2007-08 Enacted Budget increased the amount the State charges the City to administer the personal income tax (PIT) by $30 million, for a total of $70 million annually.

Other Budget Proposals - The SFY 2007-08 Enacted Budget eliminated $20 million in Video Lottery Terminal (VLT) aid to the City in SFY 2007-08, but the Legislature rejected the Executive's proposal to eliminate the aid in subsequent years. The SFY 2007-08 Enacted Budget also made several other small changes in transportation, welfare and child welfare aid that effectively offset each other in SFY 2007-08.

The SFY 2007-08 Executive Budget contained several other proposals that would have affected New York City, but these were not included in the SFY 2007-08 Enacted Budget. For example, the Executive had proposed actions to close certain tax loopholes for both the State and the City. Although the SFY 2007-08 Enacted Budget did close certain corporate and personal income tax loopholes in the State's tax code in order to generate $450 million, mostly from businesses operating in New York City, comparable changes to the City's tax code were not enacted. These additional State resources were partially offset by $150 million in enacted State business tax rate reductions, which were not applied to the City's tax code.

The SFY 2007-08 Enacted Budget also anticipates $902 million over three years from the conversion of downstate nonprofit health insurers (HIP/GHI) to a private, for-profit company. The Mayor has expressed his reservations about such a conversion, which could lead to less competition and even faster growth in health insurance costs. Regardless, the Mayor believes that the proceeds could be higher and should be shared proportionally with the City.

Tax Reduction Program - The SFY 2007-08 Enacted Budget expanded the existing School Tax Relief Program (STAR) by $1.3 billion in SFY 2007-08 (to $4.7 billion). [22] By SFY 2010-11, the increase in the STAR program is expected to reach $2.5 billion. The new relief would be based on income, with the largest increases going to home owners with incomes at or below $90,000 ($120,000 in the downstate metropolitan area).

In CFY 2008, for those New York City homeowners with incomes of less than $120,000, married couples would benefit by an additional $187 and individuals would benefit by another $157, which would bring the total benefit to $629 for married couples and $484 for individuals. For those living in rental housing, married couples

[22] A portion of the funding came from eliminating last year's property tax rebate that was valued at $673 million.

would benefit by an additional $60 and individuals would benefit by an additional $30, bringing the total benefit to $290 for married couples and $145 for individuals.

Section

8

Public Authorities

Over 740 public authorities operate at both the State and local levels in New York State. While several authorities receive operating and/or capital appropriations in the State Budget, the budgets of public authorities are not presented for legislative review and adoption. Although created in statute, public authorities operate as separate corporations governed by appointed boards of directors, and each authority adopts its own budget. This section provides information regarding State budgetary action involving certain public authorities within specific program areas.

The SFY 2007-08 Enacted Budget rejected the Executive's $800,000 personal service appropriation to fund the Authority Budget Office (ABO) and moved the $700,000 non-personal service appropriation which the Executive had proposed within the Division of the Budget (DOB) to a separate appropriation, citing that the ABO cannot be independent if it is housed within DOB. The SFY 2007-08 Enacted Budget contained a separate $700,000 Miscellaneous All State Departments and Agencies appropriation for ABO non-personal service expenses.

The SFY 2007-08 Enacted Budget rejected the creation of a new public benefit corporation, the New York State Stem Cell and Innovation Fund Corporation, instead creating an Empire State Stem Cell Board within the Department of Health. The Legislature also rejected a requirement for the Commissioner of Transportation to convene a panel of transit experts to develop transit performance measures and expand transit system financial reporting.

Enacted Article VII legislation authorizes a $913,000 transfer from the New York State Energy Research and Development Authority for General Fund relief in SFY 2007-08. Additionally, the SFY 2007-08 Enacted Budget provides bonding authorizations for a number of programs supported through public authority debt to be increased by 5.6 percent, or $1.5 billion.

Oversight of Public Authorities

Authority Budget Office

SFY 2007-08 Executive Budget

The Executive again recommended an appropriation of $1.5 million from the Miscellaneous Special Revenue Fund Authority Budget Office Account to fund the establishment of the ABO. Just as in the SFY 2006-07 Executive Budget, this appropriation was housed within DOB. Specifically, the Executive appropriated $800,000 for personal service and $700,000 for non-personal service expenditures.

A $1.5 million appropriation was recommended to fund the establishment of the ABO in the SFY 2006-07 Executive Budget, but was rejected by the Legislature due to conflicting interpretations of the location of this Office in accordance with the Public Authorities Accountability Act of 2005. The Act states that the ABO shall be "established by the Governor," but does not include language designating where it should be housed. While the Executive asserted that placing the Office within DOB would allow the new entity to leverage existing DOB resources, it would create a dynamic where the ABO lacks independence, a characteristic emphasized in several reform agendas as a necessity.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's $800,000 personal service appropriation to the ABO, and moved the $700,000 non-personal service appropriation which the Executive had proposed within DOB to a separate appropriation, citing that the ABO cannot be independent if it is housed within DOB. The SFY 2007-08 Enacted Budget contained a separate $700,000 Miscellaneous All State Departments and Agencies appropriation for ABO non-personal service expenses.

Creation of Public Authorities

New York State Stem Cell and Innovation Fund Corporation

SFY 2007-08 Executive Budget

The Executive proposed the creation of a new public benefit corporation, the New York State Stem Cell and Innovation Fund Corporation, which would be authorized to invest in stem cell research and other emerging technologies by providing grants and loans to support research.

The Executive recommended an appropriation of $100 million to the Corporation from the General Fund—$34 million in aid to localities funding to support the Corporation's non-capital research and development initiatives and administrative expenses, and $66 million for capital investments. No more than 10 percent of the aggregate dollar value of any State authorizations was to be used for any single investment, grant or loan award.

Additionally, beginning in SFY 2008-09, subject to voter approval of a General Obligation Bond Act in November 2008, $1.5 billion would be provided to the Corporation over ten years to support the State's continued investments in stem cell, life sciences and other emerging industries. Contingent upon approval of the Bond Act, the Corporation would have been responsible for administering the $1.5 billion. Additionally, $500 million will be appropriated from the General Fund over ten years to support non-capital research and development investments.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to create the New York State Stem Cell and Innovation Fund Corporation. The Legislature instead created an Empire State Stem Cell Board within the Department of Health. The Enacted Budget contains a Special Revenue Fund appropriation of $100 million to support initial investments in this area. Of this amount, the Executive expects to spend approximately $25 million in SFY 2007-08, none of which can be used for research involving human reproductive cloning.

In addition, funding for stem cell research may also come from the proceeds of the additional insurance conversion authorized by the Legislature. Lawmakers earmarked up to $50 million a year in additional conversion proceeds for the Empire State Stem Cell Fund for the next ten years. This funding will support grants for research and developmental activities to advance scientific discoveries in fields related to stem cell biology.

The Legislature also rejected the Executive Budget proposal that would have placed a $1.5 billion Stem Cell and Innovation Fund Bond Act before the voters in November 2008.

Transportation Authority Reporting

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed requiring the Commissioner of Transportation to convene a panel of transit experts to develop transit performance measures and expand transit system financial reporting to include historical financial information and five-year projected operating and capital budgets. This proposal followed the Comptroller's Regulation 2 NYCRR Part 203, "Budget and Financial Plan Format, Supporting Documentation and Monitoring – Public Authorities," which was adopted in March 2006 and was the first comprehensive effort to require regional transportation authorities in New York State to develop and report Four-Year Financial Plans to the Comptroller's Office.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to require the Commissioner of Transportation to convene a panel of transit experts to develop transit performance measures and expand transit system financial reporting.

General Fund Relief

SFY 2007-08 Executive Budget

While a limited number of public authorities receive appropriations in the State Budget, the budget process allows for the sweep of funds from certain entities to provide General Fund relief.

Unlike previous years, the Executive did not propose an extension of the Power for Jobs (PFJ) program. If no further action is taken, the PFJ program will sunset on June 30, 2007. To both support the PFJ program and reimburse the State for costs associated with the gross receipts tax credit offered to utilities, the SFY 2005-06 and SFY 2006-07 Enacted Budgets authorized the New York Power Authority (NYPA) to contribute a total of $175 million to the General Fund.[23] This amount has not yet been paid from NYPA; however, according to DOB, the State is still expecting the $175 million and has rolled the amount forward in the SFY 2007-08 Financial Plan. If, by the end of December 2007, NYPA's voluntary contribution is waived or General Fund monies are used to pay for the program, NYPA must submit its books and accounts to the Comptroller for review and audit.

Article VII legislation authorized a $913,000 transfer from the New York State Energy Research and Development Authority (NYSERDA) to the General Fund to offset the State's debt service requirements relating to the West Valley Demonstration Project and a $330,000 transfer from NYSERDA to the Environmental Conservation Special Revenue Low-Level Radioactive Waste Account. The $330,000 transfer would be made from money rebated to NYSERDA from the federal government.

[23] The Power for Jobs program allows the New York Power Authority (NYPA) to provide low-cost power to participating businesses with the goal of creating or maintaining jobs in New York State. Utility companies deliver this discounted power to program participants. To offset the costs of providing cheaper power, utility companies tally up the discounts they provide each year and subtract the amount from their taxes owed to the State (gross receipts tax credit). NYPA then reimburses the State for the reduced tax revenue.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's proposal to transfer $1.2 million from NYSERDA. No further legislative action has been taken on the PFJ program.

Bonding Limits

SFY 2007-08 Executive Budget

As public authorities reach their statutory limit on the total value of bonds that can be issued for a specific capital program, legislation is needed to increase the cap. The Executive Budget annually proposes increases in these authorizations in order to finance capital programs. Bond caps can provide authorizations to finance a single year's State appropriation or can be for multi-year periods. The SFY 2007-08 Executive proposals represented a 4 percent, or $991 million, increase in current bonding limits for the existing programs listed in the chart at the end of this section. Additionally, the Executive proposed $789 million in bonding for new programs.

The largest increase proposed for a single bonding program was $600 million to be issued by the Empire State Development Corporation (ESDC) for new high technology and economic development projects—$300 million for the development of an international computer chip research and development center and $300 million for the new Investment and Job Creation Program (Program).[24]

Article VII legislation creating the Investment and Job Creation Program also called for the creation of a Capital Approval Board to consider and review each project receiving material financial assistance from the Program. Unanimous approval of the voting members of the Board will be required before ESDC can provide assistance to the project. Capital projects to be funded by ESDC currently go through the Public Authorities Control Board (PACB) for approval. Bypassing PACB approval for Investment and Job Creation Program projects would circumvent the Comptroller's ability to review and comment on such projects.

SFY 2007-08 Enacted Budget

The Legislature decreased the Executive's various bonding limit proposals by $279 million in total. This change is mainly attributed to the Legislature rejecting the $600 million in bonds that were to be issued by the ESDC for new high technology and economic development projects. In total, SFY 2007-08 Enacted Budget actions represent a 5.6 percent, or $1.5 billion, increase from the previously enacted bonding limits for the programs listed in the chart below.

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[24] The statutory name for the Empire State Development Corporation (ESDC) is the Urban Development Corporation. For more information on Executive Budget proposals for the ESDC, see the Economic Development section of this report.

The Legislature also rejected Article VII legislation creating a Capital Approval Board.

SFY 2007-08 Change in Public Authority Bond Authorizations*
(in millions of dollars)

Issuer	Program	Current Cap	2007-08 Proposed	2007-08 Enacted	Enacted Change from Current Cap Dollar	Enacted Change from Current Cap Percent
DASNY	CUNY Senior and Community Colleges	5,632.3	5,785.7	5,904.0	271.7	4.8%
DASNY	Library Facilities	14.0	28.0	28.0	14.0	100.0%
DASNY	SUNY Senior Colleges	7,073.0	7,311.3	7,461.0	388.0	5.5%
DASNY/UDC	Acquisition of State Buildings and Other Facilities	0.0	0.0	140.0	140.0	-
DASNY/UDC	Courthouse Improvements and Training Facilities	0.0	77.9	77.9	77.9	-
DASNY/UDC	Cultural Education Storage Facility	0.0	60.0	60.0	60.0	-
DASNY/UDC	New York State Modernization Projects	0.0	50.5	50.5	50.5	-
EFC	Environmental Infrastructure Projects	457.0	492.5	492.5	35.5	7.8%
EFC	Water Pollution Control	511.4	541.0	511.4	0.0	0.0%
HFA	Various Housing Programs	1,891.0	2,001.0	2,042.0	151.0	8.0%
Thruway	Local Transportation Facilities Program (CHIPS)	5,709.6	5,729.6	5,745.0	35.4	0.6%
UDC	Correctional Facilities	5,000.0	5,300.0	5,185.0	185.0	3.7%
UDC**	High Technology and Other Economic Development Projects	0.0	600.0	0.0	0.0	-
UDC	State Office Building Improvements	62.0	82.0	83.3	21.3	34.4%
Authorized Issuer***	Agency Equipment Needs	273.0	293.0	293.0	20.0	7.3%
Authorized Issuer***	State Police Facilities	52.1	102.1	102.1	50.0	96.0%
	TOTAL BOND AUTHORIZATIONS	**26,675.4**	**28,454.6**	**28,175.7**	**1,500.3**	**5.6%**

Source: New York State Division of the Budget
* Only includes public authority bond authorizations modified in the SFY 2007-08 Executive and Enacted Budgets.
** Although the Legislature denied the Executive request to authorize UDC to issue $300 million in bonds for the development of a Chip Fab R&D Facility, the SFY 2007-08 Enacted Budget Capital Program and Financing Plan assumes that the bonds will be issued and the proceeds will be disbursed.
*** Including ESDC, DASNY, Thruway, EFC or HFA.

The SFY 2007-08 Enacted Budget Capital Program and Financing Plan lists all existing bond authorizations—currently a total of $70.4 billion authorized for 85 programs. Since SFY 2003-04, bond caps for 32 of these programs were statutorily increased by $21.8 billion, representing a 45 percent increase in total bond authorizations over four years.

Change in Public Authority Bond Authorizations
SFY 2004-2008
(in millions of dollars)

SFY	Dollar Amount	Change from SFY 2003-04 Dollar	Change from SFY 2003-04 Percent
2003-04	48,639		
2004-05	52,669	4,030	8%
2005-06	62,956	14,317	29%
2006-07	68,909	20,270	42%
2007-08	70,410	21,771	45%

Section

9

Education

On a school year basis, the SFY 2007-08 Executive Budget recommended an increase of $1.4 billion, which would raise overall school aid by nearly 8 percent, from $17.7 billion in SFY 2006-07 to over $19.1 billion in SFY 2007-08. On a SFY basis, State support would total $18.7 billion, an increase of nearly $1.3 billion, or 7.3 percent, higher than the SFY 2006-07 level. Of the total school year school aid amount, the Executive proposed $13.5 billion for the newly established "Foundation Aid formula," restructuring the methodology by which general support for public schools is distributed. This Executive proposal represented a school year increase of $981.6 million, or approximately 7.8 percent, over school year 2006-07. The remaining $418.4 million would have been comprised of Reimbursable Aid increases, debt service costs and additional program aids. New York City, which educated 36.3 percent of the State's public school children in school year 2005-06, would have received $7.5 billion, or 39 percent, of total school aid.

The SFY 2007-08 Enacted Budget increases spending for education by $436 million over the SFY 2007-08 Executive proposal, to nearly $19 billion, an increase of $1.7 billion over 2006-07 State Fiscal Year levels. The Executive's proposed "Educational Investment Plan" (Four-Year Plan) included an estimated $7 billion total increase for schools over the four-year period, raising total education funding by 39.5 percent to $24.7 billion by 2010-11. The recently published SFY 2007-08 Enacted Budget Financial Plan adds $800 million more to school aid over the four years, bringing estimates of school aid funding to $25.5 billion by school year 2010-11.

The SFY 2007-08 Enacted Budget modified the Executive's Foundation Aid formula, added funding for education programs for students with disabilities and accepted, with modifications, the Executive Contract for Excellence proposal. Additional funding was also provided for school districts with significant tax effort.

Itemization of School Aid Increase

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget for elementary and secondary schools provided school year funding of over $19.1 billion, a school year increase of $1.4 billion, or nearly 8 percent. On a SFY basis, the Executive Budget provided $18.7 billion, a fiscal year increase of nearly $1.3 billion, or 7.3 percent. The aid increase was comprised of present law growth, changes in lottery funding and a school year adjustment and new funding. The SFY 2007-08 Executive Budget also classified $112 million in State debt service payments on outstanding *EXpanding our Children's Education and Learning* (EXCEL) bonds as formula-based aid.[25] Unlike reimbursements for other debt issuances, such as those included in building aid, these funds are paid to the Dormitory Authority, which issued the debt, not the school districts. Over the Executive's Four-Year Plan, debt service payments for EXCEL were projected to grow to $196.7 million in 2010-11.

While many aid programs would have received additional funds, the Executive proposed to reduce funding for some education-related programs by $81.8 million, primarily due to the elimination of SFY 2006-07 legislative adds. The Executive also proposed maintaining present law funding levels for many formula-based aids. This funding methodology would have resulted in increases over SFY 2006-07 levels for many aids, including some that have been held constant in prior years.

SFY 2007-08 Enacted Budget

On a school year basis, the SFY 2007-08 Enacted Budget raises school aid funding by nearly 9 percent, or $1.8 billion, to $19.6 billion over 2006-07. Total school aid funding is projected to increase to $25.5 billion by school year 2010-11. On a SFY basis, the Enacted Budget provides almost $19 billion in State funding for the current fiscal year, an increase of nearly $1.7 billion, or 9.6 percent, with total school aid funding projected to increase to $25.5 billion by 2010-11. The debt service payments for the EXCEL program continue to be included in school aid, inflating the amount of school aid available to school districts by nearly $700 million over four years.[26]

[25] Of the $112 million, $94 million is targeted for debt service payments on bonds for New York City issued by the Dormitory Authority of the State of New York (DASNY), while the remaining $18 million would support debt service payments on DASNY bonds issued to support school projects throughout the rest of the State.

[26] The 2007-08 Enacted Budget Financial Plan projects EXCEL debt payments to equal $120 million in SFY 2007-08, $183 million in SFY 2008-09, $197 million in SFY 2009-10 and $197 million in SFY 2010-11.

Foundation Aid Proposal

SFY 2007-08 Executive Budget

As part of the SFY 2007-08 Executive Four-Year Plan, the proposed Budget would have combined approximately 30 traditional school-aid formulas, including Flex-Aid, into Foundation Aid. Under the Four-Year Plan, Foundation Aid would determine a standard local education cost based on actual costs in successful schools, adjust aid amounts for regional differences, provide additional aid based on poverty levels, allocate funds based on enrollment rather than attendance and include an expected, but optional, local contribution based on district wealth.

While the Executive's Foundation Aid proposal generally matched previous Board of Regents' proposals, the following differences are of note:

- The Executive plan would have provided all school districts with an annual aid increase of at least 3 percent, instead of 2 percent.[27] Of the nearly 700 school districts statewide, 304 would have received the minimum 3 percent increase.

- The Executive predicted that using the number of special education students as a weighted factor in the formula would have reduced financial incentives for placing children in special education.

- The Executive Plan would have consolidated Limited English Proficiency (LEP) aid into Foundation Aid and provided an additional weighting for all LEP children.

The Executive's proposed Foundation Aid formula did not allow specific changes to individual program funding levels to be determined; however, total school year funding would have increased by $981.6 million, or approximately 7.8 percent, from approximately $12.5 billion in SFY 2006-07 to $13.5 billion in SFY 2007-08. Over the four-year period covered by the Executive's plan, Foundation Aid would have increased $4.8 billion, or 38.4 percent, to $17.3 billion by 2010-11.

SYF 2007-08 Enacted Budget

The final budget agreement adjusted the Executive's Foundation Aid formula to provide additional funding to many of the 304 school districts that would have received a 3 percent hold harmless increase under the Executive's proposal. The SFY 2007-08 Enacted Budget provides $13.6 billion, an increase of $110.6 million over the Executive's proposal and $1.1 billion more than in school year 2006-07. The increase is projected to grow to approximately $5.5 billion over the four-year period.

[27] The maximum increase provided to a district would have been 25 percent.

Foundation Aid funding is to be distributed using either the Executive's proposed method, referred to as Mill's Choice, or a new method added in the SFY 2007-08 Enacted Budget based on a State sharing ratio. With the addition of a second distribution method, the number of hold harmless school districts is reduced from over 300 under the Executive's proposal to approximately 150, with much of the additional funding going to school districts in downstate New York and Long Island.

Universal Pre-Kindergarten

SFY 2007-08 Executive Budget

Under the Executive Budget, per pupil funding levels for Universal Pre-Kindergarten (UPK) would have increased for the first time since its inception in 1998. The SFY 2007-08 Executive Budget proposed $394.5 million, a $98.8 million, or 33.4 percent, increase over school year 2006-07. However, the Executive proposed converting UPK funding into a foundation-type formula that would have reduced minimum grant awards for participating half-day programs from $2,700 to $250 per child. Maximum awards would have been increased from $4,000 to $5,750 per child based on district wealth and educational needs.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget appropriates $438 million for UPK, an increase of $43 million over the Executive proposal and nearly $146 million more than the 2006-07 school year amount. This additional funding preserves the minimum grant awards for half-day programs at $2,700 and increases maximum awards to $5,750.

Transportation Aid

SFY 2007-08 Executive Budget

Funding for Transportation Aid would have increased $81.1 million, or 6.1 percent, to $1.4 billion. The minimum aid ratio for Transportation is maintained at 6.5 percent, and districts may continue to receive aid based on public and non-public enrollments.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposal to increase aid by $1.4 billion and added an additional $6.1 million for school district transportation costs in SFY 2007-08.

BOCES Aid

SFY 2007-08 Executive Budget

After several years of proposed decreases, school districts would have received $622.6 million, an increase of $37.6 million, or 6.4 percent, for the reimbursement of expenditures incurred for services provided by the Board of Cooperative Educational Services (BOCES).

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget appropriates $627.7 million for BOCES services costs, an increase of $5 million over the Executive's proposal.

High Cost Excess Cost Aid and Private Excess Cost Aid (Special Education)

SFY 2007-08 Executive Budget

The Executive proposed $376 million for High Cost Excess Cost Aid and $232 million in funding for Private Excess Cost Aid. Public Excess Cost Aid was proposed to be included in Foundation Aid.

SFY 2007-08 Enacted Budget

Since the Executive proposal was released, the 2006-07 base year expenditures for High Cost Excess Cost Aid increased by $64 million from $340 million to $404 million. The Legislature increased funding for High Cost Excess Cost Aid to $382 million, effectively reducing the funding level by $22 million from the revised 2006-07 school year amount. In addition, the SFY 2007-08 Enacted Budget includes Public Excess Cost Aid in Foundation Aid, but provides an additional $20.8 million in Supplemental Public Excess Cost Aid to help hold harmless those school districts that experience growth in this program.

Building Aid

SFY 2007-08 Executive Budget

For school year 2007-08, the Executive proposal would have provided nearly $1.7 billion in traditional building aid for construction of school facilities, an increase of $23.2 million, or 1.4 percent, over 2006-07. Under the Executive's proposal, Building Aid would have been provided only for school districts with approved construction contracts on file with the State Education Department by November 15, 2006.

The Executive's proposal also continued the EXCEL program, which authorized the Dormitory Authority to issue $2.6 billion in construction bond funding over four years, with $1.8 billion authorized for New York City school construction, $400 million for high-need districts outside of New York City and $400 million for other school districts. During SFY 2006-07, the Dormitory Authority issued $750 million in EXCEL bonds for New York City. For SFY 2007-08, the Executive Budget projected a total of nearly $1.5 billion in EXCEL bonds as authorized in the EXCEL legislation, $700 million more than in SFY 2006-07.

The SFY 2007-08 Executive proposal included $112 million in EXCEL debt service payments, including $94 million for New York City and $18 million for the rest of the State, in formula based aid. Unlike building aid, expenses associated with issuing EXCEL bonds are incurred by the Dormitory Authority, not by the school districts. Therefore, debt service payments will be paid directly to the Dormitory Authority.

The SFY 2006-07 Enacted Budget contained language that authorized New York City to assign and pledge to the Transitional Finance Authority (TFA) all Building Aid received from the State as support for Building Aid Revenue Bonds (BARBs) issued by the TFA. In SFY 2007-08, New York City will receive $1.4 billion from proceeds of TFA BARB issuances, and the TFA will use approximately $82 million in State funded Building Aid to make debt service payments on the $1.3 billion in BARBs issued in SFY 2006-07.

The SFY 2007-08 Executive Budget also proposed revising the Wicks Law requirement of using multiple contractors for school district construction. The Executive proposed raising the Wicks Law cost thresholds from $50,000 to $2 million for New York City and to $1 million for all other locations. The SFY 2007-08 Executive Budget estimated school construction cost savings of between 9 percent and 10 percent as a result of this proposal.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget appropriates nearly $1.8 billion in building aid, an $83 million increase over the Executive's proposal, for school districts with approved construction contracts on file with the State Education Department by November 15, 2006. The Legislature rejected the Executive's Wicks Law proposal.

Charter School Transition Aid

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed $15.2 million in Transitional Aid for five school districts (Albany, Buffalo, Lackawanna, Roosevelt and Schenectady) that currently have a number of charter schools within their area and have been adversely affected financially. An additional proposal would require new charter schools to notify their home district of their plans to open by March 15, before the district's school budget adoption deadline.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposal that new charter schools be approved by March 15 in order to open in September but changed the Board of Regents' notification requirement to at least 45 days before the charter is approved. In addition, the SFY 2007-08 Enacted Budget increases charter school transition aid funding by $7.3 million to $22.5 million by expanding the eligibility criteria and the resulting number of qualified school districts.[28]

Supplemental Education Improvement Plan

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed $8.5 million for the Yonkers School District in support of its court-ordered Education Improvement Plan.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's proposal.

Computer Hardware and Software

SFY 2007-08 Executive Budget

Computer Hardware and Software Aid provides funding to school districts for the purchase and loan of computer software programs and equipment. The SFY 2007-08 Executive Budget proposed increases of $858,100 to $46.8 million and $8.5 million to $37.4 million over school year 2006-07 for computer software and hardware, respectively.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's recommended funding levels for Computer Software and Hardware.

[28] The Enacted Budget excludes charter schools approved by Boards of Education or the Chancellor of the New York City Board of Education from receiving Transitional Aid.

Textbooks and Library Materials

SFY 2007-08 Executive Budget

Under the Executive's proposal, school districts would have received an increase of $1.4 million to $186.9 million for Textbook Aid and an increase of $65,000 to $19.8 million for Library Materials in school year 2007-08.

SFY 2007-08 Enacted Budget

The Legislature reduced the Executive's proposed appropriations for Textbook Aid and Library Materials by $737,000 to $186.2 million and by $28,000 to nearly $19.8 million, respectively.

Special Services and Full-Day Kindergarten Conversion Aid

SFY 2007-08 Executive Budget

Continuing the existing statutory formula in the SFY 2007-08 Executive Budget would have resulted in aid reductions for two Foundation Aid programs. Special Services (Career Education/Computer Administration), which funds career education programs and computer services for districts not associated with BOCES, would have been reduced by $5.6 million from $142.6 million to $137 million. Funding for Full-Day Kindergarten Conversion Aid would have been reduced by $1.1 million to $1.6 million, reflecting a decline in new applications from school districts seeking to convert to full-day programs.

SFY 2007-08 Enacted Budget

The Legislature further reduced Special Services by $6 million to $130 million, but increased funding for Full-Day Kindergarten Conversion Aid by $2.3 million, to nearly $4 million.

Discretionary Grant Programs

The SFY 2007-08 Executive Budget proposed to maintain school year 2006-07 funding levels for most Grant Programs and Other Aid Categories, including school health services, employment preparation education and incarcerated youth programs. Current funding levels were also proposed for teacher programs aimed at recruiting, retaining and training teachers, including Teachers of Tomorrow, Teacher Centers and Teacher-Mentor Intern. The Executive Budget also proposed to direct $10 million in funding to Math and Science Initiatives for the development of a program to increase the supply of qualified math and science teachers in schools across the State.

Under the Executive's proposal, the school aid apportionment for the education of students living in or released from Office of Mental Health (OMH), Office of Mental Retardation and Developmental Disabilities (OMRDD) or intermediate care facilities would have increased by $2.6 million, or 5 percent, to $54.6 million. Funding for Pupils and Native American Education programs, which pay the full cost of elementary and secondary education (including transportation) for 2,500 Native American children, would have been increased by $3.9 million, or 12.9 percent, to $34.2 million.

New initiatives included in Grant Programs and Other Aid Categories would have resulted in a marginal increase of $24 million, comprised of $18 million for Additional EXCEL Building Aid for anticipated debt service payments on outstanding EXCEL bonds, $2 million for Full-Day Kindergarten Planning Grants to ensure that all high-need and low performing school districts offer full-day Kindergarten classes by 2010-11, and $4 million for a Rochester Community School Pilot program to promote the efficient delivery of child and family support services in the Rochester City School District.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's Math and Science Initiatives, and increased funding proposals for the education of students living in or released from OMH, OMRDD or intermediate care facilities and Pupils and Native American Education programs. The SFY 2007-08 Enacted Budget provides an additional $3 million for Teacher Centers and $4 million more for the Teacher-Mentor Intern program, increasing total funding for these programs to $40 million and $10 million, respectively.

The SFY 2007-08 Enacted Budget also funds the Executive's new initiatives, including additional EXCEL Building Aid, Full-Day Kindergarten Planning Grants and the Rochester Community School Pilot program, resulting in $19.6 million for total school aid.

School Aid
School Year Payments
(in millions of dollars)

Program	Updated Base Year 2006-07*	Executive Budget 2007-08	Enacted Budget 2007-08	Exec vs. Enacted Budgets 2007-08	Exec. vs. Enacted Percent Change	2006-07 Enacted to 2007-08 Enacted Difference	2006-07 vs. 2007-08 Percent Change
Formula Based Aids:							
Flex Aid	8,587.42	0.00	0.00	0.00	0.00	(8,587.42)	N/A
Excess Cost - Public	2,215.73	0.00	0.00	0.00	0.00	(2,215.73)	N/A
Sound Basic Education Aid	699.85	0.00	0.00	0.00	0.00	(699.85)	N/A
Supplemental Extraordinary Needs Aid	136.51	0.00	0.00	0.00	0.00	(136.51)	N/A
Limited English Proficiency	20.86	0.00	0.00	0.00	0.00	(20.86)	N/A
Class Size Reduction	139.60	0.00	0.00	0.00	0.00	(139.60)	N/A
Growth Aid	8.74	0.00	0.00	0.00	0.00	(8.74)	N/A
Enrollment Adjustment	27.12	0.00	0.00	0.00	0.00	(27.12)	N/A
Reorganizing Incentive (Operating)	12.85	0.00	0.00	0.00	0.00	(12.85)	N/A
Tax Limitation Aid	211.31	0.00	0.00	0.00	0.00	(211.31)	N/A
High Tax	19.97	0.00	0.00	0.00	0.00	(19.97)	N/A
Teacher Support Aid	67.48	0.00	0.00	0.00	0.00	(67.48)	N/A
Magnet Schools	170.30	0.00	0.00	0.00	0.00	(170.30)	N/A
Categorical Reading	63.95	0.00	0.00	0.00	0.00	(63.95)	N/A
Improving Pupil Performance	66.35	0.00	0.00	0.00	0.00	(66.35)	N/A
Aid to Small City School Districts	81.88	0.00	0.00	0.00	0.00	(81.88)	N/A
Fort Drum	3.49	0.00	0.00	0.00	0.00	(3.49)	N/A
Foundation Aid	0.00	13,529.47	13,640.05	110.58	0.82%	13,640.05	N/A
Foundation Aid Totals	**12,533.41**	**13,529.47**	**13,640.05**	**110.58**	**0.82%**	**1,106.64**	**8.83%**
Excess Cost - High Cost	404.46	376.00	382.17	6.17	1.64%	(22.29)	-5.51%
Excess Cost - Private	232.16	231.47	234.88	3.41	1.47%	2.72	1.17%
Textbooks (including Lottery)	185.50	186.90	186.16	(0.74)	-0.40%	0.66	0.36%
Computer Hardware	28.84	37.38	37.38	0.00	0.00%	8.54	29.61%
Computer Software	45.96	46.82	46.64	(0.18)	-0.38%	0.68	1.48%
Library Materials	19.21	19.80	19.78	(0.02)	-0.10%	0.57	2.97%
BOCES	583.00	622.63	627.65	5.02	0.81%	44.65	7.66%
Special Services. (Career Ed/Comp. Admin)	135.93	137.00	130.72	(6.28)	-4.58%	(5.21)	-3.83%
Transportation (incl Summer)	1,342.19	1,417.51	1,423.62	6.11	0.43%	81.43	6.07%
Building/Reorganization Imp. Plan	1,732.13	1,684.77	1,767.99	83.22	4.94%	35.86	2.07%
EXCEL Building Aid	0.00	94.00	94.00	0.00	0.00%	94.00	N/A
Universal Pre-K	202.94	394.45	437.91	43.46	11.02%	234.97	115.78%
Supplemental Education Imp. Plan	0.00	8.50	8.50	0.00	0.00%	8.50	N/A
Charter School Transition Aid	0.00	15.24	22.51	7.27	47.70%	22.51	N/A
Full-Day Kindergarten	2.83	1.66	3.96	2.30	138.55%	1.13	39.93%
Academic Achievement Grant	0.00	0.00	88.89	88.89	N/A	88.89	N/A
Tax Limitation Aid	0.00	0.00	100.00	100.00	N/A	100.00	N/A
Supplemental Public Excess Cost	0.00	0.00	20.82	20.82	N/A	20.82	N/A
Formula-Based Aids Total	**4,915.15**	**5,274.13**	**5,633.58**	**359.45**	**6.82%**	**718.43**	**14.62%**

Program	Updated Base Year 2006-07*	Executive Budget 2007-08	Enacted Budget 2007-08	Exec vs. Enacted Budgets 2007-08	Exec. vs. Enacted Percent Change	2006-07 Enacted to 2007-08 Enacted Difference	2006-07 vs. 2007-08 Percent Change
Grant Programs and Other Aid Categories							
Additional EXCEL Building Aid	0.00	18.00	18.00	0.00	0.00%	18.00	N/A
Full-Day K Planning Grants	0.00	2.00	2.00	0.00	0.00%	2.00	N/A
Teachers for Tomorrow	25.00	25.00	25.00	0.00	0.00%	0.00	0.00%
Teacher Centers	37.00	37.00	40.00	3.00	8.11%	3.00	8.11%
Teacher-Mentor Intern	6.00	6.00	10.00	4.00	66.67%	4.00	66.67%
Math and Science Initiatives	10.00	10.00	10.00	0.00	0.00%	0.00	0.00%
Community School - Rochester	0.00	4.00	4.00	0.00	0.00%	4.00	N/A
School Health Services	13.84	13.84	13.84	0.00	0.00%	0.00	0.00%
Roosevelt	6.00	6.00	6.00	0.00	0.00%	0.00	0.00%
Urban-Suburban Transfer	1.13	1.13	1.13	0.00	0.00%	0.00	0.00%
Employment Preparation Education	96.00	96.00	96.00	0.00	0.00%	0.00	0.00%
Homeless Pupils	6.48	6.48	6.48	0.00	0.00%	0.00	0.00%
Incarcerated Youth	16.50	16.50	16.50	0.00	0.00%	0.00	0.00%
Bilingual	11.50	11.50	11.50	0.00	0.00%	0.00	0.00%
Education of OMH/OMRDD Pupils	52.00	54.60	54.60	0.00	0.00%	2.60	5.00%
Special School Districts	2.20	2.20	2.20	0.00	0.00%	0.00	0.00%
Chargebacks	(31.00)	(33.31)	(33.31)	0.00	0.00%	(2.31)	-7.45%
BOCES Aid for Special Districts	0.68	0.68	0.68	0.00	0.00%	0.00	0.00%
Learning Technology Grants	3.29	3.29	3.29	0.00	0.00%	0.00	0.00%
Native American Building	2.50	2.50	2.50	0.00	0.00%	0.00	0.00%
Native American Education	30.00	34.20	34.20	0.00	0.00%	4.20	14.00%
Bus Driver Safety	0.40	0.40	0.40	0.00	0.00%	0.00	0.00%
Fiscal Stabilization Grants	44.14	45.10	45.10	0.00	0.00%	0.96	2.17%
Other Aid Categories	92.66	0.00	0.00	0.00	N/A	(92.66)	-100.00%
Sub-Total	**426.32**	**363.11**	**370.11**	**7.00**	**1.93%**	**(56.21)**	**-13.18%**
School Year Total	**17,874.88**	**19,166.71**	**19,643.74**	**477.03**	**2.49%**	**1,768.86**	**9.90%**

Campaign for Fiscal Equity

On November 20, 2006, New York's Court of Appeals (Court) delivered what was to be the final court decision on the Campaign for Fiscal Equity (CFE) case. The case, which began 13 years ago, has been a perennial budget concern since 2004 when the State Commission on Education Reform (Commission) called for the State to implement a multi-year plan to provide New York City schools with an additional $5.6 billion for operating expenses and an additional $9.2 billion for capital projects. Although the recommendations of the Commission were accepted by the State Supreme Court in early 2005, former Governor Pataki quickly appealed the decision. In November 2006, the Court of Appeals ruled by a 4 to 2 majority for New York to provide at least $1.93 billion more in operational funding for New York City Schools to resolve the CFE lawsuit. This amount was at the low end of the $1.93 billion to $4.69 billion range identified in both an earlier Standard and Poor's study and the ruling of the Appellate

Division, First Department.[29] The Court, citing its desire to "avoid intrusion on the primary domain of another branch of government," left the responsibility of determining the exact amount of aid to resolve CFE to the Executive and Legislature. However, the recommendations were not implemented by the end of 2006.

SFY 2007-08 Executive Budget

Since taking office, Governor Spitzer has declared the Court of Appeals decision final and proposed an additional $5.4 billion in operating aid for New York City over four years. Of this amount, $3.2 billion would be provided by the State and $2.2 billion by New York City. Sound Basic Education Aid funding was included in Foundation Aid under the SFY 2007-08 Executive Budget.

SYF 2007-08 Enacted Budget

The Legislature concurred with the Executive's $5.4 billion proposal for Sound Basic Education Aid and included it within Foundation Aid.

Video Lottery Terminal Revenues

SFY 2007-08 Executive Budget

Under the Executive's proposal, $586 million of school aid funding was to be supported with revenues from video lottery terminal (VLT) facilities. The SFY 2005-06 and 2006-07 Financial Plans projected $227.5 million and $358 million, respectively, in VLT revenues for education. Recognizing that VLT revenues were not meeting expectations for those years, Financial Plan estimates were lowered to $161 million in SFY 2005-06 and to $275 million in SFY 2006-07. At the end of SFY 2006-07, actual VLT revenues totaled $269.7 million, or about 33 percent less than the enacted projection.[30]

Given past shortfalls in VLT revenues, the continued fiscal instability of Vernon Downs, the lower than expected per machine income at Yonkers and the uncertainty surrounding the opening of an additional VLT facility at Aqueduct, significant risk exists that the Executive's projected SFY 2007-08 VLT forecast of $586 million will not fully materialize and, therefore, may have an adverse impact on the General Fund. If current trends continue in SFY 2007-08, the Office of the State Comptroller estimates that total VLT revenues could equal approximately $471 million—$115 million, or 20 percent, less than projected.

[29] Standard and Poor's Resource Adequacy Study for the New York State Commission on Education Reform. March 2004.

[30] Office of the State Comptroller. *Comptroller's Monthly Report on State Funds Cash Basis of Accounting*. April 2007.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's recommendation to use $586 million in VLT revenues to support education. However, as stated above, given historical collections to date, VLT revenues may not materialize. VLT revenues have continued to decline at the Vernon Downs racino, where SFY 2006-07 year-end net machine income totaled $13.8 million, $1 million less than the Division of Lottery projected in the February 2007 update to the annual Financial Plan. The Racing and Wagering Board allowed Vernon Downs to resume racing in April 2007 after it paid more than $6 million in outstanding loans from a former investor and a Las Vegas mortgage company.[31] The track still owes the Las Vegas mortgage company $19 million.

The Division of Lottery projects that Vernon Downs will generate nearly $37 million in net machine income during SFY 2007-08.[32] This would equate to approximately $3.1 million per month; however, to date, Vernon Downs has averaged $2.6 million per month. In addition, the owner of the racino stated that unless the State increases the share of revenues, the Vernon Downs track and casino could shut down this summer, which would have a significant impact on VLT revenues.[33]

It is also notable that unlike past years, the SFY 2007-08 Enacted Budget does not include projected revenues from the Aqueduct racino because continued delays have precluded officials from estimating a reasonable opening date.

Accountability

SFY 2007-08 Executive Budget

As part of the Executive's plan to fully implement the requirements of the CFE lawsuit, the Executive proposal recommended several accountability measures designed to produce academic results. For SFY 2007-08, the Executive proposed $20 million for the State Education Department to support expenses related to accountability initiatives.

The Executive's proposed Four-Year Plan would have required all school districts receiving an annual increase of at least $15 million, or 10 percent, along with the Yonkers School District in exchange for a Supplemental Educational Improvement Grant, to enter into a Contract for Excellence (Contract). These Contracts were

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[31] Coin, Glen. "State Lets Track Start Racing Friday." *The Post-Standard.* April 3, 2007.

[32] New York Lottery. *Update to the Annual Financial Plan for 2006-07 and the Initial Financial Plan for FY 2007-08.* February 22, 2007.

[33] Coin, Glen. "Vernon Downs Opening Tied to Loans; Track Can Begin Racing April 6, But Must Pay $6 Million By April 2 To Do So." *The Post-Standard*. March 23, 2007.

intended to govern how school district administrators spend their additional funding and implement the Executive's proposed accountability reforms.

This proposal called for a number of accountability reforms, such as spending additional State aid funds on strategies deemed successful by the Executive, including class size reduction, extended classroom time, teacher and principal quality initiatives, Middle and High School restructuring and Full-Day Kindergarten and Pre-Kindergarten. The Executive's proposal also called for structural changes to current performance measurement programs and included four goals aimed at improving financial, programmatic, performance and school accomplishment accountability to be implemented by the Education Commissioner and the school districts.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget modified the Executive accountability proposal to create an Enhanced State Accountability System (Enhanced System). Under the Enhanced System, the Board of Regents will develop and implement an interim accountability system by SFY 2007-08 and an enhanced model by no later than SFY 2010-11. The Enhanced System requires Board of Regents action for school districts that consistently lack improvement and for the expansion of the Schools Under Registration Review process to identify, reorganize or restructure up to 5 percent of the schools in the State within four years. The SFY 2007-08 Enacted Budget provides $15 million for State Education Department accountability initiatives, $5 million less than the Executive's proposal.

The SFY 2007-08 Enacted Budget also redefines the criteria for developing a Contract for Excellence. Under the SFY 2007-08 Enacted Budget, school districts must spend Foundation Aid increases of greater than 3 percent in accordance with a Contract for Excellence if the school district receives an increase of more than 10 percent, or $15 million, as proposed by the Executive, *and* contains one or more schools in need of improvement or requiring corrective action or restructuring. This additional requirement effectively reduced the overall number of school districts requiring a Contract for Excellence from 112 under the Executive's proposal to 56. Those districts bound by a Contract for Excellence must spend any increase greater than 3 percent on proven programs, as outlined in the Executive proposal, that benefit students with the greatest educational needs.

Audits of All School Districts

SFY 2007-08 Executive Budget

Chapter 267 of the Laws of 2005 authorized the Office of the State Comptroller to audit all school districts, charter schools and BOCES within five years. The SFY 2007-08 Executive Budget proposes $5.8 million to support full annual efforts in SFY 2007-08.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's $5.8 million proposal and added $2.7 million for services and expenses related to school audits to help increase the financial accountability of schools and ensure that school district expenditures are made appropriately throughout the State. To meet this responsibility, the Office of the State Comptroller has issued audits on over 150 school districts to date and over 190 audits are currently underway or announced.

Efficiency

SFY 2007-08 Executive Budget

In light of continued audit findings of waste and inefficiencies by the State Comptroller's Office at school districts around the State, the Executive proposed additional measures for improving school district efficiency. The SFY 2007-08 Executive Budget included $5 million for School District Efficiency Reviews. These reviews, performed by contracted consultants, would have assisted school districts in identifying administrative and other operational savings that could be reinvested to support classroom instruction and minimize property tax growth. The reviews would have been conducted on a voluntary basis or at the request of the Education Commissioner.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal for School District Efficiency Reviews.

Charter Schools

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed increasing the cap on the number of charter schools that could be established from 100 schools to 250 schools. The proposal would have authorized the Board of Regents, SUNY and the New York City School Chancellor to each approve 50 new charter schools. A similar proposal to increase the number of authorized charter schools was rejected by the Legislature in SFY 2006-07. The Executive also proposed that the Board of Regents approve a new charter school by no later than March 15 if such school is intended to open in September. In addition, the charter entity or Board of Regents would have been required to notify any affected school district of the approval of a new charter school before its budget is adopted.

In SFY 2007-08, the Executive proposed continuing funding for the Charter Schools Stimulus Fund at $6 million for the development, implementation and operation of charter schools. The Executive also proposed $15 million in new Transitional Aid for five school districts that are currently affected by a concentration of charter schools: Albany, Buffalo, Lackawanna, Roosevelt and Schenectady.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget increases the number of authorized charter schools from 100 to 200, provided that up to 50 charter schools are located in New York City. The Legislature agreed with the Executive's proposal that new charter schools be approved by March 15 in order to open in September, but changed the Board of Regents' notification requirement to at least 45 days before the charter is approved. Charter school entities must also require new charter school applicants to demonstrate significant educational benefit and be approved by any school district that already has more than 5 percent of its enrollment attending alternative schools.

The Legislature approved the Executive's proposed funding of $6 million for Charter School Operating Aid and increased Charter School Transition Aid funding to $22.5 million by increasing the number of school districts that qualify for aid.

School Tax Property Relief Program (STAR)

The Executive proposed increasing the School Tax Property Relief (STAR) program by $1.5 billion to a total of $5.1 billion. The Executive's Middle Class School Property Tax Relief (STAR) program would have increased the existing basic STAR exemption for homeowners based on income. This proposal would have doubled the basic STAR exemption of $30,000 over three years for homeowners whose income is at or below $60,000. Homeowners with income above $60,000, but below $235,000, would have received a smaller increase. In conjunction with this proposal, the Executive recommended eliminating the STAR rebate which was implemented in SFY 2006-07. There was no fiscal impact indicated from the elimination of the rebate in SFY 2007-08; however, General Fund receipts were projected to increase by $675 million in SFYs 2008-09 and 2009-10 as a result.

The new proposal would have also increased the Enhanced STAR exemption for seniors by 40 percent over two years by setting the base exemption at $73,800 for

SFY 2007-08 and $79,500 for SFY 2008-09. All enhanced exemptions for seniors after SFY 2008-09 would have increased the prior year's exemption by a cost of living adjustment.

Finally, the New York City Personal Income Tax STAR credit would have doubled over three years. In SFY 2006-07, married individuals filing jointly received a credit of $230. Under the Executive's proposal, the credit would have increased to $300 in SFY 2007-08, $320 in SFY 2008-09 and $340 thereafter. Individuals filing separately received a credit of $115 in SFY 2006-07. Under the Executive's proposal, the credit would have increased to $150 in SFY 2007-08, $160 in SFY 2008-09 and $170 thereafter. The entire expanded STAR proposal was estimated to reduce General Fund receipts by $1.2 billion in SFY 2007-08, $1.7 billion in SFY 2008-09 and $2.0 billion in SFY 2009-10.

SFY 2007-08 Enacted Budget

The Legislature replaced the Executive's Middle Class School Property Tax Relief (STAR) program with a Middle Class STAR Rebate program. The new program increases rebate amounts for non-seniors over 2006 levels between 30 and 60 percent in SFY 2007-08 (see tables below). The rebate checks are based on the amount of the basic STAR exemption and income level. The enhanced basic STAR rebate is valued at $1.0 billion in SFY 2007-08, $1.3 billion in SFY 2008-09 and $1.5 billion in SFY 2009-10.

Middle Class STAR Rebate Program
Exemption Increase
(for parcels located outside higher-income counties*)

Income Level	SFY 2007-08	SFY 2008-09	SFY 2009-10
≤ $90,000	60%	70%	80%
$90,001-$150,000	45%	52.5%	60%
$150,001-$250,000	30%	35%	40%
>$250,000	None	None	None

* Higher-income areas include New York City and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester.

Middle Class STAR Rebate Program
Exemption Increase
(for parcels located inside higher-income counties*)

Income Level	SFY 2007-08	SFY 2008-09	SFY 2009-10
≤ $120,000	60%	70%	80%
$120,001-175,000	45%	52.5%	60%
$175,001-$250,000	30%	35%	40%
>$250,000	None	None	None

* Higher-income areas include New York City and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester.

Rebate checks for senior citizens will be equal to the senior STAR benefit multiplied by 25 percent in 2007 and 35 percent in 2008. Senior STAR recipients will receive an annual cost of living adjustment in 2009 and annually thereafter. The increased senior STAR rebate is valued at $139 million in SFY 2007-08, $313 million in SFY 2008-09, and $482 million in SFY 2009-10.

New York City residents will receive an increased personal income tax credit providing married individuals filing jointly a credit of $290 in SFY 2007-08, $310 in SFY 2008-09 and $335 in SFY 2009-10. Single, head of household or married filing separately individuals will receive credits worth $145 in SFY 2007-08, $155 in SFY 2008-09 and $167.50 in SFY 2009-10. The increased New York City personal income tax credit is valued at $125 million in SFY 2007-08, $160 million in SFY 2008-09 and $200 million in SFY 2009-10.

Prior Year Claims

Prior Year Claims are already owed to the school districts from revised aid claims in previous years. For school year 2007-08, the SFY 2007-08 Executive Budget maintains prior year claims funding at the 2006-07 level of $25.9 million. As in past years, this is significantly less than what is necessary to fully fund these existing liabilities.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's prior year claims proposal.

Other Proposals

As part of the Executive's Four-Year Plan, the SFY 2007-08 Executive Budget proposed a number of programmatic changes, including:

- **Preschool Special Education Taskforce** - The SFY 2007-08 Executive Budget proposed the creation of a Taskforce comprised of representatives of school districts, preschool providers, counties and appropriate State agencies to study rate-setting methodologies and the relationship between preschool special education and other early childhood programs. Funding for preschool special education would be increased by $28.1 million to $663.1 million under the Executive's proposal.

- **Schools Under Registration Review (SURR)** - Beginning in July 2007, the Commissioner of Education would be given authority to strengthen the rehabilitation of SURRs by restructuring up to 5 percent of the State's schools within four years, developing criteria for closure and revising the intervention process.

- **Cultural Education** - The SFY 2007-08 Executive Budget appropriated $60 million for a new State archive storage facility, an increase of $40 million over SFY 2006-07. Funding for Aid to Public Television and Radio, Local Government Records Management and Cultural Resource Surveys would be increased by $2 million, $1.5 million and $1.6 million, respectively. Library Aid and Library Construction Aid were maintained at the SFY 2006-07 funding levels of $97.2 million and $14 million, respectively.

- **Dependent School District Board Representation -** The Executive proposed to ensure that the mayors of Buffalo, Rochester and Syracuse are represented on their local school boards.

- **Tuition Credit** - The Executive proposed a personal income tax deduction of up to $1,000 per child for parents to offset the cost of private school tuition. While there is no projected cost for 2007-08, the Executive Budget estimated the program would have cost the State $25 million in each of the three years from 2008-09 through 2010-11.

- **Vocational and Educational Services for Individuals with Disabilities (VESID)** - The SFY 2007-08 Executive Budget proposed 2006-07 funding levels of $54.6 million for Case Services, $11.7 million for Independent Living Centers and $300,000 for the College Readers Program. The Executive also proposed to increase Long-Term Support Services by $1 million to $13.9 million and to decrease Time Limited Services by $1 million to $2.5 million.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposals to create a Preschool Special Education Taskforce and strengthen the SURR process, but rejected the Executive's proposal to include the mayors of the Big Four city school districts on their local school boards and the provision of a $1,000 per child tax deduction to offset the cost of private school tuition.

Proposed funding levels for a new State archive storage facility, Educational Television and Radio, Local Government Records Management and Cultural Resource Surveys were accepted. The Legislature also provided an additional $5 million in Library Construction Aid and $500,000 for Independent Living Centers.

Section

10

Higher Education

The SFY 2007-08 Enacted Budget Financial Plan includes additional spending of $598 million for higher education in SFY 2007-08 over SFY 2006-07 and $39 million over the proposed SFY 2007-08 Executive Budget. The increase is the result of the Legislature's restoration of funds for key programs and additional funding for high need students through tuition assistance and other opportunity programs. The SFY 2007-08 Enacted Budget precludes the need for a tuition increase in the 2007-08 State Fiscal Year and calls for the creation of a Commission on Higher Education to examine the potential of establishing a tuition strategy for the future. Additional funding is also provided for capital projects at SUNY and CUNY campuses.

The Enacted Budget includes:

- A $17.1 million increase in Tuition Assistance Program (TAP) aid for students who participate in accelerated study, are eligible through an Ability to Benefit (ATB) examination or take 3 out of 12 credit hours per semester of remedial course work,

- A base aid increase of $150 per full-time equivalent (FTE) student at SUNY and CUNY community colleges, and

- A 3 percent increase in funding for the Educational Opportunity Program (EOP) and the Liberty Partnership Program, the Higher Education Opportunity Program (HEOP), and the Search for Education, Elevation and Knowledge Program (SEEK), a 5 percent increase in funding for College Discovery, and a $4.2 million increase in Aid to Independent Colleges and Universities (BUNDY aid).

Commission on Higher Education

The Executive proposed the creation of a Commission on Higher Education to examine higher education policies and make recommendations intended to improve the success of New York's higher education system. The Commission would have been charged with developing a strategic plan to raise the image of public universities, develop a public college and university tuition policy and identify achievement benchmarks that would permit fair comparisons between New York's institutions and its peer institutions around the country. The SFY 2007-08 Executive Budget did not include a specific appropriation or any specific plans for the creation or operation of the Commission.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's recommendation to establish a temporary New York State Commission on Public Higher Education.

Capital Investments

Senior and Community Colleges

SFY 2007-08 Executive Budget

In exchange for additional capital funding, the SFY 2007-08 Executive Budget called upon SUNY and CUNY to develop new five-year capital plans beginning in SFY 2008-09. The Executive proposed capital appropriations totaling $645.5 million, including $379.7 million for SUNY and $265.8 million for CUNY for various renovations, improvements and university-wide projects in SFY 2007-08. The Executive proposed increasing SUNY's and CUNY's bond cap limits by the entire appropriation amounts to a total of $7.3 billion and $5.8 billion, respectively. No capital funds were appropriated for SUNY community colleges in the SFY 2007-08 Executive Budget.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget accepted the Executive's capital improvements proposals and raised SUNY's and CUNY's bond caps to $7.5 billion and $5.8 billion, respectively.

Community Colleges

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget increased base aid at SUNY and CUNY community colleges by $100 per FTE, thus raising current operating aid levels from $2,525 to

$2,625. State funding for SUNY and CUNY community colleges would have increased by $22.1 million, to $437.2 million, and by $6.3 million, to $168.2 million, respectively, for SFY 2007-08. The SFY 2007-08 Executive Budget also proposed increasing Rental Aid by $150,000 to cover costs associated with leased space and maintaining 2006-07 aid levels for other vital programs, including work force development ($2.0 million), childcare ($900,000) and College Discovery ($839,300).

SFY 2007-08 Enacted Budget

The Legislature increased Base Aid by $50 per FTE above the Executive's proposal for a total of $150 per FTE, raising current operating aid levels to $2,675 per FTE at both SUNY and CUNY Community Colleges. State funding for SUNY and CUNY Community College operating expenses is increased by $7.1 million to $444.3 million and by $2.3 million to $170.5 million, respectively. The Legislature concurred with the Executive's proposed funding levels for Rental Aid, workforce development, childcare and College Discovery. In addition, $1 million is included for low enrollment assistance for SUNY community colleges.

Financial Aid

Tuition Assistance Program Restructuring

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed $857 million for TAP in SFY 2007-08, a net decrease of $18.7 million, or 2.2 percent, from SFY 2006-07, resulting from a proposed $11.3 million increase for program growth offset by a $30 million reduction from eliminating the use of Ability to Benefit (ATB) tests as an eligibility criterion for the program. The ATB test is used for students lacking a high school diploma or its equivalent and who wish to apply for financial aid. Students are tested on basic skills in Mathematics, English or English as a Second Language (ESL).

As part of the Executive's higher education strategy for 2007-08, the SFY 2007-08 Executive Budget proposed that students meet the following requirements to qualify for TAP:

- Attend an institution that has been approved for participation in federal student financial aid programs authorized by Title IV of the Higher Education Act,

- Possess a certificate of graduation from a school providing secondary education within the United States or the recognized equivalent of such certificate, or meet other academic standards as determined by the Commissioner, and

- Accomplish "reasonable progress" toward completion of a degree program, as defined by specific minimum overall Grade Point Average (GPA) requirements and minimum credit hour requirements. Students at schools that operate on a trimester schedule will also have to meet these requirements beginning in 2007-08.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget adds $17.1 million in TAP funding. Of that, $10 million will be used to preserve the eligibility of students who qualify for TAP based on ATB tests. Under the SFY 2007-08 Enacted Budget, students who do not have a high school diploma, or its equivalent, will be required to receive a passing score on a New York State Board of Regents selected and federally-approved ATB examination that has been independently administered and evaluated to determine financial aid eligibility for TAP. The remaining $7 million is for tuition assistance awards for accelerated study. The Legislature accepted the Executive's proposed requirements that institutions be approved for participation in Federal Title IV student financial aid programs and students receiving TAP make reasonable progress based on revised academic progress standards.

Enacted Definition of Reasonable Progress

Minimum Levels of Progress				
	4- or 5-Year Bachelors		2-Year Associates	
Semester	Credit Hours	GPA	Credit Hours	GPA
1st	0	0.0	0	0.0
2nd	3	1.1	3	.5
3rd	9	1.2	9	.75
4th	21	1.3	18	1.3
5th	33	2.0	30	2.0
6th	45	2.0	45	2.0
7th	60	2.0		
8th	75	2.0		
9th*	90	2.0		
10th*	105	2.0		

* Note: The 9th and 10th semester are for degrees requiring five years for completion.

Scholarship, Opportunity and Other Programs

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget maintained prior-year funding for most opportunity programs, including the Higher Education Opportunity Program (HEOP), Science and Technology Entry Program (STEP), Collegiate Science and Technology Entry Program (CSTEP), Aid for Part-Time Study, the World Trade Center Memorial Scholarship and College Discovery. The Executive proposed a reduction in Aid to Independent Colleges and Universities (BUNDY aid) equal to the $4.2 million legislative add from SFY 2006-07. The Executive also provided an additional $2.2 million for the New York State Math, Science and Engineering Teaching Incentive Program, which was introduced in 2006-07 to increase the number of qualified math and science teachers in New York and proposed $3 million, an increase of $1 million, for SUNY's Priority Academic Programs designed to increase the number of students studying mathematics, science and engineering.

SFY 2007-08 Enacted Budget

The Legislature restored $4.2 million in BUNDY aid, and provided increases in funding for the Search for Education, Elevation and Knowledge Program (SEEK), the Higher Education Opportunity Program (HEOP), the Educational Opportunity Program (EOP) and the Liberty Partnership Program.

The New York State Math, Science and Engineering Teaching Incentive Program was discontinued while funding for SUNY's Priority Academic Programs was combined into SUNY's operating budget.

SFY 2007-08 Enacted Budget Increases to Scholarship, Opportunity and Other Programs

Opportunity Programs			
Program Area	**SFY 2006-07 Base**	**SFY 2007-08 Enacted**	**Change Amount**
BUNDY	$42,038,000	$46,238,000	$4,200,000
Search for Excellence in Educ. & Knowledge (SEEK)	16,301,000	17,442,070	1,141,070
Higher Education Opportunity Program (HEOP)	24,200,000	25,237,000	1,037,000
Educational Opportunity Program	19,588,600	20,428,111	839,511
Liberty Partnership	12,018,000	12,556,000	538,000

SUNY Hospitals

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget increased SUNY hospital subsidies by $6.8 million (4.9 percent) to $146.3 million for SFY 2007-08, primarily to fund collective bargaining agreements for employee salary increases and fringe benefit costs.

The Facilities Closure Commission (also known as the Berger Commission) included a number of suggestions regarding SUNY hospitals in its November 2006 report, including:

- A mandated recommendation to join the Crouse Hospital and SUNY Upstate Medical Center in Syracuse under a single unified governance structure under the control of an entity other than SUNY, and

- A policy suggestion to study the feasibility of privatizing SUNY's teaching hospitals, including the Stony Brook University Medical Center in Stony Brook, Upstate Medical Center in Syracuse and the SUNY Downstate Medical Center in Brooklyn.

The SFY 2007-08 Executive Budget called on SUNY and the Department of Health to work toward implementing the Berger Commission's recommendations by June 2008.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's proposal of a $6.8 million increase for SUNY hospital subsidies and did not take any action on the Berger Commission's recommendations.

Empire Innovation Program

SFY 2007-08 Executive Budget

The Empire Innovation Program was created in SFY 2006-07 to enhance established partnerships between SUNY, CUNY and private industries. These partnerships were designed to advance research and economic development throughout the State. In SFY 2006-07, SUNY received $6 million in support of a multi-year plan to attract 200 new research faculty, who would in turn help to generate an estimated $300 million in research grants. During SFY 2006-07, SUNY spent $6 million and hired or began recruiting 33 faculty researchers. For SFY 2007-08, the Executive proposed an additional $6 million, bringing total program funding to $12 million. Similarly, in the SFY 2006-07 Enacted Budget, CUNY received $5 million for critical research projects, academic programs and its 2005-06 master plan initiatives. For SFY 2007-08, the

Executive proposed an additional $4 million for the program, bringing the total funding to $9 million.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposal for providing $12 million to SUNY and $9 million to CUNY; however, as a result of the expiration of the distribution methodology prescribed in the law, these funds will be disbursed at the discretion of the universities.

Section

11

Health Care

The SFY 2007-08 Executive Budget projected State financed health care spending to increase by $651 million over SFY 2006-07. This amount was a result of approximately $2.2 billion in projected spending increases offset by $1.5 billion in proposed actions to reduce the rate of growth in Medicaid spending. Health care spending included General Fund disbursements for Medicaid, public health and mental hygiene, as well as State special revenue funding for various Health Care Reform Act (HCRA) programs.

The SFY 2007-08 Enacted Budget Financial Plan, in contrast, projected year to year State financed spending in health care to increase by $471 million in SFY 2007-08, as opposed to the original estimate of $651 million. This decline in year to year projected spending incorporated the Budget agreement, which rejected $321 million in proposed cost containment initiatives, particularly in the Medicaid program. As indicated in the SFY 2007-08 Enacted Budget Financial Plan, the Executive lowered year to year spending in health care through base re-estimates and the transfer of spending from SFY 2007-08 to SFY 2006-07.

Health Care Spending
SFY 2006-07 to SFY 2007-08
Executive Adjustments
(in millions of dollars - savings are in parentheses)

	Executive Budget Proposal	Enacted Budget	Difference
Baseline	2,196	1,695	(501)
Savings	(1,545)	(1,224)	321
Net	651	471	(180)

Source: New York State Division of the Budget

The SFY 2007-08 Enacted Budget had little effect on the SFY 2007-08 Executive Budget's out year spending projections for the Medicaid program, which are based in part on Congressional Budget Office (CBO) estimates of growth in recipients, service utilization and medical-care cost inflation. The Enacted Budget Financial Plan actually projects spending growth to increase by $200 million to $2.1 billion in SFY 2008-09, mostly due to timing issues involving the prepayment of SFY 2007-08 expenses and use of SFY 2006-07 revenue in SFY 2007-08. While the Enacted Budget Financial Plan projects spending growth for SFY 2009-10 to drop by $100 million to $1.9 billion because of lower anticipated growth in recipients, utilization and inflation, the Executive continues to project $1.3 billion in Medicaid spending growth for SFY 2010-11. However, it is unclear whether these projections will hold up in light of enrollment increases likely to result from SFY 2007-08 Enacted Budget provisions to streamline the eligibility process for adults in the Medicaid and Family Health Plus programs and to provide them with 12 months of guaranteed continuous health insurance coverage.

Health Care Actions - SFY 2007-08 Enacted Budget
General Fund (GF) and State Special Revenue Funds
(in millions of dollars - savings are in parentheses)

	Projected Spending Growth			Proposed Actions*			Net Increase (Decrease)		
	Exec	**Enact**	**Diff**	**Exec**	**Enact**	**Diff**	**Exec**	**Enact**	**Diff**
Medicaid (GF)	1,438	938	(500)	(1,042)[34]	(776)	266	396	162	(234)
Public Health (GF)	104	101	(3)	14	44	30	118	145	27
Mental Hygiene (GF)	407	388	(19)	(142)	(127)	15	265	261	(4)
HCRA (State Special Revenue Funds)	247	268	21	(375)	(365)	10	(128)	(97)	31
Totals	**2,196**	**1,695**	**(501)**	**(1,545)**	**(1,224)**	**321**	**651**	**471**	**(180)**

Source: New York State Division of the Budget
* These actions include cost containment savings, as well as spending initiatives.

The most significant changes from the SFY 2007-08 Executive proposal to the SFY 2007-08 Enacted Budget Financial Plan occur in the Medicaid program. The SFY 2007-08 Enacted Budget Financial Plan reduces the Executive's net General Fund spending proposal by $234 million for year to year growth of $162 million. However, much of this reduction results from prepayment of certain SFY 2007-08 Medicaid expenses in SFY 2006-07, use of revenue originally expected in SFY 2006-07, downward revisions in SFY 2007-08 Medicaid spending estimates and higher than anticipated Medicaid fraud recoveries for SFY 2007-08.

For various public health programs, including those administered by the AIDS Institute and the Center for Community Health in the State Department of Health (DOH), the SFY 2007-08 Executive Budget proposed a net increase in General Fund spending of

[34] Executive reduced original estimate of $1,058 million by $16 million based on updated information associated with the proposal to cut Graduate Medical Education subsidy payments.

$118 million. The SFY 2007-08 Enacted Budget Financial Plan provides a net increase of $27 million over the Executive's proposal, for a total increase in public health spending of $145 million over SFY 2006-07.

For mental hygiene programs administered by the Office of Mental Health (OMH), the Office of Alcoholism and Substance Abuse Services (OASAS), and the Office of Mental Retardation and Developmental Disabilities (OMRDD), the SFY 2007-08 Executive Budget proposed to offset $407 million in projected spending growth with $142 million in net savings actions, for a net increase in General Fund spending of $265 million in the current fiscal year. The SFY 2007-08 Enacted Budget Financial Plan reduces projected spending growth by $19 million and also reduces net savings actions by $15 million. This results in a net increase in mental hygiene spending of $261 million for SFY 2007-08, $4 million lower than the SFY 2007-08 Executive Budget recommendation of $265 million.

For various HCRA programs, the SFY 2007-08 Executive Budget proposed to offset $247 million in spending growth with $375 million in savings actions, for a net decrease in State Funds spending of $128 million. The SFY 2007-08 Enacted Budget increases spending growth by $21 million over the Executive Budget and decreases savings actions by $10 million. This results in a net increase of $31 million over the SFY 2007-08 Executive Budget proposal, for a net decrease in HCRA spending of $97 million in SFY 2007-08.

Medicaid

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget recommended General Fund spending of $9.4 billion for DOH Medicaid in SFY 2007-08, which reflected higher costs of over $1.4 billion offset by savings actions of more than $1 billion, for a net increase of $396 million, or 4.4 percent, over SFY 2006-07. The program's costs included $761 million in program growth, $209 million related to expiration of an assessment on hospital revenues and non-recurring nursing home assessment delinquency collections, $165 million related to capping local Medicaid expenditures, $146 million in additional spending resulting from a reduction in HCRA financing for Medicaid programs, $79 million in annualizations for nursing home rebasing, grants to public nursing homes and emergency room rate increases, $39 million in federally-mandated Medicare premium increases for dual eligibles, and $39 million in growth related to the takeover of local Family Health Plus (FHP) costs. The Executive expected the Medicaid program's average monthly caseload (including FHP) to rise 4.5 percent, from about 4.2 million recipients in SFY 2006-07 to nearly 4.4 million recipients in SFY 2007-08.

The SFY 2007-08 Executive Budget proposed General Fund savings actions that included $229 million in net funding reductions for hospitals, $228 million in offloads of Medicaid pharmacy costs to HCRA, $163 million in managed care savings, $156 million in funding reductions for nursing homes, $145 million in net funding reductions for pharmacy services, $105 million in additional anti-fraud savings and $50 million in other savings actions. The Executive also proposed nearly $33 million in new spending to simplify Medicaid and FHP enrollment and recertification, increase funding for the traumatic brain injury waiver, expand FHP marketing, institute demonstration programs for high cost Medicaid recipients, implement a tele-health and information technology demonstration program, and provide staffing resources for long-term care restructuring.

The Executive proposal also sought to ensure that certain Medicaid funding streams (e.g., $337 million in aggregate rate increases for workforce recruitment and retention for clinics, personal care providers and non-public nursing homes and hospitals, as well as $57 million in workforce recruitment and retention grants for public nursing homes and hospitals) were tied directly to the provision of care for Medicaid recipients, rather than total salaries and fringe benefit costs

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget Financial Plan reduces the Executive Budget's projected spending growth by $500 million to $938 million and the Executive's net savings actions by $266 million to $776 million. This results in a net increase in DOH General Fund spending of $162 million, which is $234 million lower than the net increase in DOH General Fund spending recommended by the SFY 2007-08 Executive Budget.

The reduction in SFY 2007-08 projected spending reflected in the SFY 2007-08 Enacted Budget Financial Plan largely results from lower program growth related to prepayment of 2007-08 expenses in 2006-07, including Supplemental Medical Insurance payments for dually-eligible recipients and a State "clawback" payment to the federal government, as well as use of drug rebate revenue originally expected to offset 2006-07 costs.[35] Under the SFY 2007-08 Enacted Budget, the reduction in net savings actions of $266 million results from restorations of $141 million for hospitals, $138 million for nursing homes, $33 million for pharmacies and $3 million for emergency transportation services, as well as from $27 million in new initiatives, offset by additional savings actions of $44 million from spending re-estimates, $30 million in higher anticipated fraud recoveries and $2 million in savings related to the Executive's tele-health and information technology initiative.

For hospitals, the Legislature rejected the Executive's proposal to continue the 0.35 percent assessment on hospital revenues beyond March 31, 2007 and provided a

[35] The clawback is a monthly payment made by each state to the federal Medicare program reflecting the amount that a state would have spent if it had continued to pay for outpatient prescription drugs through Medicaid on behalf of dual eligibles–low-income elderly or disabled individuals who are enrolled in both Medicare and Medicaid.

partial restoration of the SFY 2007-08 Executive Budget proposal to eliminate an inflation adjustment to Medicaid payments. The Legislature also rejected the Executive proposal to continue the workforce recruitment and retention initiative that was implemented in SFY 2005-06, providing $64 million in General Fund savings. The Legislature agreed to Executive proposals to reduce Medicaid Graduate Medical Education (GME) payments to hospitals whose payments exceed their costs and to retain $44 million in hospital assessment revenues exceeding a statutory cap on collections from the two years the assessment was in effect.

The SFY 2007-08 Enacted Budget modified the Executive's proposal to re-weight the hospital inpatient Medicaid reimbursement system to realign reimbursement with costs, delaying implementation of new weights and payment features by three months, to April 2008, if the State does not release updated data and documentation to the hospital industry by June 1, 2007. The Legislature also adopted language to require the State to adjust payment rates so that the new weights do not result in an aggregate increase *or decrease* in total Medicaid payments to general hospitals for inpatient services. The SFY 2007-08 Executive Budget had proposed adjustments to avoid an aggregate *increase* only.

For nursing homes, the Legislature provided a partial restoration of the SFY 2007-08 Executive Budget proposal to eliminate an inflation adjustment to Medicaid payments and deferred for two years the proposal to change the way nursing home payments are calculated so that only Medicaid residents—not other patients—are counted. The SFY 2007-08 Enacted Budget rejected the Executive proposal to make permanent the 6 percent assessment on nursing home gross receipts, but extends it for two additional years until April 1, 2011.

For pharmacies, the SFY 2007-08 Enacted Budget accepted Executive proposals to offload additional Medicaid pharmacy costs to HCRA, limit pharmacy reimbursement for generic drugs called for by the federal Deficit Reduction Act of 2005 and obtain additional pharmacy rebates. However, lawmakers partially restored the Executive proposal to reduce pharmacy reimbursement from average wholesale price (AWP) minus 13.25 percent to AWP minus 15 percent for brand name drugs and from AWP minus 20 percent to AWP minus 30 percent for generic drugs. The Legislature agreed to lower reimbursement, but only to AWP minus 14 percent for brand names and AWP minus 25 percent for generic drugs.

The Executive also proposed to increase the dispensing fee paid to pharmacists for generic drugs to encourage the use of lower cost alternatives. However, this proposal was omitted from the SFY 2007-08 Enacted Budget. Finally, the SFY 2007-08 Enacted Budget rejected statutory changes to the Preferred Drug and Clinical Drug Review program, including proposals to eliminate the exemption for anti-depressants, include cost as a criterion in the drug review process and amend the timeframes for public notice.

The SFY 2007-08 Enacted Budget accepted Executive Budget proposals to achieve $163 million in managed care savings by obtaining the federal share of costs for the Home Care Insurance Demonstration initiative and freezing premium payments for managed care plans participating in the FHP and Medicaid programs. The SFY 2007-08 Enacted Budget also incorporates the Executive proposal to expand county recovery efforts when spouses with adequate assets refuse to pay for care, but increases anti-fraud savings by $30 million over the Executive proposal for a total of $130 million in SFY 2007-08.

The Legislature accepted most other SFY 2007-08 Executive Budget savings recommendations, many of which were administrative in nature and directed at the three mental hygiene agencies: OMH, OASAS and OMRDD. However, the Legislature rejected the Executive proposal to eliminate supplemental payments to emergency transportation providers, adding $3 million to restore the program. This same level of funding was included in the SFY 2006-07 Enacted Budget, but was not a part of this year's Executive proposal.

The Legislature accepted SFY 2007-08 Executive Budget recommendations for $32.6 million in new Medicaid spending, including funds to simplify enrollment and recertification in the Medicaid program and FHP, increase reimbursement for traumatic brain injury waiver programs, increase marketing and outreach in FHP, increase staffing resources related to restructuring the State's long-term care system and fund demonstration projects for tele-health care and information technology. However, the SFY 2007-08 Enacted Budget Financial Plan anticipates minimal cash expenditures for tele-health and information technology in SFY 2007-08. The Legislature also accepted the Executive proposal to implement a series of Medicaid demonstration projects to improve care coordination and management for medically complicated and high cost individuals, but specified that participation in the demonstrations be voluntary and not diminish or impair the Medicaid services to which a participant is otherwise entitled.

The Legislature also included $27 million in additional funding for several new initiatives:

- $8 million for rural home care services. This same level of funding was included in the SFY 2006-07 Enacted Budget, but was not a part of this year's Executive Budget proposal. This year's Enacted Budget also included an $8 million reappropriation for the SFY 2006-07 amount. This funding helps home care agencies meet rising travel costs, train personnel serving specialty populations and enhance access for high need individuals.

- $6 million to increase the funding pool for voluntary hospitals with high Medicaid shares to $60 million in the aggregate. The SFY 2007-08 Executive Budget proposed level funding of $48 million and sought to change the distribution formula so that only hospitals with at least a 35 percent inpatient

Medicaid share would qualify. The Legislature accepted the Executive's new distribution formula, but allocated $6 million of the $60 million in aggregate funding to voluntary hospitals with less than a 35 percent inpatient Medicaid share if they previously qualified for pool distributions.

- $5 million to support the cost of adding 1,500 beds to the assisted living program (ALP), which serves persons who are medically eligible for nursing home placement, but in a less medically intensive, lower cost setting. The ALP program is currently limited to 4,200 beds, approximately 85 percent of which are occupied by Medicaid recipients.

- $4.9 million for community health centers for information technology and costs associated with the transition to managed care.

- $3 million for hospital translation services which, combined with $16 million in HCRA funding, would support a $19 million Medicaid rate add-on ($38 million, with federal matching funds) for non-public hospitals in New York City to ensure access to hospital services and reasonable accommodation for Medicaid patients requiring language assistance.

- $0.4 million for a program of all-inclusive care for children. This program, authorized by Chapter 588 of the Laws of 2006, consists of comprehensive hospice and palliative care services for Medicaid eligible children under 18 who have been diagnosed with an illness that places them at substantial risk of dying before the age of 21 and who can be cared for at home rather than in an institutional setting.

In addition, the Legislature retained the existing distribution methodology (based on total salaries and fringe benefit costs) for 50 percent of non-public nursing home and hospital workforce recruitment and retention payment rate increases. The other 50 percent would be distributed based on nursing homes' Medicaid revenue (rather than days of care to Medicaid eligible patients, as proposed by the Executive) and hospitals' Medicaid inpatient discharges weighted to reflect each hospital's Medicaid case mix (rather than just Medicaid discharges, as proposed by the Executive). However, the SFY 2007-08 Enacted Budget also provided that, if the federal government withholds matching funds for distributions under the existing methodology after July 1, 2007, 60 percent of nursing home payment rates would be allocated based on Medicaid revenue and 40 percent based on Medicaid days of care. For hospitals, 100 percent would be allocated based on Medicaid inpatient discharges. The SFY 2007-08 Enacted Budget also rejected Executive proposals to tie workforce recruitment and retention grants for public nursing homes and hospitals to provision of care for Medicaid recipients, unless these facilities do not submit 2005 cost reports to DOH.

The following table provides a list of proposed and enacted Medicaid savings and spending actions for SFY 2007-08, as well as dollar amounts for legislative actions to restore proposed spending reductions, identify new savings and provide new spending.

Executive vs. Legislative
General Fund Medicaid Savings Actions SFY 2007-08
(in millions of dollars - costs to Medicaid are in parentheses)

Savings Actions	Executive Savings/ (Spending) Proposed	Savings Enacted	New Spending Enacted
Offload Medicaid pharmacy costs to HCRA	**228.0**	**228.0**	**0.0**
Spending Re-Estimate	**0.0**	**43.7**	**43.7**
Pharmacy/Medicare Part D Federal Maximization			
Federal Deficit Reduction Act limit pharmacy reimbursement	52.6	52.6	0.0
Medicaid pharmacy rebates	40.0	40.0	0.0
Reduce Medicaid average wholesale price (AWP)	31.8	14.5	(17.3)
Strengthen preferred drug program (PDP)	14.0	4.9	(9.1)
Eliminate exemption for anti-depressants in PDP	13.2	0.0	(13.2)
Increase dispensing fee for generic drugs from $4.50 to $5.50	(6.9)	0.0	6.9
Sub-Total	**144.7**	**112.0**	**(32.7)**
Hospitals			
Continue hospital assessment of 0.35 percent	136.9	0.0	(136.9)
Eliminate inflationary trend	91.3	22.8	(68.5)
Waive assessment reconciliation	44.3	44.3	0.0
Reduce Graduate Medical Education (GME) subsidy payments	20.0[36]	20.0	0.0
Continue workforce recruitment and retention payments enacted in SFY 2005-06	(64.0)	0.0	64.0
Sub-Total	**228.5**	**87.1**	**(141.4)**
Managed Care			
Obtain federal share for home care demonstration project	81.5	81.5	0.0
Premium trend freeze	70.1	70.1	0.0
FHP premium trend freeze	11.7	11.7	0.0
Sub-Total	**163.3**	**163.3**	**0.0**
Nursing Homes			
Institute Medicaid-only case mix	83.5	0.0	(83.5)
Eliminate inflationary trend	72.7	18.2	(54.5)
Sub-Total	**156.2**	**18.2**	**(138.0)**
Anti-Fraud			
Increase Office of Medicaid Inspector General (OMIG) audit targets	100.0	130.0	30.0
Expand county recovery efforts for spousal refusal	4.5	4.5	0.0
Sub-Total	**104.5**	**134.5**	**30.0**

[36] Executive reduced original savings estimate of $36.2 million associated with Graduate Medical Education payments by $16.2 million based on updated information.

Savings Actions (Cont'd.)	Executive Savings/ (Spending) Proposed	Savings Enacted	New Spending Enacted
Other			
OASAS - Eliminate billing detox services/reduce use	11.1	11.1	0.0
HCRA - Eliminate Commissioner's priority pool	10.6	10.6	0.0
OMH - Expand quality assurance activities	8.0	8.0	0.0
OMH - Institute best practices using PSYCKES model	6.5	6.5	0.0
OASAS - Review utilization of high volume providers	3.8	3.8	0.0
Eliminate legislative add for supplemental payments to emergency transportation providers	3.0	0.0	(3.0)
Re-establish county transportation contracts	2.2	2.2	0.0
OASAS - Eliminate methadone maintenance/outpatient duplicate claiming	2.2	2.2	0.0
OASAS - Tighten billing standards	1.6	1.6	0.0
OMRDD - Reduce Medicaid card use	0.9	0.9	0.0
Sub-Total	**49.9**	**46.9**	**(3.0)**
TOTAL SAVINGS	**1,075.1**	**833.7**	**(241.4)**
New Spending			
Simplify Medicaid enrollment and recertification	(13.8)	(13.8)	0.0
Increase funding for traumatic brain injury (TBI) waiver	(5.0)	(5.0)	0.0
FHP enrollment growth from marketing	(4.8)	(4.8)	0.0
High cost users demonstration program	(4.0)	(4.0)	0.0
Staffing resources for long-term care restructuring	(2.6)	(2.6)	0.0
Tele-Health and information technology demonstration for long-term care[37]	(2.0)	0	2.0
Simplify FHP enrollment and recertification	(0.4)	(0.4)	0.0
Continue rural home care	0.0	(8.0)	(8.0)
Increase funding for high volume Medicaid voluntary hospitals upstate	0.0	(6.0)	(6.0)
Hospital translation services	0.0	(3.0)	(3.0)
Add 1,500 assisted living program beds	0.0	(5.0)	(5.0)
Grants for community health centers	0.0	(4.9)	(4.9)
All-inclusive care for children	0.0	(0.4)	(0.4)
Sub-Total	**(32.6)**	**(57.9)**	**(25.3)**
TOTAL NET SAVINGS	**1,042.5**	**775.8**	**(266.7)**

[37] The Enacted Budget concurs with this Executive Budget initiative, but the Enacted Budget Financial Plan anticipates a minimal cash expenditure for it in SFY 2007-08.

Medicaid Out Year Disbursement Projections

SFY 2007-08 Executive Budget

Assuming enactment of the SFY 2007-08 Executive Budget recommendations, the Executive projected General Fund local assistance spending for Medicaid to grow by roughly $1.9 billion in SFY 2008-09, $2 billion in SFY 2009-10 and another $1.3 billion in SFY 2010-11. These projections were based in part on CBO estimates of growth in recipients, service utilization and medical-care cost inflation, which accounted for the largest share of the increase, approximately $1 billion annually. The State cap on local Medicaid costs and takeover of local Family Health Plus costs were responsible for the next largest share of year to year growth, ranging from $374 million in SFY 2008-09 to upwards of $550 million in each of the next two years. Additional growth is attributed to nursing home delinquency collections in SFY 2007-08 that are not expected to recur to SFY 2008-09 and lower levels of HCRA financing beginning in SFY 2008-09. An extra weekly Medicaid payment will add $300 million in spending in SFY 2009-10.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget had little effect on projected Medicaid General Fund local assistance spending for SFYs 2008-09, 2009-10 and 2010-11. According to the Executive's SFY 2007-08 Enacted Budget Report, projected growth for SFY 2008-09 actually increases by $200 million to $2.1 billion because of timing issues related in part to making 12 clawback payments, instead of only 11 in SFY 2007-08. For SFY 2009-10, the Executive lowered growth projections related to recipients, service utilization and medical care cost inflation by $100 million, while projected growth for 2010-11 stayed the same at $1.3 billion. However, it is unclear whether these projections will hold up in light of enrollment increases likely to result from SFY 2007-08 Enacted Budget provisions to streamline the eligibility process for adults in the Medicaid and Family Health Plus programs and to provide them with 12 months of guaranteed continuous health insurance coverage.

On the whole, the SFY 2007-08 Enacted Budget Financial Plan reduces out year growth projections by $147 million for SFY 2008-09, $255 million for SFY 2009-10 and $269 million for SFY 2010-11, even with the Legislature's rejection of $321 million in proposed cost containment actions. For SFY 2007-08, the Enacted Budget Financial Plan reduces projected Medicaid General Fund local assistance growth by $362 million compared to the SFY 2007-08 Executive Budget proposal.

Health Care Reform Act

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposal assumed nearly $4.3 billion in HCRA receipts that, together with a projected fund balance of $880 million, would support over $5.1 billion in HCRA spending in SFY 2007-08. The Executive also proposed to extend HCRA for only nine months, until April 2008, to allow an opportunity to review the entirety of the State's hospital reimbursement system.

Since it was first established in 1996, HCRA has historically been extended for much longer periods of time. When HCRA was first enacted, it replaced nearly two decades of rate-regulated hospital reimbursement with a mixture of negotiated rates and continuing public subsidies for various health-related programs. The Executive's proposed HCRA Financial Plan anticipated a closing fund balance of $25 million in March 2008, but projected rapidly growing out year deficits, assuming longer-term extension of the program and implementation of the Financial Plan as proposed.

The Executive proposed a series of HCRA actions that were expected to generate $128 million in net savings in SFY 2007-08. These actions included $278 million in spending reductions in existing HCRA programs, $97 million in new resources and $247 million in new spending. Proposed spending reductions included decreasing pharmacy reimbursement in the Elderly Pharmaceutical Insurance Coverage (EPIC) program, requiring EPIC participants to enroll in Medicare Part D, and eliminating priority pools for the Commissioner of Health and the Legislature.

Proposals for new resources included increasing the covered lives assessment on insurance companies and authorizing an additional health plan conversion, expected to involve non-profit health insurer HIP/GHI and to generate additional HCRA receipts starting in SFY 2008-09. New spending recommendations included using anticipated HCRA savings to finance General Fund Medicaid costs, expanding CHP eligibility to 400 percent of poverty, and increasing marketing and publicity to encourage greater CHP enrollment.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget Financial Plan assumes nearly $4.8 billion in HCRA receipts, which is an increase of $500 million over the SFY 2007-08 Executive Budget because of a delay in Empire conversion proceeds originally expected at the end of SFY 2006-07. These receipts, together with an actual SFY 2006-07 fund balance of $706 million, will support over $5.1 billion in HCRA spending in SFY 2007-08 and result in a closing fund balance in March 2008 of $305 million. This closing fund balance is $280 million higher than anticipated by the SFY 2007-08 Executive Budget, due to higher cumulative receipts (mostly surcharges on hospital bills and the covered lives assessment on insurance companies) and lower cumulative disbursements (mostly lower Medicaid offloads from the General Fund to HCRA) in SFYs 2006-07 and 2007-08.

The SFY 2007-08 Enacted Budget accepted many of the Executive's HCRA proposals, including the plan to extend HCRA for only nine months to facilitate review of the State hospital reimbursement system. The SFY 2007-08 Enacted Budget provides funding for three new initiatives that increases spending by approximately $21 million, or 8.5 percent, over the Executive proposal and decreases recommended savings actions by approximately $10 million, or 2.6 percent, which reduces the Executive's net savings actions of $128 million by $31 million, or 24.2 percent, to $97 million. The Legislature also modified other Executive initiatives and enacted several other initiatives.

The new spending initiatives include a $19 million Medicaid rate add-on ($38 million, with federal matching funds) for non-public hospitals in New York City to ensure access to hospital services and reasonable accommodation for Medicaid patients requiring language assistance. The SFY 2007-08 Enacted Budget supports these initiatives with a $3 million General Fund appropriation and reductions in funding for various existing HCRA programs totaling $16 million, including $7 million from the health care restructuring pool, $6 million from hospital workforce recruitment and retention grants, and $3 million from the health workforce retraining program. The $19 million in funding will be allocated from July through December 2007 based on general clinic Medicaid visits and Medicaid inpatient discharges, equally. A similar amount would be allocated during SFY 2008-09 in accordance with regulations to be promulgated by the Commissioner of Health. However, up to 30 percent of next year's funds would be allocated based on the number of foreign languages used by 1 percent or more of the residents in a hospital's service area population.

The SFY 2007-08 Enacted Budget also provides $2.5 million ($5 million including federal matching funds) to enhance the Medicaid rate for general hospitals located in Nassau and Suffolk counties. The rate adjustments will be based on the relative numbers of Medicaid discharges among eligible hospitals on Long Island. In addition, the SFY 2007-08 Enacted Budget provides $1.8 million for air conditioning in adult home resident rooms in order to prevent heat-related illnesses.

The SFY 2007-08 Enacted Budget reduces the Executive proposed savings actions by providing $17.5 million to partially restore the proposed elimination of $53.4 million in funding for the nursing home quality improvement program. The Legislature also provided $9 million to partially restore the Executive's proposal to lower pharmacy reimbursement in the EPIC program.

While lawmakers agreed to accelerate implementation of the EPIC preferred drug and clinical drug review programs from April 2008 to January 2008, the Legislature provided $1 million to pay for rejecting statutory changes in the programs, such as proposals to eliminate the exemption for anti-depressants, include cost as a criterion in the drug review process and amend the timeframes for public notice. The Executive proposal to increase the dispensing fee paid to EPIC pharmacists for generic drugs was omitted from the SFY 2007-08 Enacted Budget, resulting in a savings of $2 million.

With respect to new resources, the SFY 2007-08 Enacted Budget adopted the Executive's proposals to increase the covered lives assessment by $75 million to $850 million annually and audit recoveries by $22 million. The Legislature also agreed to authorize an additional insurance conversion, but unlike the Empire conversion, dedicated only 90 percent of the proceeds (rather than 95 percent, as proposed by the Executive Budget) to HCRA and dedicated 10 percent (rather than 5 percent) to charitable purposes.

In addition, lawmakers earmarked up to $50 million a year in additional conversion proceeds for the Empire State Stem Cell Fund for the next ten years. This funding will support grants for research and developmental activities to advance scientific discoveries in fields related to stem cell biology. The SFY 2007-08 Enacted Budget also provides an appropriation of $100 million to support initial investments in this area. Of this amount, the Executive expects to spend approximately $25 million in SFY 2007-08, none of which can be used for research involving human reproductive cloning. Lawmakers did not approve the Executive Budget proposal that would have placed a $1.5 billion Stem Cell and Innovation Fund Bond Act before the voters in November 2008.

Based on current projections, the Executive expects HCRA to be fully solvent through the end of SFY 2008-09, but forecasts annual operating gaps in the range of $700 million to $800 million in SFYs 2009-10 and 2010-11. However, uncertainty surrounding the availability of proceeds from the additional conversion authorized by the SFY 2007-08 Enacted Budget could exacerbate HCRA's long term solvency. The City of New York and labor unions representing City employees have indicated that they are entitled to a portion of the proceeds because they have paid most of the revenues of HIP and GHI, which were created to serve government employees. In addition, the City of New York has pledged to sue to prevent the merger of HIP and GHI, claiming it is anti-competitive and could be detrimental to City taxpayers. Should the City prevail, the conversion may not occur.

The following table compares the Executive's proposed HCRA recommendations with those adopted by the Legislature.

Executive vs. Legislative
HCRA Recommendations SFY 2007-08
(in millions of dollars - costs to HCRA are in parentheses)

	Executive Proposed	Legislative Adopted	Difference
Cost Containment			
Eliminate non-core programs	86	68	(18)
Require Part D enrollment for EPIC enrollees	43	43	0
Eliminate priority pools	28	28	0
Nursing home workforce recruitment and retention	21	21	0
Hospital workforce recruitment and retention	20	26	6
Worker retraining	20	23	3
Reduce EPIC pharmacy brand/generic reimbursement and increase dispensing fee for generic drugs	17	10	(7)
Freeze FHP premiums	12	12	0
Accelerate implementation of EPIC preferred drug program	9	8	(1)
Freeze CHP premiums	8	8	0
CHP temporary enrollment modifications	8	8	0
New federal Deficit Reduction Act provisions resulting in lower pharmacy reimbursement	6	6	0
Health care restructuring pool	0	7	7
Sub-Total	**278**	**268**	**(10)**
New Resources			
Increase covered lives assessment by $75 million effective April 2007	75	75	0
Audit recoveries	22	22	0
Additional conversion proceeds	0	0	0
Sub-Total	**97**	**97**	**0**
New Spending			
Changes to General Fund financing/subsidy payments	(228)	(228)	0
Expand CHP	(11)	(11)	0
Simplify FHP enrollment	(5)	(5)	0
All other	(3)	(3)	0
Rate add-on for hospital services, including language assistance	0	(16)	(16)
Enhanced Medicaid rate for Long Island hospitals	0	(3)	(3)
Air conditioning for adult home residents	0	(2)	(2)
Sub-Total	**(247)**	**(268)**	**(21)**
TOTAL ACTIONS	**128**	**97**	**(31)**

Health Care Capital Grant Program

The Legislature concurred with the SFY 2007-08 Executive Budget proposal to advance the third $250 million capital appropriation for the Health Care Efficiency and Affordability Law for New Yorkers Capital Grant Program (the HEAL NY program), increasing available appropriation levels to $750 million in SFY 2007-08. Of the third $250 million appropriation, $165 million will be financed with pay-as-you-go (PAYGO) capital resources and the remaining $85 million is for bondable, “bricks-and-mortar” projects at health care facilities throughout the State. The SFY 2007-08 Enacted

Budget also authorizes the Commissioner of Health to distribute $30 million in HEAL NY funding for restructuring grants for nursing homes without a competitive bid or request for proposal process.

Hospital Indigent Care Program

The Legislature rejected an Executive proposal to establish a new methodology that would have required distributions from the hospital indigent care program to be based solely on losses from providing services to the uninsured, eliminating coverage of bad debts from uninsured patients who do not pay their bills and from underinsured patients who cannot afford their cost-sharing and deductibles. Lawmakers instead required the Commissioner of Health to establish a technical advisory committee to help evaluate the current indigent care program.

This committee must also evaluate how the current program relates to budget provisions enacted in SFY 2006-07 that condition program payments on whether hospitals have established policies and procedures to reduce charges applicable to low-income people without health insurance or those who have exhausted their health insurance benefits and cannot pay. Under the SFY 2007-08 Enacted Budget, the Commissioner of Health must hold public hearings and issue a report containing conclusions and recommendations by December 15, 2007.

Other HCRA Issues

The SFY 2007-08 Enacted Budget creates a new Medicaid pool supported by a $24 million reduction in HCRA GME funds that will provide $48 million for non-New York City public and voluntary hospitals meeting targeted Medicaid discharge percentages. This pool will provide $42 million for non-New York City voluntary hospitals whose Medicaid discharges are between 17.5 percent and 35 percent of total discharges. Non-New York City public hospitals with Medicaid discharges of at least 17.5 percent are eligible for $6 million from the pool.

Instead of accepting an Executive proposal to strengthen the State's ability to collect HCRA revenues based on the conclusions of audits deemed correct, the Legislature adopted an initiative allowing the Commissioner of Health to waive payment of interest and penalties when providers and insurers pay past-due amounts within 60 days of a final audit report mutually agreed upon by the Commissioner and the entity audited. The Executive anticipates no additional cost or savings as a result of this initiative.

The Legislature concurred with an Executive proposal to establish a premium assistance program in the Community Health Plan (CHP) that would require children in families with income between 251 percent and 400 percent of poverty, with access to employer-sponsored health insurance, to enroll in the employer-sponsored plan. The program requires employers and the State to share premium costs. State expenses would be funded with CHP appropriations, but only if they are cost-effective compared to what the State would pay to obtain traditional CHP coverage for eligible children. For children in families with incomes at or below 250 percent of poverty, participation in the premium assistance program is voluntary.

The Legislature also adopted a similar initiative included in the SFY 2007-08 Executive Budget that requires new FHP enrollees with access to employer-sponsored health insurance to enroll in the plan as a condition of receiving FHP benefits, but only if such enrollment is cost-neutral to the State. The initiative requires the State to pay for cost-sharing obligations for the enrollee's employer-sponsored plan that exceed the enrollee's FHP co-payment responsibilities. The State would also pay for services and supplies normally covered by FHP if the enrollee's employer-sponsored plan does not cover them.

This initiative, which must be in place by January 2008, fulfills one of the requirements the State must meet in order to draw down federal funds under the recently approved Federal-State Health Reform Partnership waiver.[38] Under this waiver, the State must implement a program to increase the number of currently uninsured-but-employed New Yorkers who have private insurance coverage.

Community-Based Health Care

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget provided additional funding for programs aimed at encouraging the use of community-based care as opposed to institutional care for the elderly and the disabled, including proposals to:

- Expand the Managed Long-Term Care program by removing restrictions on the number of plans and enrollment in the program in order to allow more people to access this health care option.

- Provide $5 million in additional funding to increase reimbursement for the traumatic brain injury (TBI) Medicaid waiver program.

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[38] Under this waiver, the federal government will invest up to $1.5 billion ($300 million per year) in reform initiatives that include right-sizing and restructuring the State's acute and long-term care delivery systems, expanding the use of e-prescribing, fostering the implementation of electronic medical records and regional health information organizations, and expanding ambulatory and primary care services. Federal investment is conditioned upon the waiver generating federal savings sufficient to offset the federal investment and the State meeting a series of performance milestones, including employer sponsored insurance, fraud and abuse recoveries, and implementation of the Berger Commission's recommendations.

- Fund $2 million in demonstration programs for tele-health, the delivery of health services and information via telecommunications technologies, to manage disabled populations from a distance.

- Provide $1 million in additional funding for the State Office for the Aging's Supplemental Nutrition Assistance Program (SNAP).

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget concurred with the Executive proposals to provide additional funding for the TBI, tele-health and SNAP programs, but modified the Executive's proposal to eliminate restrictions on the number of plans in the Managed Long Term Care program. The SFY 2007-08 Enacted Budget increases the number of plans in the program from 35 to 50, but preserves the process that potential plans must follow to participate. This process requires most program applicants to be designated for participation by the Legislature.

Public Health

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget recommended $63 million in General Fund support for a variety of new public health initiatives, including $29 million to stockpile medications and supplies for the Avian Flu, $7 million to increase staffing levels in DOH, $5 million to expand emergency food service at food banks and pantries, and $1 million in additional funding for communicable disease reporting, as well as increased funding for enhancements in the vital records program, access to cervical cancer vaccine, prevention of child lead poisoning, and other health and social promotion programs. The Executive recommended $49 million in savings actions to partially offset funding for these new initiatives, including encouraging the voluntary enrollment of EPIC participants in the Medicare Part D drug program and increasing audit recoveries in the Early Intervention (EI) program.

The SFY 2007-08 Executive Budget also proposed to institute new fees of $125 for individual providers and $225 for agency providers seeking approval to participate in the EI program. Approvals would be effective for five years and would generate $400,000 a year to offset program administrative costs. As in past years, the Executive also recommended requiring private health insurance plans to reimburse EI for medical costs that are covered by such plans, saving $5.1 million in SFY 2008-09.

In addition, the Executive proposed to increase the biennial physician registration fee from $600 to $1,000. The Executive also recommended to permanently allow the Professional Medical Conduct Account to finance the Physician Profiling program. In the past, the Legislature has granted such authority on a year to year basis.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget concurred with Executive recommendations to provide new or increased funding for various public health programs and provides $30 million in additional funding for a variety of other public health initiatives, HIV/AIDs programs and other projects, including:

- $21 million for DOH's Center for Community Health to support family planning services, existing Alzheimer's disease assistance centers, sexuality-related programs, infertility services, the Brain Trauma Foundation, the Arthritis Foundation, new and existing school-based health centers, the Alzheimer's Community Assistance Program, health information technology, a Chernobyl thyroid cancer screening pilot, various hospitals and medical centers around the State, a palliative care education and training program, the American Red Cross, a statewide ovarian cancer hotline, the New York Wellness Works Program and many others. The Wellness Works initiative creates a partnership between the State and employers to encourage health screening, education and incentives tailored to employees' specific needs to help promote health and prevent disease.

- $2.8 million for the quality incentive payment program, which pays eligible adult home operators to improve the quality of care provided to their poorest residents.

- $2.5 million for housing subsidies to help implement the Nursing Facility Transition and Diversion waiver, which helps people needing long-term care services live at home and receive care in non-institutional settings.

- $2 million for the Office of Professional Medical Conduct to replace funding that would have been generated by the Executive's proposal to increase the biennial physician registration fee, which was rejected by the Legislature (see below).

- $1.2 million in DOH's AIDS Institute for existing HIV/AIDS programs and the New York AIDS Coalition.

- $1 million for the health insurance information, counseling and assistance program administered by the State Office for the Aging, offset by a $1 million reduction in funding related to maximizing the federal Medicare Part D drug program.

- $200,000 for an analysis of proposals for achieving universal health coverage in the State.

- $200,000 for a study to evaluate the adequacy of Supplemental Security Income, Medicaid and safety net assistance payments made to adult homes and to, or on behalf, of adult home residents.

The Legislature rejected Executive proposals to institute new fees in the EI program and require private health insurance plans to reimburse the EI program for medical costs that are covered by the plans. Lawmakers also rejected the proposal to increase the biennial physician registration fee and, as it has in the past, extended for one year the use of professional medical conduct funding to finance physician profiling activities.

The SFY 2007-08 Enacted Budget also contains a number of new initiatives that:

- Require the State Office for the Aging to establish a program known as "NY Connects: Choices for Long Term Care" to provide comprehensive, locally-based information and assistance on long-term care services to consumers, caregivers and families to help them make educated choices.

- Allow DOH to adjust the Medicaid nursing home capital reimbursement cap to bring about construction of a nursing home consisting of one or more separate homes designed to care for approximately 12 residents per home. This initiative requires DOH to study the concept, focusing on efficacy, quality of care and methodologies for reimbursing capital and operating costs.

- Require food service in adult homes to be provided in a way that respects the residents' dietary needs, food allergies and dietary intolerances, religious and ethnic mandates, and taste preferences.

- Require DOH to identify zip codes in certain counties with significant concentrations of children under six years old with elevated blood lead levels in order to develop a plan to prevent exposure to lead-based paint in each zip code.

- Create in DOH a coordinating council for services related to Alzheimer's disease and other dementia in order to facilitate interagency planning and policy, review agency initiatives for their impact on caring for people with dementia and their families, and provide a forum for formulating comprehensive State policy relating to Alzheimer's disease and services for people with incurable dementia.

- Require the Commissioner of Health to provide an annual report to the Executive and the Legislature on the performance outcomes of every program under DOH purview that promotes child health and wellness.

Mental Hygiene

SFY 2007-08 Executive Budget

For the second consecutive year, the SFY 2007-08 Executive Budget recommended significant growth in General Fund mental hygiene spending, which would increase $265 million, or 9.3 percent, over SFY 2006-07. General Fund mental hygiene expenditures increased $320 million, or 12.6 percent, from SFY 2005-06 to SFY 2006-07, after growing only $38 million, or 1.5 percent, from SFY 2004-05 to SFY 2005-06.

Much of a $407 million increase in projected spending included in the SFY 2007-08 Executive Budget proposal is attributable to growth in local assistance expenditures for existing programs, including:

- OMRDD initiatives to address the needs of developmentally disabled individuals seeking out-of-home residential services (the New York State – Creating Alternatives in Residential Environments and Services program or NYS-CARES) and encourage individuals with developmental disabilities and their families and advocates to play a more significant role in developing the services they want and need (the Options for People Through Services program or NYS-OPTS),

- Development of community beds in OASAS and OMH, and

- Enhanced children's mental health programs.

Projected spending growth in State Operations expenditures is primarily related to prior collective bargaining agreements, inflation, staffing adjustments, the fully annualized cost of the human services cost-of-living adjustment authorized in last year's budget and additional staffing for the sexually violent predator civil commitment initiative.

The Executive also advanced $25 million in new initiatives in OMRDD and OMH, including the expansion of the NYS-CARES program, additional supported housing beds for people with mental disabilities, and additional home and community-based waiver slots for children with emotional disturbances. In addition, the Executive proposed to reduce the assessment imposed on providers licensed by OMRDD from six percent to five and one-half percent to bring Mental Hygiene Law into compliance with recently enacted federal legislation limiting such assessments to the lower percentage.

The Executive proposed to offset projected spending growth and the cost of new initiatives with $167 million in recommended savings that included actions to generate higher federal aid, achieve State Operations efficiencies and target fraudulent or mismanaged providers.

SFY 2007-08 Enacted Budget

The Legislature concurred with many of the Executive recommendations. However, the SFY 2007-08 Enacted Budget Financial Plan reflects a $19 million reduction in projected spending growth, largely related to passage of the new Sex Offender Management and Treatment Act (SOMTA). This initiative, which was signed into law in March 2007, allows for the ongoing supervision and custody of sex offenders upon the expiration of their criminal sentence, but is expected to result in a lower number of civil commitments in OMH facilities than previously projected. As a result, the SFY 2007-08 Enacted Budget transfers $12.8 million from OMH's adult services program to other State agencies, including the Department of Correctional Services, the Division of Parole and the Attorney General's Office, which all have additional responsibilities under the new sex offender act.

Lawmakers also provided $15 million in additional spending to support a variety of Mental Hygiene initiatives, including $6.7 million for OMH, $4.75 million for OASAS and $1.5 million for OMRDD.

The OMH funding includes:

- $2 million for development of a program at the Agency's two research facilities that will promote best practices in the delivery of culturally and linguistically competent mental health services.
- $1 million to support a public awareness and education campaign focused on suicide prevention among young Latina and elderly Asian women.
- $850,000 for parents with psychiatric disabilities.
- $600,000 for additional supported housing stipends for upstate providers.
- $500,000 to help community recovery providers make critical physical plant improvements and enhance transportation and rehabilitation services.
- $500,000 for five new research scientist positions at the State's Nathan Kline Institute for Psychiatric Research in Orangeburg.
- $500,000 for services and expenses related to the New York University Child Study Center, which is dedicated to the understanding, prevention and treatment of child and adolescent mental health problems.
- $400,000 for five new research scientist positions at the State Psychiatric Institute in Manhattan.

- $350,000 to increase the Medicaid rate for free-standing children's day treatment services.

The OASAS funding includes:

- $1.9 million for demonstration projects to provide chemical dependence treatment services to persons under 18 without insurance.

- $1.9 million for demonstration projects to reimburse chemical dependence treatment providers serving persons mandated into treatment by drug courts, the State Division of Parole and alternatives to incarceration programs.

- $700,000 for compulsive gambling treatment and prevention programs in communities with gambling casinos.

- $250,000 to help OASAS licensed substance abuse clinics adapt to new regulations and Medicaid requirements.

Appropriations, totaling slightly more than $1 million for both OMH and OASAS, provide funding for six provider organizations in each agency. The additional $1.5 million in funding for OMRDD supports 12 individual provider organizations. Several of the provider organizations in each agency have received funds from the Legislature in the past.

The SFY 2007-08 Enacted Budget also directs the OMRDD Commissioner to establish a demonstration program to improve the quality of care for clients served by any non-profit or public agency regulated by OMRDD and receiving State funds. Funded through the reappropriation of $2.5 million provided in the SFY 2006-07 Enacted Budget, the demonstration program authorizes OMRDD to adjust payment rates or State aid for facilities selected to participate. The funding may be used to increase direct care staff, increase training and education of direct care staff, and decrease staff turnover through wage hikes and employee benefit improvements.

In addition, the SFY 2007-08 Enacted Budget directs the Commissioner of Health, in consultation with OMRDD and interested stakeholders, to review Medicaid reimbursement rates for long-term therapies and psychotherapy provided by social workers in clinics that primarily service individuals with developmental disabilities. In the past, there has been confusion about the legitimacy of these clinics billing and receiving payment under the Medicaid program for such services. After reviewing the issue, the Commissioner of Health must advise the Executive and the Legislature of relevant findings by January 1, 2008.

Section

12

Social Services

Social services programs are administered by the Office of Temporary and Disability Assistance (OTDA) and the Office of Children and Family Services (OCFS). Public assistance is provided through OTDA, and child welfare services are provided through OCFS.

The SFY 2007-08 Enacted Budget appropriates $2.4 billion for the Temporary Assistance for Needy Families (TANF) Block Grant. Of this amount, $654 million is allocated to the Flexible Fund for Family Services (FFFS) and $356.3 million is allocated to child care. With this separate child care allocation from TANF monies, a total of $901.6 million is appropriated to the Child Care Block Grant (CCBG). A methodology is also established for funding preventative services in order to link eligibility for funding from the FFFS with performance based criteria.

The Office of Temporary and Disability Assistance

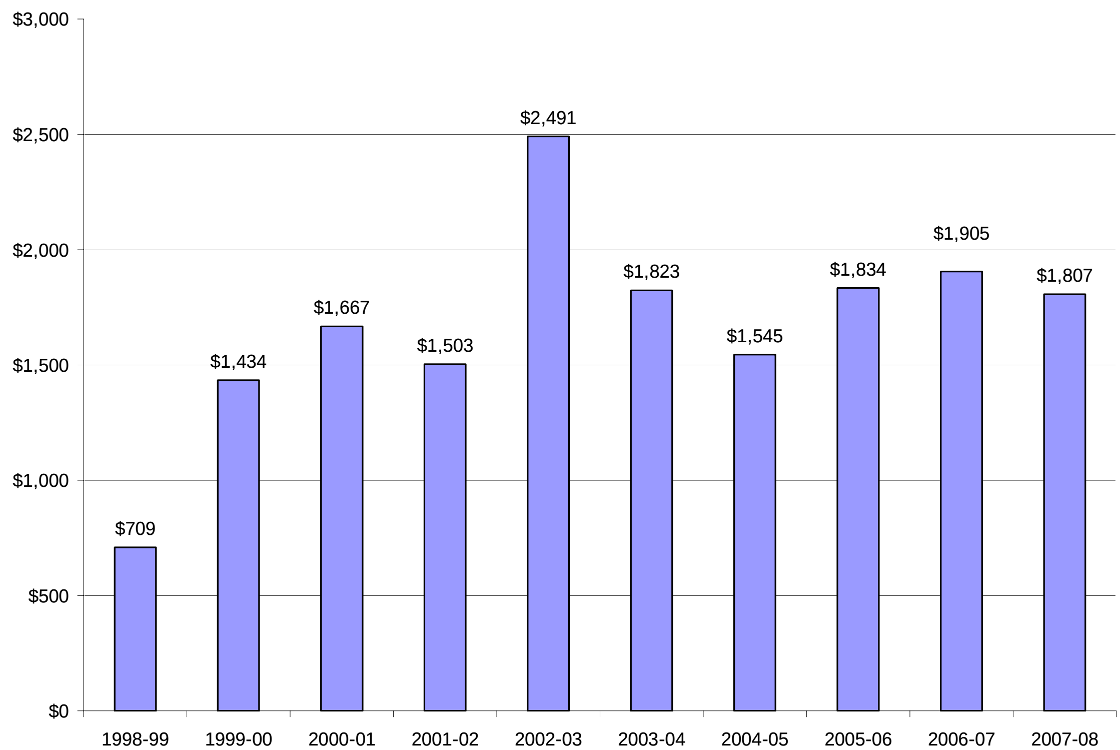
Public Assistance

New York State receives an annual block grant of $2.4 billion from the federal government to help fund public assistance. A condition of the TANF block grant is that New York public assistance spending must annually meet the 1995 federally required Maintenance of Effort (MOE) of $1.72 billion. The block grant is based on the 1995 public assistance caseload; however, caseloads have declined significantly since that time and New York now finances a greater share of total program costs with its federal funding. Once the TANF base program costs (federal share needed to support the Family Assistance Program) are determined, approximately $1.7 billion remains for spending on various initiatives. This additional amount of federal funding is generally referred to as TANF Initiative funds.[39] These monies are spent on a range of support

[39] This was formerly known as the Temporary Assistance for Needy Families (TANF) Surplus.

services, including child care, job training, employment subsidies and transportation, which are designed to assist families in attaining self-sufficiency.

Available TANF Initiative Funds
(in millions)



Source: New York State Division of the Budget

TANF Initiatives

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget estimated total federal funding for TANF Initiatives at $1.8 billion for SFY 2007-08. Of this amount, the Executive recommended a $1.046 billion appropriation for the local block grant (the FFFS). Under the plan, child care and various employment and transitional programs would have been funded exclusively with the FFFS since no targeted TANF Initiative funds were appropriated. The Executive proposed $582 million for the EITC, $128.3 million for Services and Health, $18.8 million for Employment and Transitional Initiatives, and $57.2 million for services that had been added by the Legislature in previous years.[40]

[40] The Earned Income Tax Credit (EITC) provides a personal income tax credit for eligible families. In 1999-00, the State began to claim a portion of the EITC against the Maintenance of Effort (MOE) for the TANF program.

SFY 2007-08 Enacted Budget

The Legislature reduced the FFFS appropriation to $654 million and the EITC appropriation to $573.3 million, while carving out a specific child care appropriation of $356.3 million for localities. The Legislature also reduced TANF spending for Services and Health, and Employment and Transitional Initiatives by $3.5 million, but increased TANF spending for Legislative Initiatives by $6.9 million. This results in $1.807 billion in TANF Initiative spending, a $3.4 million net increase above the Executive proposal.

Allocation of Available Federal TANF Initiatives Monies
(in millions of dollars)

Program	Proposed SFY 2007-08	Enacted SFY 2007-08
Flexible Fund for Family Services	1,008.0	654.0
▪ Child Welfare (Title XX, local JD/PINS, NYC foster care tuition, child welfare EAF, OCFS JDs, OCFS community based JD services, PINS/preventive services, child welfare quality)		
Child Care Block Grant (CCBG) *	9.8	372.5
Earned Income Tax Credit (EITC)	582.0	573.3
Services and Health	128.2	125.7
Employment/Transitional Initiatives	18.8	17.8
Legislative Initiatives**	57.2	64.1
Total	**1,804.0**	**1,807.4**

* The SFY 2006-07 Enacted Budget lined out child care funding only for SUNY/CUNY and migrant workers. The majority of child care funding was allocated by localities from their share of the FFFS. In SFY 2007-08, the $372.5 million includes $16.2 million in line-outs for specific child care programs.
** Prior to the SFY 2007-08 Executive Budget, funding was proposed for these services exclusively by the Legislature.

Public Assistance Caseload

Family assistance caseloads in New York fell by 30.1 percent from December 1999 to December 2002. Caseload numbers then climbed by 4.8 percent from December 2002 to December 2004. From December 2004 to December 2006, caseloads fell by 8.4 percent.[41]

[41] New York State Office of Temporary and Disability Assistance. *Caseload Statistics*. April 12, 2007. <http://www.otda.state.ny.us>.

In 1997, the federal government began imposing a 60-month lifetime limit on family benefits. Once the limit is reached, benefits cease and the "Five-Year Families" are transferred to safety net assistance (SNA). Federal funds cannot be used to pay for Safety Net benefits: SNA is funded with State and local resources.

SFY 2007-08 Executive Budget

For SFY 2007-08, the Executive projected continued decreases in the number of both Family Assistance recipients and Five-Year Families. The Executive projected the number of Family Assistance recipients to decrease by 11,653, or 4.1 percent, and the number of Five-Year Families to decrease by 5,960, or 4.5 percent, in SFY 2007-08.

In contrast to both Family Assistance recipients and Five-Year Families, the Executive projected the number of SNA recipients to increase by 4,807, or 3.2 percent, in SFY 2007-08, for a total net decrease for all three populations of 12,806, or 2.3 percent.

Also for SFY 2007-08, the Executive projected the number of recipients of Supplemental Security Income (SSI) to increase by 20,335, or 3.2 percent. When combined with all recipients of public assistance, the overall caseload as projected increases by 7,529, or 0.6 percent.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's caseload forecast and a decreased cost for the base program, which provides cash assistance for recipients. The Enacted Budget includes appropriations of $642 million for TANF base programs.

Temporary Assistance Caseloads

	Current Estimate SFY 2006-07	Enacted Budget Forecast SFY 2007-08	Dollar Change	Change Percent
Family Assistance	282,918	271,265	(11,653)	-4.1%
Five-Year Families	132,249	126,289	(5,960)	-4.5%
Safety Net	150,647	155,454	4,807	3.2%
Subtotal	**565,814**	**533,008**	**(12,806)**	**-2.3%**
SSI	635,665	656,000	20,335	3.2%
Total	**1,201,479**	**1,209,008**	**7,529**	**0.6%**

Source: New York State Division of the Budget and State Legislature

Work Participation Requirements

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed an $11.4 million work incentive bonus, associated with the ability of localities to meet the more rigorous work participation requirements defined by the federal government in October 2006. The federal government retained the current work participation rate of 50 percent for one parent families, but more narrowly defined the types of activities that may be counted toward the participation rate.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's $11.4 million work incentive bonus associated with the new federal work participation requirements.

Office of Children and Family Services

Child Care

Since SFY 2005-06, the Executive has recommended that localities determine the amount of federal TANF Initiative monies available for child care. In SFY 2006-07, this approach was implemented, and the final level of funding for the Child Care Block Grant (CCBG) was adjusted after commitments were made at the local level for child care funding. The SFY 2007-08 Enacted Budget, however, again follows the historical practice (pre-SFY 2005-06) of carving out a specific appropriation of TANF Initiative funds for child care.

SFY 2007-08 Executive Budget

The Executive estimated the CCBG, which provides a service that affects a family's ability to attain self-sufficiency, at $533 million for SFY 2007-08, before determining the amount of federal TANF transfer funds targeted for child care. As in the previous two years, the SFY 2007-08 Executive Budget did not include a specific TANF appropriation for child care, and instead proposed that localities use FFFS monies for child care needs. When this approach was implemented in SFY 2006-07, localities prioritized their needs and subsequently directed $352 million in TANF FFFS to child care, resulting in a final level of funding for the CCBG of $897.1 million.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget carves out $356.3 million in TANF Initiative monies, bringing the total CCBG to $901.6 million.

Funding Sources of Child Care Block Grant
(in millions of dollars)

Child Care Block Grant	Enacted SFY 2006-07	Proposed SFY 2007-08	Enacted SFY 2007-08	Enacted Change Amount	Enacted Change Percent
State Share	136.1	140.1	140.1	4.0	2.9%
Local Share	68.0	68.0	68.0	0.0	0.0%
Federal Child Care Development Fund (CCDF)	315.0	315.0	315.0	0.0	0.0%
Federal TANF Initiative Monies*	352.0	TBD	356.3	4.3	1.2%
Federal TANF Line-Outs	18.0	10.0	16.2	(1.8)	-10.0%
Federal Prior Year Funds	4.0	0.0	0.0	(4.0)	NA
AFSCME Demo/referral agencies (General Fund)	4.0	0.0	6.0	2.0	50.0%
Total	**897.1**	**TBD**	**901.6**	**4.5**	**0.5%**

Source: New York State Legislature and New York State Division of the Budget
* In SFY 2006-07, localities determined the amount directed to child care through the FFFS.

Other Program Highlights/Changes

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed significant increases for social services provided by OCFS, including increases for child welfare services, the Foster Care Block Grant, adoption subsidies and additional full-time equivalent positions (FTEs). The Executive Budget proposed other changes as well, including several closures of youth facilities for troubled youth and a cost neutral transfer of the Commission for the Blind and Visually Handicapped to a new Office for the Blind, with a 15-member board.

SFY 2007-08 Enacted Budget

As proposed by the Executive, the Legislature approved:

- An $84 million increase in funding, to $465.6 million, to reimburse local governments for the cost of child welfare services designed to prevent abuse and neglect.

- A $36.3 million increase in funding, to $418.8 million, for the Foster Care Block Grant.

- An increase of $16.1 million, or 8.3 percent, to $209.6 million for adoption subsidies to support caseload growth, as well as the second year of a Cost-of-Living Adjustment (COLA).

- A $57 million retroactive pay out assumption for SFY 2006-07 and $24 million for SFY 2007-08 associated with a court case that has not yet been settled.[42] The lawsuit revolves around OTDA regulations that were implemented in 2004 through which the benefit levels of households with an SSI recipient were reduced.

- A transfer of a $5.3 million appropriation for the Displaced Homemaker Program from OTDA to the Department of Labor.

- A $4.0 million appropriation to increase youth facility direct care staff by 182 FTEs and mental health staff by 18 FTEs, and to provide an additional 18 FTEs related to bed expansion. The number of FTEs slated for elimination due to facility closings associated with a population reduction was reduced from 48 to 16.

- A General Fund appropriation of $3 million to continue the pilot employment programs of the Strengthening Fathers Initiative, which also expands the EITC to younger, non-custodial fathers.

- A $2.3 million appropriation to operate 100 beds for youth leaving the foster care system and at risk of becoming homeless, under the New York/New York III Supportive Housing Agreement.

- A $2 million savings estimate associated with a request for the federal government to "freeze" the per check fee charged to the State to process checks for the State Supplement Program for SSI recipients.

- The Executive proposals to close the Brooklyn and Mt. Vernon community residential homes, but rejected the proposals to close the Great Valley non-secure facility for troubled youth in Cattaraugus County (25 beds and 28 FTEs) and the Gloversville community residential home (10 beds and 4 FTEs), restoring $640,000 and $197,000 respectively. The Brooklyn and Mt. Vernon closings are associated with a savings of $503,000 and 16 FTEs.

- A pass-through of the annual federal government inflationary increase in SSI payments to recipients.

[42] The New York Appellate Division issued a recent decision declaring that State regulations requiring the inclusion of Supplemental Security Income (SSI) benefits in determining eligibility for public assistance benefits were in conflict with New York Social Services Law and are therefore invalid. The decision is under appeal, and the case is awaiting decision on cert from the Court of Appeals. *Doe v. Doar,* 26 A.D.3d 787, 807 N.Y.S.2d 909, 2006 N.Y. Slip Op. 00802.

The Legislature reduced:

- Appropriations for CONNECTIONS, the State's child welfare information system, by $1 million to a total of $64.6 million.

- The appropriation for the Medicaid waiver program from $2.8 million to $1.5 million to phase in 260 of the total 3,303 slots requested. The reduction is due to a later anticipated start date for this program, which will permit children in foster care with multiple health needs to obtain more intensive services.

The Legislature added the following appropriations:

- $7.5 million for after-school programs (21st Century Schools).

- $6.4 million for costs associated with implementing a 2-1-1 service statewide to provide information on the availability of social services.

- $4.7 million for additional caseworkers in the child protective workforce.

- $1.5 million for new and expanded child advocacy centers. A report detailing the impact of an associated demonstration project on child abuse must be submitted to the Legislature by October 2008.

- $543,000 for an additional 18 FTEs for mental health staff in OCFS.

- $500,000 for five ombudsmen and a new Office of the Ombudsman to protect the interest of youths residing in facilities operated by OCFS.

- $150,000 for child care quality needs.

The Legislature also modified the Executive's proposal regarding the Commission for the Blind and Visually Handicapped by establishing a 15-member board within the current office.

Section

13

Energy

The SFY 2007-08 Enacted Budget establishes a new Climate Change Office within the Department of Environmental Conservation, allows for the transfer of New York State Energy Research and Development Authority (NYSERDA) funds to the General Fund and to the low-level radioactive waste account, and provides $13.5 million for ongoing remedial work at the Western New York Nuclear Service Center at West Valley.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed the establishment of a Climate Change Office within the Department of Environmental Conservation to implement the Regional Greenhouse Gas Initiative (RGGI) and to coordinate the auction of carbon dioxide allowances. The Regional Greenhouse Gas Initiative, created in 2003 with seven participating Northeastern states as members, has been working to develop a market-based cap-and-trade program designed to reduce carbon dioxide emissions from power plants.[43] The SFY 2007-08 Executive Budget proposed the addition of 109 new positions within the Department of Environmental Conservation (DEC), including 12 to staff the Climate Change Office. The Office would also undertake the identification of carbon reduction programs beyond the power plant sector, as well.

An increase of $1.4 million was recommended by the Executive to fully fund the Energy Analysis program within NYSERDA. The program offers analytic services regarding RGGI, pricing, supply and demand, generation, and other energy-related issues. The Executive also recommended reductions of $3.9 million in funding for a conservation and efficiency pilot program and $100,000 for the Conservation Coordination Task Force, thereby eliminating all General Fund support for NYSERDA.

[43] The seven Northeastern states include Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont. Legislation was signed in April, 2006 that requires Maryland to become a full participant in the process by June 30, 2007. In addition, the District of Columbia, Massachusetts, Pennsylvania, Rhode Island, the Eastern Canadian Provinces and New Brunswick are observers in the process. <http://www.rggi.org/states.htm>.

The SFY 2007-08 Executive Budget eliminated $28 million in remaining contingent appropriation authority to cover extraordinary energy costs experienced by the State University of New York (SUNY) and the City University of New York (CUNY) in SFY 2006-07. SUNY spent $30 million of the $58.6 million SFY 2006-07 appropriation to cover higher than normal energy costs; the remainder of the appropriation was unused by CUNY. In SFY 2007-08, an additional $30 million for energy costs is included in the SUNY budget, negating the need for a contingent appropriation.

The SFY 2007-08 Executive Budget proposed continued funding in the amount of $3 million for energy conservation projects administered by the Office of General Services. The Executive Budget also recommended the Division of Housing and Community Renewal (DHCR) continue its administration of the federally-funded Weatherization Assistance Program, which provides grants to governments and non-profit organizations to assist low-income households in improving energy efficiency.

A capital appropriation of $13.5 million was recommended by the Executive for costs associated with ongoing environmental cleanup at West Valley. This recommendation reflects a $500,000 decrease from SFY 2006-07.

SFY 2007-08 Enacted Budget

The Legislature accepted the proposals as submitted by the Executive.

Article VII Legislation

SFY 2007-08 Executive Budget

The Executive proposed Article VII language to allow for a transfer of $913,000 from NYSERDA to the General Fund and for a $330,000 transfer to the low-level radioactive waste account from NYSERDA. Similar authorization was provided in the SFY 2006-07 Enacted Budget. The proposed transfer of $913,000 to the General Fund from unrestricted corporate funds would help offset the State's debt service payments for the Western New York Nuclear Service Center at West Valley. The $330,000 transfer would be financed from funds rebated to New York State from the federal government. The rebates are derived from disposal surcharges levied on generators of low-level radioactive waste.

Department of Public Service

The mission of the Department of Public Service is to ensure safe, secure and reliable access to competitively priced energy, telecommunications and water services for New York State's citizens and businesses with maximum customer choice.[44] The

[44] New York State Department of Public Service. *Mission Statement*. <http://www.dps.state.ny.us/mission.html>.

Department's staff provides support to the Public Service Commission (PSC). Among its many duties, the PSC regulates the rates and services of the State's public utilities and oversees the siting of major gas and electric transmission lines and facilities.

Section 18-A of the Public Service Law gives the Chair of the Department of Public Service the authority to assess an annual charge on public utilities and corporations, including municipalities and the New York Power Authority (NYPA), to cover all of the estimated costs of the Department and Commission in the upcoming year. Each year, the Executive Budget proposes legislation allowing certain State agencies, in addition to the Department and Commission, to fund appropriations with revenues from assessments on public utilities. Similar Article VII language was proposed and enacted for SFY 2006-07.

Overall, SFY 2007-08 Executive Budget appropriations of 18-A Public Utility assessments increase 6.4 percent over enacted SFY 2006-07 appropriations. Specifically, appropriation of assessment funds range from an increase of 11.1 percent for the Office of Homeland Security to amounts that reflect no change from the prior year for the Office of Parks, Recreation and Historic Preservation, and the Department of Economic Development. Department of Public Service assessment appropriations increased 5.7 percent, while NYSERDA's increased 9.6 percent.[45] The Executive Budget estimated that the entire $107.1 million in assessments will be disbursed in SFY 2007-08.

SFY 2007-08 Enacted Budget

The Legislature enacted Article VII legislation allowing for the transfer of NYSERDA funds and for the assessments on public utilities and cable television companies by certain State agencies as proposed by the Executive.

Off Budget Programs

The New York State Energy Research and Development Authority (NYSERDA) will continue to administer the System Benefits Charge and Renewable Portfolio Standard, which support programs that fund competitive grants with assessments on residential and business utility bills. The assessments, which are expected to yield approximately $231 million in SFY 2007-08 and $251 million in SFY 2008-09, will continue to be administered off budget.

[45] The New York State Energy Research and Development Authority's (NYSERDA's) assessment relates only to gas and electric utilities; the assessments of the remaining agencies relate to all utilities.

System Benefits Charge

In 1998, the PSC ordered regulated, investor-owned utilities in New York State to assess a System Benefits Charge (SBC) on household and business utility bills and remit funds collected under the SBC to the State. The SBC was designed to fund public policy initiatives not expected to be adequately addressed by the PSC-mandated move to competitive energy markets in New York State.[46] SBC-funded initiatives include:

- Energy efficiency,
- Energy affordability for low-income utility customers, and
- Research and development in energy-related areas, particularly in renewable resources.

The charge, which was set to expire in June 2006, was reauthorized by PSC order in December 2005 for a five-year period extending from 2006 through 2011. The charge is collected by electric utilities from consumers and businesses for state energy programs.

The SBC program is administered by NYSERDA and monitored by the PSC and Department of Public Service. SBC receipts are either paid to contractors based on work completed under the New York Energy $mart program or are retained by the utilities to fund their own low-income energy assistance programs. The SBC surcharge is expected to yield $181 million in SFY 2007-08 and $183 million SFY 2008-09.

Renewable Portfolio Standard

The Renewable Portfolio Standard (RPS) was initiated by the PSC in September 2004 to promote the development and use of renewable energy in New York State. Established with the participation of government, energy companies, environmental groups, community organizations and individuals, the goal of the RPS is to obtain 25 percent of the State's electricity from renewable sources by 2013. All but 1 percent of the RPS goal would be met through a mandatory, incentive-based procurement program administered by NYSERDA. The remaining 1 percent would be attained through the State's voluntary green-marketing program.

The RPS was designed to address increasing concerns with the climate effects of, and dependence on, fossil-fuel electricity generation.[47] The program subsidizes renewable energy projects such as wind-power, hydro plants, biomass and biofuel, and is

[46] New York State Department of Public Service. *System Benefits Charge.* <http://www.dps.state.ny.us/sbc.htm>.

[47] New York State Department of Public Service. *Renewable Portfolio Standard.* <http://www.dps.state.ny.us/03e0188.htm>.

financed by a State surcharge on electric bills that began in October 2005. In adopting the State's RPS, the PSC designated NYSERDA as the central procurement administrator of the RPS program. The PSC ordered the State's six major regulated utilities to collect revenues from taxpayers to fund the RPS program. The surcharge is levied on the delivery portion of electricity bills for all New Yorkers. An annual payment schedule is established by NYSERDA for the utilities, which then set the surcharge rate for its customers.

The RPS is expected to generate $49.4 million in SFY 2007-08 and $67.7 million in SFY 2008-09. It is expected to grow to $167 million by 2013. Through 2013, the RPS is projected to generate approximately $741 million.

NYSERDA administers the RPS program, which is monitored by the PSC and Department of Public Service. Contracts awarded by NYSERDA provide incentives for renewable energy producers who sell and deliver their energy in New York's wholesale electricity market and for companies that provide funding for customers to create renewable electricity generating capabilities.

Section

14

Economic Development

The economic development functional area includes the Empire State Development Corporation (ESDC), which is legally known as the Urban Development Corporation (UDC), the Department of Economic Development (DED) and the New York State Foundation for Science, Technology and Innovation (formerly NYSTAR - the New York Office of Science, Technology and Academic Research). ESDC is integrated for administrative purposes with DED. The Legislature rejected the Executive proposal to create a new economic development agency, the Stem Cell and Innovation Fund Corporation, and instead established the Empire State Stem Cell Board.

Empire State Development Corporation (ESDC)

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included two new economic development incentive programs that would be funded within the Regional Development program at ESDC. The first was a $300 million ESDC capital appropriation for an Investment and Job Creation Program. Funding would be provided on a competitive basis for regional development projects throughout the State, and project approval would include review by the Public Authorities Control Board (PACB). The second proposal was for a lump sum capital appropriation of $300 million for the development of an international computer chip research and development center. The grant (or grants) would be administered by ESDC, but would not be subject to PACB oversight under the Executive Budget proposal and would, therefore, sidestep the Comptroller's ability to formally comment on them.

The SFY 2007-08 Executive Budget also included ESDC capital appropriations to fund four on-going redevelopment projects:

- $20 million for projects on Governor's Island in New York Harbor,
- $15 million for the Roosevelt Island Operating Corporation tramway rehabilitation,
- $7.95 million for USA Niagara, an ESDC subsidiary active in Niagara Falls redevelopment, and
- $7.5 million for redevelopment of the Harriman Office Campus in Albany (now marketed as the Harriman Research and Technology Park).

SFY 2007-08 Enacted Budget

The Legislature rejected both of the Executive's proposed $300 million regional development initiatives. Despite this action by the Legislature, the Executive included $300 million in funding for the international computer chip research and development center in the SFY 2007-08 Enacted Budget Capital Program and Financing Plan. In addition to approving the appropriations for the four on-going redevelopment projects, the Legislature added $10 million in General Fund appropriations directed to numerous local development efforts. An additional $416,000 was included for local projects.

Department of Economic Development

SFY 2007-08 Executive Budget

The Executive Budget provided $16 million for the "I Love NY" program, an increase of $5 million, or 45 percent, over the SFY 2006-07 Enacted Budget; $5.3 million for local tourism matching grants, a $500,000 increase over SFY 2006-07; $1.2 million to attract international trade, no change from SFY 2006-07; and $400,000 for visitor welcome centers, also unchanged from the SFY 2006-07 level of support.

SFY 2007-08 Enacted Budget

The Legislature concurred with the recommended appropriations for on-going tourism programs and added over $3 million in General Fund appropriations, most of which is provided for the support of local development agencies that participate in the Empire Zone program. A sum of $4,274,610 was also added for a series of local projects.

New York State Foundation for Science, Technology and Innovation

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed a $55.1 million appropriation for the Foundation, reducing funding by a total of $1.3 million, or 2.3 percent, from SFY 2006-07.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive Budget proposal for the Foundation, and added $5.5 million in General Fund appropriations for grants to a number of economic development activities.

Stem Cell and Innovation Fund Corporation

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included a proposal for a new economic development program focusing on stem cell research. The Executive proposed the creation of a new public benefit corporation to be known as the Stem Cell and Innovation Fund Corporation. The Executive also advanced a proposal to place a referendum before the voters at the 2008 General Election to authorize a General Obligation bond issuance of $2.1 billion that would have provided $150 million annually in capital support for research and development over the succeeding ten years. The Executive Budget also contained a $100 million General Fund appropriation for SFY 2007-08 start-up expenses of the Stem Cell and Innovation Fund.

SFY 2007-08 Enacted Budget

The Legislature rejected the original stem cell research proposal, but added a Special Revenue Fund appropriation of $100 million for the Empire State Stem Cell Fund for the Wadsworth Center for Laboratories and Research Program. Article VII language authorizes use of a portion of the proceeds from the additional insurance conversion authorized by the SFY 2007-08 Enacted Budget for stem cell research.[48]

Urban Development Corporation (UDC) Loan Power Proposal

SFY 2007-08 Executive Budget

UDC (ESDC) loan powers would have been made permanent under the Executive Budget Proposal. This authorization was scheduled to sunset on July 1, 2007.

SFY 2007-08 Enacted Budget

The Legislature extended the UDC's loan powers for one additional year, until July 1, 2008. This is the ninth time the Legislature has extended the sunset since 1994.

[48] For more information on the Empire Stem Cell Fund, see the Health Care and Public Authorities sections of this report.

Section

15

Transportation

The transportation functional area includes the Department of Transportation (DOT), the Department of Motor Vehicles (DMV), and State support for the Metropolitan Transportation Authority (MTA) and other regional mass transit authorities. It also includes partial support for the Thruway Authority's Canal Corporation.

Department of Transportation

SFY 2007-08 Executive Budget

All Funds appropriations for transportation-related initiatives under the SFY 2007-08 Executive Budget totaled nearly $8.7 billion in SFY 2007-08, including approximately $5 billion in capital projects, $3.5 billion in aid to localities and $171 million in State operations. The total represented an increase of $494 million, or 6 percent, over the SFY 2006-07 level.

Based on funding levels included in the SFY 2007-08 Executive Budget, DOT anticipated a contract letting-level of $1.975 billion, an increase of $125 million, or 7 percent. The Executive also increased funding for the Five-Year Capital Plan, originally adopted in 2005, by an additional $827 million through SFY 2009-10. This funding is provided through increased federal aid. Although this aid provides a savings of approximately $100 million through reduced bonding costs, it does not eliminate the out year funding gap in the Five-Year Capital Plan, now estimated by the Division of the Budget (DOB) to be $283 million.

SFY 2007-08 Enacted Budget

Minor adjustments to the SFY 2007-08 Executive Budget transportation proposal were made in the Enacted Budget for SFY 2007-08. Included is a $16 million increase in

Consolidated Highway Improvement Program (CHIPS) funding, a $3 million increase in funding for the Rochester-Genesee Regional Transportation Authority and an additional $2 million for the Capital District Transportation Authority.

An additional capital appropriation of $17.5 million was provided to pay for the purchase of clean fuel buses by non-MTA transit systems, while $3 million was added to pay for the costs of the diesel emissions program for State equipment mandated by the Legislature last year.

The SFY 2007-08 Enacted Budget authorized DOT to take over ownership of I-84; however, maintenance of the roadway will continue to be done by the Thruway Authority. As a result, the $11.6 million appropriation requested by the Executive to pay for DOT staff and equipment to maintain I-84 will instead be made available for payment to the Thruway Authority. The DOT and the Thruway Authority are authorized to enter into an annual contract for this purpose.

An amount of $9 million in capital funding for the Industrial Access Program, which helps pay for highway, bridge and rail projects that connect private sector manufacturing firms with existing highways and rail lines, was eliminated in the final budget plan.

Dedicated Highway and Bridge Trust Fund Reporting

SFY 2007-08 Executive Budget

Last year, the Legislature enacted an amendment to the State Finance Law requiring DOB to provide the Office of the State Comptroller and the Legislature with expanded Capital Program and Financing Plan information regarding the Dedicated Highway and Bridge Trust Fund (DHBTF).[49] The Executive proposed Article VII language that would have reduced or eliminated many of these reporting requirements.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal, but postponed the effective date of the existing law until the start of SFY 2008-09.

Local Transit Incentives

Two local transit system initiatives were included in the original Executive Budget request. One would have required the Commissioner of Transportation to establish a panel to develop performance measures that would be used to measure transit

[49] See Section 22-c of the State Finance Law, as amended by Part Z of Chapter 62 and Part Q of Chapter 61 of the Laws of 2006.

systems. The other would have authorized the creation of a statewide transit procurement council to enable all public transit systems in the State to participate in cost-saving activities, such as aggregate purchasing and shared financing techniques.

SFY 2007-08 Enacted Budget

The Legislature rejected both of these initiatives.

Reallocation of the Transportation-Transmission Tax

SFY 2007-08 Executive Budget

Under existing law, the State collects a Transportation-Transmission Tax (TTT), which is imposed statewide on the value of stock in businesses in the transportation or communication sectors (Sections 183 and 184 of the Tax Law). These tax receipts are dedicated to transportation programs: 20 percent to the DHBTF and 80 percent to the Mass Transportation Operating Assistance (MTOA) Fund. All of the funds deposited in the MTOA Fund are currently directed to a specific account—the Metropolitan Mass Transportation Operating Assistance (MMTOA) Account—established to support the MTA. The MTA is the only transit system that currently receives a share of this tax.

The Executive reintroduced a proposal, originally advanced last year, which would have changed the distribution of the portion of the Transportation Transmission Tax dedicated to MTOA. Of the amount allocated to MTOA, two-thirds would go to the MMTOA Account, while the remaining one-third would go to the Public Transportation Operating Assistance (PTOA) Account, which supports other public transit systems in the State. This would have resulted in an estimated $23 million reallocation. The percentage of the tax allocated to the DHBTF would remain the same.

SFY 2007-08 Enacted Budget

The Legislature rejected this proposal, as it did last year.

Other Article VII Proposals

SFY 2007-08 Executive Budget

Motor carrier registration fees, which were formerly covered by the federal Single State Registration System, are now governed by the federal Unified Carrier Registration Plan, a component of Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which became effective on December 31, 2006. The SFY 2007-08 Executive Budget proposal would have provided for State conformity with the federal law.

SFY 2007-08 Enacted Budget

The Legislature rejected this proposal, but recognized that the State needs to act soon or face the possible loss of over $4 million in registration fees, which the federal government would return to New York if the State is in conformity. However, the issue may be addressed later in the 2007 Legislative Session.

SFY 2007-08 Executive Budget

In 2005, the Vehicle and Traffic Law was amended to conform to federal requirements for commercial vehicle operators contained in the Motor Carrier Safety Improvement Act (MCSIA).[50] A number of additional federal requirements have been adopted since these conforming laws were passed. The Executive proposed Article VII language to bring New York State into full compliance.

SFY 2007-08 Enacted Budget

The Legislature rejected this proposal. Federal aid of $17.5 million in SFY 2007-08 could be jeopardized if the Legislature does not address the issue by October 1, 2007. The annual aid loss would be over $52 million.

SFY 2007-08 Executive Budget

The State often relies on its right of eminent domain to obtain property for highway and other transportation projects. These actions are governed by the State Eminent Domain Procedure Law. The SFY 2007-08 Executive Budget would have replaced the personal service requirement related to notice of acquisition with a certified mail requirement.

SFY 2007-08 Enacted Budget

The Legislature rejected this proposal.

SFY 2007-08 Executive Budget

Federal law requires State conformity with federal rules requiring the suspension of drivers' licenses for certain alcohol-related driving offenses. The State last extended its conforming legislation in 2005. This year's Executive proposal would have made the State's conformity permanent.

SFY 2007-08 Enacted Budget

The Legislature extended this program an additional two years, until October 1, 2009.

[50] See Sections 510-a and 1193 of the Vehicle and Traffic Law, as amended by Part E of Chapter 60 of the Laws of 2005.

SFY 2007-08 Executive Budget

The Executive proposed to make permanent an existing provision that allows for the enforcement of child and spousal support through the suspension of drivers' licenses. This provision is set to expire this year.[51]

SFY 2007-08 Enacted Budget

The Legislature extended the existing provision for an additional two years, to June 30, 2009.

SFY 2007-08 Executive Budget

A similar proposal would have made permanent the State's conformity with a federal requirement, known as the Solomon Law, which mandates the suspension of a driver's license for the use of illegal drugs while operating a motor vehicle.[52] The existing provision would expire October 1, 2007.

SFY 2007-08 Enacted Budget

The Legislature extended the State's conformity with federal requirements for an additional two years, to October 1, 2009.

SFY 2007-08 Executive Budget

The single audit program allows an independent certified public accountant to audit local use of State transportation funds at the same time that individual is auditing local use of federal transportation funds. This program was reauthorized last year, but will expire on December 31, 2007. The Executive proposal would have made the program permanent.

SFY 2007-08 Enacted Budget

The Legislature extended the single audit program for one year, to December 31, 2008.

SFY 2007-08 Executive Budget

Historically, the CHIPS and Municipal Streets and Highways (Marchiselli) programs are reauthorized annually in Article VII language. This year's Executive Budget request set funding levels for these programs through SFY 2009-10. This proposal also eliminated $13 million in additional CHIPS aid provided by the Legislature in SFY 2006-

[51] Section 246 of Chapter 81 of the Laws of 1995, *Enacting Welfare Reform*.

[52] Section 9 of Chapter 533 of the Laws of 1993.

07 and increased the Thruway Authority's bond cap by $20 million to pay for the increase.

SFY 2007-08 Enacted Budget

The Legislature restored $13 million in CHIPS funding and included an additional $3 million for a total CHIPS increase of $16 million. The Legislature rejected language increasing the Thruway Authority bond cap for debt associated with local capital project assistance.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget would have authorized DMV to take advantage of bulk mailing rates for mailing notices of revocation, suspension or other orders by using addresses provided by the Postal Service.

SFY 2007-08 Enacted Budget

The Legislature rejected this proposal, as it did last year.

Section

16

Environment

The Legislature added spending to the Executive Budget proposal in the area of parks and the environment and rejected several revenue proposals. The SFY 2007-08 Enacted Budget provides $13.7 million in additional funding for the Department of Environmental Conservation (DEC), $1.7 million for the Office of Parks, Recreation and Historic Preservation (OPRHP), and $50,000 for the Adirondack Park Agency (APA). The additional spending restores proposed program reductions (e.g. Delaware River Basin Commission), as well as covers revenue shortfalls resulting from the Legislature's rejection of revenue-generating proposals and provides for new spending initiatives.

The Superfund, refinanced in 2003, receives an appropriation of $144.4 million for hazardous waste remediation at contaminated sites, and the Environmental Protection Fund (EPF) appropriation is funded at $250 million, an increase of $25 million over SFY 2006-07. The Legislature accepted the Executive's proposal to increase environment-related staffing levels, but rejected an expansion of the Returnable Container Act (Bottle Bill).

Environmental Programs

Legislative Programs

The Legislature agreed to an allocation of $13.7 million in additional funds for DEC. The increased spending provides approximately $4 million for environmental projects and programs and covers a revenue shortfall of $9.7 million, resulting from a rejection of the Executive's revenue-generating proposals. Projects funded through the additional allocation include:

- $500,000 for the Finger Lakes Institute for Water Quality,
- $500,000 for Breast Cancer/Environmental Risk,

- $400,000 for a Community Integrated Pest Management program,
- $300,000 for a Wastewater Improvements Study,
- $250,000 for the Adirondack Watershed Institute,
- $250,000 for the Champlain Watershed Improvement Coalition,
- $250,000 for the Delaware River Basin Flood Control,
- $250,000 for the Trudeau Institute on Saranac Lake,
- $225,000 for the Oak Brush State Preserve at Edgewood,
- $200,000 for the Peconic Estuary,
- $188,000 in additional funds for the Susquehanna River Basin Commission,
- $175,000 for the Sea Grant Institute,
- $155,250 for the Town of North Elba/Olympic Regional Development Authority Promotion program,
- $123,000 in additional funds for the Delaware River Basin Commission,
- $100,000 for the Riverhead Foundation,
- $75,000 for the Healthy Schools Network,
- $30,000 for Timber Theft Education and Training Law Enforcement, and
- $23,280 in additional funds for the Interstate Environmental Commission.

The Legislature concurred with the Executive's recommendation for funding levels for the Northeastern Queens Nature and Historical Preserve Commission, the Hudson River Valley Greenway Communities Council and the Greenway Heritage Conservancy of the Hudson River Valley. The funding levels remain unchanged from SFY 2006-07. The Legislature also concurred with the Executive's recommended appropriation level for the Olympic Regional Development Authority. The Executive had reduced the capital appropriation by $5.5 million, a Legislative addition in the SFY 2006-07 Budget for the Gore Mountain Ski Bowl.

Environmental Protection Fund

SFY 2007-08 Executive Budget

This year's Executive Budget proposal increased the EPF appropriation from $225 million to $250 million and would have funded the increase through the collection of unclaimed bottle deposits, estimated to produce $25 million in revenue in SFY 2007-08. A portion of the deposits would be derived from an expansion of the Bottle Bill to include non-carbonated beverages. Changes in the 1982 "Bottle Bill" as proposed by the Executive would have expanded the definition of returnable containers to include non-carbonated beverages, such as water and juice, and provided for the return of unclaimed deposits on beverage containers to the State for deposit into the EPF, yielding an additional revenue source for the Fund.[53]

The Executive also recommended the addition of two new programs—the Pollution Prevention Institute within the Solid Waste Account and Smart Growth within the Open Space Account of the EPF—each with a recommended funding level of $2 million. Funding for the Historic Barns program and the Quality Communities program was not included in the SFY 2007-08 Executive Budget. Funding for the Zoos, Botanical Gardens and Aquaria (ZBGA) was again included under the EPF.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's recommended increased appropriation level of $250 million for the EPF and also established the Pollution Prevention Institute in statute. The SFY 2007-08 Enacted Budget also included the Executive's proposed language in the EPF appropriation bill that mandates the use of 25 percent of the appropriations for both the Local Waterfront Revitalization program and the Municipal Parks program in disadvantaged urban areas. The Legislature rejected the Executive's proposal to expand the Bottle Bill and to collect the unclaimed bottle deposits.

The Executive Budget Financial Plan had estimated EPF disbursements to be $150 million in SFY 2007-08, an increase from the projected disbursement of $140 million in SFY 2006-07. The Executive Budget had also estimated an additional $25 million in revenue resulting from an expanded Bottle Bill and the collection of unclaimed beverage container deposits. Although the SFY 2007-08 Enacted Budget rejected the expanded Bottle Bill and increased the EPF appropriation $25 million in SFY 2007-08, no change in projected disbursements from the Fund are projected for SFY 2007-08.

Article VII language included in the SFY 2007-08 Enacted Budget provides the Director of the Budget with the discretion to deposit $25 million of additional real estate transfer tax (RETT) receipts into the EPF in SFY 2007-08, over and above the statutorily mandated $212 million.

Revenues and Fees

SFY 2007-08 Executive Budget

The Executive Budget proposed new and increased fees expected to generate an additional $9.7 million in revenues in SFY 2007-08. The Executive had recommended increased fees for Title V facilities (generally considered major polluters who annually

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[53] Containers still exempted from the expanded Bottle Bill include bottles, cans and jars containing liquor, wine, infant formula, milk and dairy products, rice and soy milks, dietary supplements, medications, concentrates and soups.

emit 100 tons or more of regulated air pollutants), new and increased DEC regulatory fees, and a technical change to the Environmental Conservation Law, increasing the number of facilities which must pay a fee for generating hazardous wastewater.

SFY 2007-08 Enacted Budget

The Legislature rejected a series of fee increases proposed by the Executive as follows:

- $6.40 million in Title V fee increases,
- $2.57 million regulatory fee increases, and
- $714,000 in hazardous wastewater fee increases resulting from a technical change.

Fund Sweeps and Transfers

SFY 2007-08 Executive Budget

The Executive recommended a transfer of $20 million from the EPF into the General Fund in the SFY 2007-08 Executive Budget to offset General Fund spending. The Executive Budget also proposed four transfers from the General Fund to specific special revenue accounts.

- $15 million to the Hazardous Waste Remedial Fund for grants and non-bondable costs of the Superfund and Brownfields programs,
- $7 million to the Environmental Regulatory Account,
- $4.4 million to the Conservation Fund Traditional Account, and
- $3 million to the State Park Infrastructure Fund for infrastructure and maintenance projects.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's sweeps and transfers proposal in the Enacted Budget.

Other Article VII Proposals

SFY 2007-08 Executive Budget

Article VII language in the SFY 2007-08 Executive Budget increased the aggregate amount of allowable transfers from the General Fund to the EPF to $322.2 million. The proposed increase of $20 million in the SFY 2007-08 Budget is equal to the proposed transfer of $20 million from the EPF to the General Fund. The legislation ensures that all transfers from the EPF to the General Fund are fully reimbursable if funds in the EPF are found to be insufficient to meet anticipated or actual disbursements.

The Superfund Program, refinanced in 2003, received a recommended appropriation of $144.4 million in the SFY 2007-08 Executive Budget for hazardous waste remediation at contaminated sites, including $120 million earmarked for the remediation of hazardous waste, $15 million for grants and non-bondable costs of the Superfund and Brownfields programs, and $9.4 million for staffing.[54]

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposal to increase the aggregate amount of allowable transfers from the General Fund to the EPF to $322.2 million and to fund the Superfund Program at the proposed level. The SFY 2007-08 Enacted Budget also contains Article VII language enacting tighter restrictions on the use of the $15 million for grants and the non-bondable costs of the Superfund to ensure that only allowable expenses are covered.

Capital Projects

SFY 2007-08 Executive Budget

The Executive recommended a number of reductions in capital appropriations for the SFY 2007-08 Executive Budget. The reductions would eliminate the legislative additions, funded in the SFY 2006-07 Enacted Budget. The Executive further recommended a decrease of $5 million in capital funds at the Environmental Facilities Corporation (EFC), eliminating new appropriation authority for the Pipeline for Jobs Program. The Executive Budget recommended no new advance appropriation for the Hudson River Park Trust; however, it did recommend the continued annual appropriation of $5 million to the Trust through the EPF.

A capital appropriation of $26 million was recommended for Natural Resources Damage Fund projects to support the cleanup of habitats or natural resources damaged by another party. The DEC performs an assessment of the damage, and funds recovered from the responsible party are deposited in the Natural Resource Damages Account and used to remediate the site.

SFY 2007-08 Enacted Budget

The Legislature agreed with the Executive's recommended appropriations for capital projects.

[54] The $15 million is allocated for Technical Assistance Grants available to municipalities and community groups, and for Brownfield Opportunity Area programs that assist communities in returning brownfield areas to productive uses.

Staffing

SFY 2007-08 Executive Budget

The Executive proposed increasing environmental full-time equivalent positions (FTEs) to new target levels:

- 3,480 at DEC (increase of 109 positions),
- 2,240 at OPRHP (increase of 52 positions),
- 72 at APA (increase of 5 positions), and
- 92 at EFC (no increase).

Proposed new staff would allow greater improvement and protection of the State's natural resources, support park operations and historic preservation, and increase enforcement, planning and permit review.

The SFY 2007-08 Executive Budget also recommended the establishment of a Climate Change Office within DEC to implement the Regional Greenhouse Gas Initiative (RGGI). RGGI, created in 2003 with seven participating Northeastern states as members, has been working to develop a market-based cap-and-trade program designed to reduce carbon dioxide emissions from power plants.[55] Of the new positions recommended in the Executive Budget, 12 new positions would staff the Climate Change Office. The Office would be responsible for the identification of carbon reduction programs outside of the power plant sector, as well.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's recommended target levels for staffing, although the SFY 2006-07 workforce projections were restated in the SFY 2007-08 Enacted Budget Financial Plan.

Office of Parks, Recreation and Historic Preservation

SFY 2007-08 Executive Budget

The Executive Budget recommended the elimination of $2.4 million in funding for the Natural Heritage Trust.

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[55] The seven Northeastern states include Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont. Legislation was signed in April 2006 that requires Maryland to become a full participant in the process by June 30, 2007. In addition, the District of Columbia, Massachusetts, Pennsylvania, Rhode Island, the Eastern Canadian Provinces and New Brunswick are observers in the process. <http://www.rggi.org/states.htm>.

SFY 2007-08 Enacted Budget

The SFY 2007-08 Enacted Budget restored $1.7 million of the $2.4 million to the Natural Heritage Trust to fund the following projects:

- $350,000 for the Schuylerville Revolutionary War site,
- $283,075 for the Mohawk Valley Heritage Corridor Commission,
- $250,000 for the Hudson-Fulton-Champlain Quadricentennial Commission,
- $200,000 for Belmont State Park,
- $175,000 for New York City Parks in Queens County,
- $150,000 for the Preservation League of New York,
- $125,000 for the Independence Trail, and
- $125,000 for the French and Indian War Anniversary Commission.

Adirondack Park Agency

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget provided funding for five new positions at the APA to support enforcement, planning and permit review.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's recommendation to add additional staff and further added a General Fund appropriation of $50,000 to support the Adirondack Local Government Review Board.

Environmental Protection Fund
Executive Proposal SFY 2007-08 vs. Enacted Proposal SFY 2007-08

	Executive Proposal SFY 2007-08	Enacted Budget SFY 2007-08
Solid Waste	**$27,075,000**	**$27,350,000**
Landfill Closure	3,000,000	3,000,000
Municipal Waste/Recycling	10,000,000	9,825,000
Secondary Materials	8,750,000	8,750,000
Hudson River	2,025,000	1,300,000
Pollution Prevention Institute	2,000,000	2,000,000
Pesticides Program	1,300,000	2,025,000
Breast Cancer/Environmental Risks		450,000
Parks, Recreation & Hist. Pres.	**$82,225,000**	**$83,100,000**
Local Waterfront (1)	23,000,000	26,625,000
Municipal Parks	25,225,000	21,225,000
Hudson River Park	5,000,000	5,000,000
Stewardship Projects	21,500,000	22,250,000
Zoos, Botanical Gardens, Aquaria	7,500,000	8,000,000
Open Space	**$140,700,000**	**$139,550,000**
Land Acquisition	58,000,000	55,000,000
Hudson River Estuary	5,500,000	5,500,000
Biodiversity	1,500,000	1,500,000
Agriculture and Farmland Protection	28,000,000	28,000,000
Agriculture Non-point Source Abatement	12,833,000	12,833,000
Municipal Non-point Pollution	6,417,000	6,417,000
Soil & Water Conservation Districts	3,000,000	3,000,000
Finger Lakes/Ontario Watershed	2,000,000	2,300,000
Albany Pine Bush	1,450,000	2,000,000
Long Island Pine Barrens	1,100,000	1,100,000
Long Island South Shore	900,000	900,000
Smart Growth	2,000,000	2,000,000
Invasive Species	5,000,000	5,000,000
Oceans and Lakes	3,000,000	4,000,000
Water Quality Improvement	10,000,000	10,000,000
TOTAL	**$250,000,000**	**$250,000,000**

Source: S2105-D/A4305-D
(1) Includes $1.625 million for the Beacon Institute, $1 million for Rensselaer County waterfront development, and $1 million for Long Island water projects.

Section

17

Housing

The SFY 2007-08 Enacted Budget provides additional General Fund appropriations to support existing housing programs, fund new programs and provide increased subsidies for housing authorities. Unlike the previous four years, the SFY 2007-08 Executive Budget recommended no reductions in funding for the Neighborhood Preservation Program and the Rural Preservation Program. These programs allow non-profit organizations to provide financial assistance for the construction, renovation and rehabilitation of housing units, as well as offer services for first-time home buyers.

Housing Programs

SFY 2007-08 Executive Budget

Excluding capital projects, the SFY 2007-08 Executive Budget provided a net increase in appropriations of only 0.1 percent over SFY 2006-07. The net change resulted from an increase of $529,000 in State Operations and a decrease of $200,000 in Aid to Localities attributable to the elimination of the Lead Paint Poisoning Demonstration Program, a legislative addition in the SFY 2006-07 Budget.

SFY 2007-08 Enacted Budget

The Legislature increased General Fund appropriations by $11.7 million, including increased funding of $22,000 for each Neighborhood and Rural Preservation company. The additional $11.7 million appropriation also provides new and additional funding for the following programs:

- $4 million for Periodic Subsidies,
- $3.4 million for Neighborhood Preservation Companies,
- $1.5 million for Rural Preservation Companies, and

- $400,000 in funding for the Lead Paint Poisoning Demonstration Program ($200,000 in restoration funding and $200,000 in additional funding).

The SFY 2007-08 Enacted Budget also provides funding for four new programs:

- $1.2 million for a New York City Housing Authority Tenant Pilot Program,
- $400,000 for Rural Community Revitalization,
- $390,000 for the Homeowner Stabilization Loan Program for Long Island, and
- $388,000 for the Urban Homeowners Assistance Program.

Article VII Actions

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed an additional $4 million in tax credits be made available to support the Low-Income Housing Tax Credit Program. The Low-Income Housing Tax Credit program, first enacted in 2000, was increased by an additional $2 million in 2002, in 2004 and again in 2005 when the credit reached its aggregate limit of $8 million. In SFY 2006-07, the aggregate was increased to $12 million. The SFY 2007-08 Executive Budget proposed a new aggregate limit of $16 million. The Executive also proposed that an annual increase of $4 million be made permanent.

In 2000, the Emergency Tenant Protection Act (ETPA) was amended to allow the Division of Housing and Community Renewal (DHCR) to intercept per capita local assistance grants to New York City to cover the cost of administering the Rent Regulation Program. The SFY 2007-08 Executive Budget proposed the elimination of $328 million in per capita local assistance aid to New York City resulting in the potential inability by the State to recoup the cost of the program administration. Article VII language proposed by the Executive would require the DHCR to directly bill the City for the program costs; however, the language would further allow the State Comptroller to intercept any State aid payment to New York City in the event the City fails to make direct payments to DHCR for program costs. Without this legislation, the General Fund could face a shortfall in the event of non-payment by the City. The annual operational cost for the administration of the Rent Regulation Program by DHCR is approximately $37 million.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive’s proposal to increase the Low-Income Housing Tax Credit by $4 million, setting the aggregate amount at $16 million. The Enacted Budget, however, does not allow for an automatic annual increase.

The Legislature restored $20 million of $328 million in per capita local assistance payments to New York City, which the Comptroller is currently empowered to intercept in order to pay for the administration of the Rent Regulation Program. The Legislature rejected the Executive's Article VII language, however, which would have provided the Comptroller with the ability to intercept additional State aid payment to New York City should New York City fail to reimburse the State for the Program costs.

While the City has indicated its willingness to pay for the Program, the State would only have the ability to recoup $20 million of the estimated $37 million of the Program's cost should the City fail to make any payments. The Program would run a deficit if the City fails to make its payment.

The Legislature also enacted an increase on the aggregate contract limit that Neighborhood and Rural Preservation companies can enter into, increasing the aggregate lifetime cap by $97,500 to $2,017,500.

Capital

SFY 2007-08 Executive Budget

DHCR capital programs were reduced by $26 million in the Executive Budget, eliminating the increased funding added by the Legislature in SFY 2006-07 for the Main Street Program, the Rural Revitalization Program, Urban Initiatives and the Housing Assistance Fund.

SFY 2007-08 Enacted Budget

The Legislature accepted the Executive's proposed capital appropriations as presented.

Section

18

State Workforce

The State workforce includes all State agencies, as well as a number of State supported organizations, such as the State University of New York, the City University of New York, Roswell Park Cancer Institute and the State Insurance Fund. However, these workforce estimates do not include employees of the Legislature and the Judiciary, or employees of off budget public authorities.

SFY 2007-08 Executive Budget

The Division of the Budget (DOB) estimated that at the end of SFY 2006-07 (March 2007), State employees would total 194,600, growing to 197,068 by the end of SFY 2007-08. The State workforce would increase 2,468 positions, or 1.3 percent, with 2,805 new fills, offset by an estimated 305 attritions. In addition, 32 positions would be eliminated as a result of the Executive's proposal to allow the Temporary State Commission of Investigation to dissolve when its authority sunsets on September 1, 2007.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive proposal to sunset the Temporary State Commission of Investigation on September 1, 2007 and extended its authorization until September 1, 2008. The Legislature also provided an additional appropriation of $1.4 million for the Commission. As a result, the 32 full-time equivalent positions (FTEs) will not be eliminated.

The Legislature also rejected a proposal for the Department of Transportation (DOT) to take over maintenance of I-84 from the Thruway Authority. As a result, the DOT workforce growth will be 89 less than the Executive Budget estimated.

Article VII Proposals

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget included an Article VII provision that would have given the State the option of self-insuring the New York State Employee Health Insurance Plan (NYSHIP) by permitting the State to self-insure all or a portion of the services provided through NYSHIP.

Another Article VII proposal would have amended the Civil Service and State Finance laws as they relate to the use of dividend and interest income that is deposited in the Employee Health Insurance Fund. This proposal would have granted the Executive permanent authority to use this money to pay for health insurance costs without annual appropriation authority and would have made this authority retroactive to April 1, 2006.

SFY 2007-08 Enacted Budget

The Legislature rejected both of the Executive's Article VII proposals related to employee health insurance. However, the Legislature added a Fiduciary Fund appropriation of $224 million in the General State Charges program with the intent that this appropriation be used to cover the use of dividend and interest income and expenditures from the Employee Health Insurance Fund. An additional Fiduciary Fund appropriation of $775,000 was also added by the Legislature to cover dividend and interest income and expenditures from the New York State Dental Insurance Fund. Last year, the Legislature added one Fiduciary Fund appropriation for the Employee Health Insurance Fund and also made a permanent change to Civil Service Law that directed dividend and interest income to be deposited in that Fund.[56]

Workforce Estimates

Estimates regarding the size of the State workforce vary between the time that the Executive Budget is presented, three months prior to the start of a State Fiscal Year, and the closeout of that budget fifteen months later. As the following table shows, actual year to year growth in the two most recent State Fiscal Years was much larger than the original Executive Budget forecast.

[56] See Section 167 of the Civil Service Law, as amended by Part C, Section 1, Chapter 56 of the Laws of 2006.

State Fiscal Years	Executive Budget Estimate of Year to Year Growth	Actual Year to Year Growth	Difference
2004-05 to 2005-06	491	2,460	1,969
2005-06 to 2006-07	(421)	4,135	4,556

Source: Division of the Budget, Executive Budgets and Enacted Budgets.

The difference between the estimated and actual growth can largely be explained by significant adjustments to agency workforce figures made by DOB. In the SFY 2006-07 Executive Budget submission, for example, DOB made two such adjustments. The first was a reduction of 2,194 FTEs to account for the projected impact of the continuing hiring freeze. The second adjustment was a further reduction of 1,900 FTEs related to a shared administrative services initiative. Both of these adjustments, which totaled 4,094 FTEs, were applied as lump reductions, rather than to individual agency totals. If these adjustments had not been made, the Executive Budget FTEs total would have been very close to the actual year to year growth of 4,135.

The lump sum adjustments made to the FTE adjustments as part of the SFY 2007-08 Executive Budget proposal were not as large as those made in the two previous fiscal years. In January of this year, DOB estimated that FTEs at the end of the fiscal year would total 197,068. This net figure included a below the line lump sum reduction of 1,591. The SFY 2007-08 Enacted Budget Financial Plan contains a revised total FTE estimate of 198,413, net of a lump sum adjustment of 620.

Section

19

Criminal Justice

The Executive Budget proposed All Funds SFY 2007-08 appropriations for the Division of Criminal Justice Services (DCJS), Capital Defender's Office, Department of Correctional Services (DOCS), Division of State Police and Division of Parole of $4.10 billion. As a result of legislative actions, the Enacted All Funds appropriations for these five agencies total $4.14 billion, a $42 million increase (1.0 percent) from the Executive proposed appropriations.

The SFY 2007-08 Enacted Budget increases General Fund spending for criminal justice programs and services by rejecting several Executive proposals, some of which would have transferred support for numerous programs out of the General Fund and into certain special revenue accounts, and by increasing local assistance funding for various programs. Some of the General Fund increase is offset by the rejection of a proposal to establish photo monitoring in work zones.

The SFY 2007-08 Enacted Budget also includes several new General Fund appropriations for various programs and services, including the civil confinement of sex offenders, speed enforcement in work zones, upstate crime initiatives, multi-agency crime prevention and automated defibrillators for State Police vehicles on patrol.

The Sex Offender Management and Treatment Act (SOMTA), signed into law on March 14, 2007, enables the State to continue to monitor or detain certain sex offenders after their prison term has expired. Since the number of civil confinement cases in the current and upcoming fiscal year is lower than anticipated, some funding previously appropriated to the Office of Mental Health (OMH) will be transferred in SFY 2007-08 to various criminal justice agencies. In addition, the Legislature provided $25.9 million in new funding associated with civil confinement for criminal justice agencies under this Act as follows:

- Department of Correctional Service - $10.5 million,
- Division of Parole - $6.4 million,
- Office of Court Administration - $4 million,
- Department of Law - $4 million, and
- Division of Criminal Justice Services - $1 million.

New funding, in the amount of $6.4 million, was also provided to OMH for the implementation of SOMTA.

Under the new law, a sex offender who is nearing release from prison will be screened by professional staff from OMH or, when appropriate, the Office of Mental Retardation and Developmental Disabilities (OMRDD) to determine if the offender has a "mental abnormality," which may predispose the individual to commit a future sex crime. Upon determining such an abnormality, the OMH or OMRDD staff refer the case to the Attorney General who may file a Sex Offender Civil Management Petition against the offender.

If a case goes to trial and a jury unanimously determines that the offender does, in fact, suffer from a mental abnormality, the judge determines whether to order commitment to a treatment facility under the supervision of OMH or release to the Division of Parole (Parole) for strict and intensive supervision and treatment. Offenders committed to treatment facilities or mandated to undergo intensive supervision by Parole are subject to periodic reviews to determine whether the confinement or treatment remains appropriate.

The Act also establishes the Office of Sex Offender Management (Office) within DCJS and creates the new crime of Sexually Motivated Felony. The Office is responsible for developing and recommending policies, standards and best practices in the diagnosis, treatment and management of sex offenders.

In addition, the Act increases the current length of parole supervision that can be imposed upon sex offenders. The Act further provides that the State will reimburse localities for the cost of housing offenders in local jails during pending court proceedings.

The Legislature and Executive agreed to provide funding for equipment for the Statewide Wireless Network and a new crime data sharing initiative. They also agreed to a new method for the expenditure of certain criminal justice funds by local governments, an end to plea bargaining by State Troopers for vehicle and traffic tickets, and the use of existing DOCS facilities as transition centers for inmates' re-entry into the community.

Division of Criminal Justice Services

SFY 2007-08 Executive Budget

The Executive proposed a SFY 2007-08 All Funds budget of $233.2 million. This recommendation would result in a decrease of 10.4 percent from the SFY 2006-07 enacted All Funds budget of $260.4 million.

The SFY 2007-08 Executive Budget proposed to offset $21.8 million in General Fund spending by transferring appropriations for several programs into various Special Revenue-Other (SRO) Fund accounts, including:

- $15.5 million for Operation Impact into the Criminal Justice Improvement Account (CJIA), and
- $5 million for defense and prosecution services into the Legal Services Assistance Account.

The SFY 2007-08 Executive Budget also proposed to decrease General Fund spending by $8.2 million through a $3.6 million spending reduction for crime labs, the elimination of $2.6 million in local assistance funding for various programs and services, and the transfer of $2.0 million in local assistance spending to the Division of Probation and Correctional Alternatives ($1.6 million) and the Office of Children and Family Services ($420,000).

As in previous years, the Executive proposed to increase the criminal history search fee from $52 to $60. The $8 fee increase would be deposited into the Legal Services Assistance Account ($6) and the Judiciary Data Processing Offset Account ($2). Also similar to previous years, the Executive proposed to expand the use of funds deposited into the CJIA to support new and existing programs previously supported by General Fund resources.

New to this year, the SFY 2007-08 Executive Budget included a $5 million appropriation for a data crime sharing initiative. The initiative would facilitate and enhance crime data collection and intelligence gathering in the law enforcement community.

Finally, the SFY 2007-08 Executive Budget proposal included Article VII legislation that would specify a method for the expenditure of funds for prosecution and defense services and crimes against revenue by local governments.

SFY 2007-08 Enacted Budget

The Legislature rejected the Article VII proposal to expand the use of funds deposited into the CJIA and the Executive proposal to offload several General Fund programs onto various SRO Fund accounts. As a result of these actions, the Legislature restored approximately $17 million in General Fund spending of the proposed $21.8 million offset into SRO accounts, the majority of which is attributed to Operation IMPACT ($15.5 million). The remaining $1.5 million in restored General Fund spending is attributed to:

- Medicaid Fraud - $500,000,
- Finger Lakes Law Enforcement Initiatives - $300,000,
- CopsCare and Safety Means Abduction Registration and Training Program - $300,000,
- Manhattan District Attorney Crimes Against Revenue Program - $198,000, and
- Onondaga County Law Enforcement Technology Program - $184,000.

As in previous years, the Legislature rejected the proposed increase in the criminal history search fee from $52 to $60.

The Legislature accepted the Executive's Article VII legislation, which specifies a method for the expenditure of funds for prosecutorial and defense services and crimes against revenue. However, the Legislature reduced the total amount of funding available by $4.5 million, $1.5 million for prosecution services and $3 million defense services. The Legislature concurred with the Executive's appropriation of $6 million for the Crimes Against Revenue Account. The Legislature also concurred with the $5 million appropriation for the new data crime sharing initiative.

The SFY 2007-08 Enacted Budget also restores approximately $4.7 million of the $8.2 million in General Fund local assistance funding eliminated by the Executive for the following:

- $3.6 million for crime laboratories,
- $617,000 for the Education and Assistance Corporation,
- $250,000 for the Catholic Families of Rochester, and
- $200,000 for the Mercy College Bachelor of Science Degree Program in Corporate and Homeland Security, which includes a $100,000 increase over SFY 2006-07.

The SFY 2007-08 Enacted Budget includes an increase of $250,000 for Medicaid Fraud from SFY 2006-07 levels. In addition, the Legislature added new General Fund appropriations totaling $6.7 million for the following:

- $2 million for multi-agency crime prevention,
- $2 million for upstate crime initiatives,
- $1 million for the new Office of Sexual Offender Management,
- $548,000 for the Schenectady Model of Homeland,

- $454,000 for defense services in Wayne ($291,000), Schoharie ($86,000) and Seneca ($77,000) counties,
- $300,500 for the Southern Tier Regional Drug Task Force,
- $200,000 for the New York Association for New Americans,
- $100,000 for the Dutchess County Sheriff's Department, and
- $85,000 for New York Guard training and operational initiatives.

Capital Defender Office

SFY 2007-08 Executive Budget

The Executive proposed a SFY 2007-08 All Funds budget of $1.3 million, reflecting a decrease of 80.3 percent from the SFY 2006-07 Budget. New York's death penalty statute was declared unconstitutional in June 2004, eliminating much of the workload of the Capital Defender Office (CDO). According to the Executive, the recommended funding reflects the actual cost of current operations.

SFY 2007-08 Enacted Budget

The Legislature concurred with the Executive's budget recommendations. As a result, enacted SFY 2007-08 All Fund appropriations for the CDO total $1.3 million and will support ongoing operations at the Agency.

Department of Correctional Services

SFY 2007-08 Executive Budget

The Executive proposed a SFY 2007-08 All Funds budget of $2.92 billion. This is a decrease of 2.3 percent from the SFY 2006-07 enacted All Funds budget of $2.99 billion.

The SFY 2007-08 Executive Budget proposed to reduce General Fund spending by a net 4.4 percent from the previous year. A major portion of the proposed decrease in General Fund spending is attributed to a $211.1 million non-recurring retroactive payment in SFY 2006-07 to members of the New York State Correctional Officers and Police Benevolent Association (NYSCOPBA). The proposed decreases in spending would be offset by several proposed increases in funding, including $16 million for inmate services previously funded by the SRO Family Benefit Fund Account. On January 8, 2007, the State voluntarily reduced phone rates previously charged to recipients of inmate collect calls, thereby eliminating the source of funding for the Family Benefit Fund Account.

The Executive proposed Article VII legislation to establish a Temporary Commission on Prison Capacity to evaluate existing prison capacity and recommend facility closures.

However, unlike the Prison Capacity Commission proposal, no accompanying Article VII legislation for the Executive's proposal to establish a Sentencing Reform Commission was included. Article VII language did authorize funding to use existing DOCS facilities as transitional centers for re-entry of inmates into the community, but a fiscal impact was not identified.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to create a Temporary Commission on Prison Capacity. No legislative action was required on the Executive proposal to establish a Sentencing Reform Commission (Commission), which was established on March 5, 2007 by Executive Order Number 10. The Commission, which is comprised of 11 members appointed by the Governor, is charged with evaluating the current sentencing structure in New York and making recommendations for amendments to State law, which will ensure a uniform, consistent and adequate sentencing structure. The Commission will issue a preliminary report of its findings on or before September 1, 2007 and a final report on or before March 1, 2008.

The Legislature concurred with the Executive's proposed $211.1 million appropriation for NYSCOPBA and provided an additional $16 million for inmate services previously funded by the Family Benefit Fund. The Legislature also accepted the Executive's proposal to use existing DOCS facilities as transitional centers for the re-entry of inmates into the community.

The Legislature added a total of $10.5 million in General Fund spending related to the civil confinement of sex offenders. The Legislature provided an additional $7.5 million in Program Services for the treatment of sex offenders and an additional $3 million in the Supervision of Inmates program for transportation and time allowance staff related to sex offenders.

Division of State Police

SFY 2007-08 Executive Budget

The Executive proposed a SFY 2007-08 All Funds budget of $737.5 million. This is an increase of 9.6 percent from the SFY 2006-07 enacted All Funds budget of $673.2 million.

As in previous years, the Executive proposed Article VII legislation, which would have established photo monitoring in work zones. The Article VII proposal included a provision to establish a new SRO account into which revenue from the fine imposed on individuals for speeding in work zones would be deposited.

Additional proposed spending increases included $10 million for the Division of State Police to purchase radio equipment related to the implementation of the Statewide Wireless Network (SWN). Finally, the SFY 2007-08 Executive Budget proposed to eliminate plea bargaining for vehicle and traffic tickets by State Troopers to achieve $5 million in General Fund savings.

SFY 2007-08 Enacted Budget

The Legislature rejected the Article VII proposal to establish a photo monitoring program in work zones, reducing General Fund appropriations by an estimated $10.2 million in SFY 2007-08. However, the General Fund decrease is partially offset by a new appropriation to support increased efforts to monitor speeding in work zones which do not include cameras. The new appropriation provides a total of $4.4 million in funding: $2.4 million for additional work zone compliance measures and $2 million for new State Troopers.

The Legislature accepted the Executive's proposal to eliminate plea bargaining by State Troopers for traffic and vehicle tickets, with an associated savings of $5 million. The Legislature also accepted the $10 million in new funding for radio equipment related to the SWN.

Finally, the Legislature increased General Fund spending by $1.7 million to purchase automated defibrillators and provide training for their use in State Police vehicles.

Division of Parole

SFY 2007-08 Executive Budget

The Executive proposed a SFY 2007-08 All Funds budget of $209.6 million. This is a decrease of 1.9 percent from the SFY 2006-07 budget of $213.7 million.

The SFY 2007-08 Executive Budget included an Article VII proposal to transfer certain parole violators awaiting a hearing from local jails to State facilities. The proposal would have reduced the amount of time parole violators spend in local jails, therefore reducing the State's reimbursement to localities for housing parole violators. Expected savings of $12 million was included in the fiscal plan.

SFY 2007-08 Enacted Budget

The Legislature rejected the Executive's proposal to transfer certain parole violators awaiting a hearing to State facilities. As a result, the Legislature increased General Fund spending by $10 million to reimburse localities for the cost of housing parole violators in county jails. This amount reflects the Legislature's estimate of the full cost of housing parole violators in local jails. However, the Legislature did concur with one component of the Executive's original proposal and eliminated the period of at least six months re-incarceration for persons found to have violated a condition of post-release supervision.

The SFY 2007-08 Enacted Budget adds a total of $6.4 million in General Fund spending in the Parole Operations program related to the civil confinement and supervision of sex offenders as follows: $5.1 million for global positioning devices, polygraphs, treatment and institutional parole officers, and $1.3 million for transitional housing for sex offenders.

Section

20

The Statewide Wireless Network and the Enhanced Wireless 911

The Statewide Wireless Network (SWN) will replace the obsolete communications infrastructure for New York by implementing a radio network for State public safety and public service agencies that works statewide. SWN will provide interagency and intergovernmental communications—or interoperability—and will allow emergency personnel to communicate with one another. Local governments may opt into the system, but will need to purchase and finance their own equipment. The Office for Technology (OFT) awarded a $2.0 billion contract in September 2005 to M/A-COM to design and build the SWN.

In addition to the not-to-exceed $2.0 billion contract price, the price tag that local governments will pay in equipment costs to access the SWN at their option is estimated at $200 million. Financing costs for the equipment acquisition by local governments is estimated at $330 million.[57] Local governments are also responsible for the costs of enhanced functionality, such as in-building or in-tunnel coverage or paging services, they may require.

The following are associated SWN costs to the State that are not included in the $2 billion M/A-COM contract price:

- $260 million in estimated costs for radio equipment for State agencies and financing ($100 million for equipment acquisition and $160 million for financing),

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[57] Office of the State Comptroller. "Additional Costs." *Statewide Wireless Network*. December 21, 2006: 42-44.

- $40 million for System Operations Centers (SOCs),[58]

- $1 million in land acquisition for tower sites,

- Enhanced functionality as required by the particular State agency, and

- Computer aided dispatch required beyond that included in the cost of the SOCs.[59]

Thus far, SWN has been funded with a portion of the enhanced wireless 911 emergency services (E911) surcharge monies deposited into the Public Safety Communications Account. OFT, however, acknowledges that both it and the Division of the Budget (DOB) are aware that the E911 surcharge revenue may not cover all of the annual SWN lease payments. OFT and DOB are continuing to discuss how the shortfall will be paid.[60]

Furthermore, full E911 coverage is not yet available throughout the State, as indicated by both a December 2006 audit by the Office of the State Comptroller and recent, highly publicized emergencies along the Northway, which resulted in two deaths. The audit found that as of April 2006, 15 of the 58 counties did not have Phase II capability, which allows emergency responders to locate cell phone callers even if they are unable to speak.[61]

The Northway incidents led to a recent consensus among the environmental community, local and State government, regulators and cellphone service providers to erect 11 towers to provide E911 coverage along a remote 50-mile stretch of the highway. While leases will need to be negotiated with private landowners for the towers, the agreement also allows for tower co-location by SWN.

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[58] According to the Division of the Budget, the original $60 million estimate for the System Operations Centers (SOCs) has been revised downward as more collaborative agreements have been entered into, effectively reducing rental costs for facilities.

[59] Office of the State Comptroller. "Additional Costs." *Statewide Wireless Network*. December 21, 2006: 42-44. Although the extremely broad definition of enhancements renders it too difficult to produce a cost estimate for enhanced functionality, the unit cost to purchase a computer aided dispatch is $1,565,146.

[60] Office of the State Comptroller. "Additional Costs." *Statewide Wireless Network*. December 21, 2006: 42-44; Receipts for the surcharge totaled $131.9 million for SFY 2003-04, $137.8 million for 2004-05 and $152.1 million for 2005-06.

[61] Office of the State Comptroller. *Oversight of the Enhanced Wireless 911 Program*. Report 2005-S-68. December 21, 2006. New York City, which has been Phase II compliant since 2004, is treated as one county in this audit.

SFY 2007-08 Executive Budget

The SFY 2007-08 Executive Budget proposed the establishment of the Statewide Technology Program to include both SWN, previously maintained as Special Revenue-Other, and the new Universal Broadband Access Initiative within OFT. Additionally, the Executive proposed to merge 47 full-time equivalent positions (FTEs) associated with SWN with OFT's existing staff of 679 FTEs and continue funding SWN with the portion of the E911 surcharge deposited in the Public Safety Communications Account.

From the E911 surcharge revenues deposited in the Public Safety Communications Account, the SFY 2007-08 Executive Budget appropriated:

- $50 million to establish the Universal Broadband Access Initiative. Article VII language proposed a new Universal Broadband Access Account within OFT.[62]

- $31.6 million for SWN, representing a $6.1 million increase (nearly 24 percent) from the SFY 2006-07 $25.5 million appropriation.

- $10 million to the State Police for SWN-related equipment for Troop A in Erie County.

- $10 million for the Local Wireless Public Service Answering Points (PSAPs), which is the same level of funding as in the SFY 2006-07 Enacted Budget.

In addition, localities would have the option to use federal funds from a $350 million Homeland Security appropriation designated for emergency preparedness to purchase equipment to access the SWN.

SFY 2007-08 Enacted Budget

The Legislature approved all appropriations recommended for SWN as the Statewide Technology Program. The Legislature also approved Article VII language that would require the State and localities to report SWN-related equipment expenses to the State Comptroller for inclusion in a new annual report. Agreement was also reached to increase the Homeland Security appropriation for localities by $10 million, to $360 million.

The Legislature, however, rejected one proposed appropriation of E911 surcharge revenues: $50 million for the Universal Broadband Access Initiative. Agreement was reached instead to appropriate $5 million in General Fund monies for Universal Broadband Access through all State departments and agencies.

[62] The goal of the Universal Broadband Access Initiative is to facilitate expanding statewide access to affordable broadband Internet service.

Section

21

Help America Vote Act (HAVA)

Enacted by the United States Congress in 2002, the Help America Vote Act (HAVA) requires that all states accepting HAVA monies establish a statewide voter registration database, provide at least one voting machine accessible to persons with disabilities in each polling place and replace all lever or punch card voting machines with either direct recording electronic voting machines (DREs) or optical scan voting machines.[63]

HAVA Implementation

By accepting federal HAVA funds, New York agreed to replace all lever voting machines in the State by July 2006; however, implementing legislation was not enacted until June 2005. New York was, in fact, the last state in the country to enact implementing legislation and is the last to actually procure new voting machines. In addition, New York did not meet the January 1, 2006 deadline for establishing a statewide voter registration database (SVRD).

On December 7, 2005, the Office of the State Comptroller sent a letter to the Division of the Budget (DOB), the Board of Elections and the Office of General Services (OGS) expressing concern that the State take full advantage of funding for HAVA, as well as protect its citizens' votes. The Comptroller's Office stated its intention to work cooperatively with all parties to execute the necessary contracts in a timely manner in conformance with HAVA.

Concern over New York's delay was heightened in early January 2006 by an announcement from the United States Department of Justice (DOJ) of its intentions to pursue a lawsuit to force compliance with HAVA in New York State. On January 7, 2006, the Office of the State Comptroller sent a follow-up letter, again offering to

[63] See Public Law 107-252, October 29, 2002, 107th Congress. Help America Vote Act.

assist both the Board of Elections and OGS in conducting fair procurements that would result in the establishment of an SVRD and provide local governments cost effective options for complying with HAVA. Subsequently, the Department of Justice did sue New York State, but on April 28, 2006 accepted the Board's plan to achieve full compliance with HAVA requirements for the database by the spring of 2007 and for voting machines by the 2007 elections.

Since that time, limited progress has been made on either establishing the voter registration database or procuring new voting machines, and it is unclear how this will impact the Board's ability to meet the deadlines to achieve compliance. The creation of the database will involve four vendors of commercial election management systems which are used by the 62 counties in New York State. The vendors need to make modifications to their software product and develop an interface for counties to use with the new database, which will be modeled on the database used by Washington State. While the Board's plan calls for the system to be completed by the spring of 2007, to date, Board commissioners have approved a contract with only one of the four vendors.

Complications related to appropriately testing voting machines developed when the United States Election Assistance Commission (EAC) raised concerns regarding the ability of Ciber, Inc. to test machines for security. New York suspended work on its contract with Ciber in January of this year and is now issuing a request for proposals (RFP) to select a new vendor. Until the independent testing of new voting machines is completed in New York, neither the State certification process nor the procurement related to the voting machines may proceed.

The date by which the Board of Elections will certify new voting machines is not known, but it is only at that point the procurements related to the voting machines may proceed. According to the Board, it is unlikely that new voting machines will be in place by New York's presidential primary, which has been moved a month earlier to February 2008. The new machines could be installed by the November 2008 general election or possibly by the September 2008 primary elections for Congress and the State Legislature.[64]

Due to New York's delay in purchasing new voting machines and implementing other components of HAVA, the federal government may require New York to return approximately $50 million of the $190 million in federal funds targeted for the purchase of new machines. It is not likely that the interest New York has accumulated on the unspent federal funds will be jeopardized, since HAVA requires the interest be put back into the program. As of January 31, 2007, nearly $18.4 million in interest had accumulated on the unspent federal funds.
SFY 2007-08 Executive Budget

[64] Hicks, Jonathan P. "Electronic Voting May Be Ready By Fall '08, Official Says." *New York Times.* May 8, 2007.

The SFY 2007-08 Executive Budget included a $15 million appropriation, monies resulting from interest generated on the federal HAVA funds, to improve poll site accessibility. The Executive also appropriated $8 million for a required State match, $5.6 million related to the independent testing of the new voting machines and $3.5 million to improve poll site accessibility.[65] Reappropriations of $232 million in federal funds related to the implementation of HAVA, poll worker training, and the purchase of new voting machines and voting systems were also recommended.

SFY 2007-08 Enacted Budget

The Legislature approved all HAVA-related appropriations recommended by the Executive.

[65] The $8 million appropriation addresses a miscalculation in the amount needed in a State matching account that was made in the 2005-06 Enacted Budget.

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