



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 11, 2003

Dear Fellow New Yorkers:

As State Comptroller, it is my goal to provide information about the proposed budget that will aid legislators and citizens in debating how best to deal with the challenge we face. This report provides information and analysis about the Executive Budget and the consequences of some of its proposals.

New York State faces unprecedented budget problems. Following years of budget surplus, the Executive Budget presented at this time a year ago included actions to address a gap of \$5.1 billion for State fiscal year 2002-03. Subsequently, the State dealt with a gap of another \$1.4 billion. The Budget presented by the Governor on January 29, 2003 is intended to address an additional \$2.2 billion gap in 2002-03. That means the total cumulative gap that had to be closed in the current year is \$8.7 billion. The Budget projects a gap of \$9.3 billion for 2003-04. That means the State is faced with a total of \$18 billion in gaps in two years. A portion of the gap already was addressed; what remains is the newly identified 14-month gap of \$11.5 billion.

The attack on the World Trade Center and the murder of almost 3,000 people severely hurt the State and its economy. The impact of the attack, the national economic downturn and the State's long-term structural budget gap are the major causes of the State's current budget problems. However, it has been 17 months since 9/11 and even longer since the start of the economic downturn. The State has been slow to come to grips with the effect of these problems, which has made them much worse. Clearly, we cannot afford any more delay in confronting these huge gaps.

The Executive Budget continues to use non-recurring resources -- one-shots -- to deal with a continuing problem. It proposes \$5.2 billion in non-recurring actions to help close the current 14-month \$11.5 billion gap. Combined with the more than \$4 billion in one-shots already budgeted in state fiscal year 2002-03, that would mean that over two years the State would use \$9.3 billion in one-shots to help close \$18 billion in gaps. The problem with using one-time resources to pay for on going costs is that the costs continue and the solution to the problem is only delayed. Had we used fewer one shots in 2002-03, we would have a smaller problem in 2003-04.

The biggest single proposed one-shot is borrowing \$4.2 billion from the sale of the next 12 years of revenue from the Tobacco Settlement. It is contrary to accepted budgeting principles to use a one-time borrowing to pay for operating expenses. It was

misuse of this practice in the 1970s that almost drove New York City to bankruptcy. In addition, this borrowing pushes the cost of our problems today onto our children tomorrow. It will cost about \$6.3 billion over 12 years to repay the \$4.2 billion.

There are also risks in the Executive budget submission, that is, proposals over which the Governor has no control and which may not turn out as projected in the Executive Budget. For example, because of the continuing decline in the stock market, the State may have to contribute much more to the pension fund than is currently projected in the budget. Based on the level of the financial markets as of January 31, 2003, the State would owe almost \$700 million more than budgeted. If President Bush's proposal to cut taxes on dividends is passed, State tax revenues will be much lower than projected. Over the first year, the President's proposal would cost the State \$550 million. And while there is an apparent agreement to provide the State with about \$330 million in additional federal aid, Congress must still approve that expenditure and the Executive Budget includes other federal actions that may not materialize.

While the Governor appropriately seeks to avoid tax increases that will drive away businesses and jobs, some of his proposals could have the same result. The net increased cost to local government will put additional pressure on them to raise local taxes. While the New York state tax burden has declined to competitive levels relative to other states, the combined state and local tax burden is among the highest in the nation. To close budget gaps in their current fiscal years, 53 Counties and the City of New York have already proposed tax increases, and of these, 23 Counties and the City of New York have proposed double-digit property tax increases.

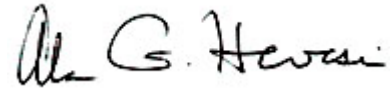
It is also essential to consider the long-term effects of actions we take to solve today's problems. An educated workforce is our most important investment in the future. More than most places in the U.S., it is New York's highly skilled workforce that is essential to our ability to compete. Therefore, we must do everything we can do ensure that our children receive the education – primary, secondary and college – that they need to compete. Certainly, we should do nothing that discourages New Yorkers from completing as much education as possible and continuing to learn throughout their careers.

Clearly, some spending cuts are necessary to address a projected \$11.5 billion gap. The challenge is to make the wisest cuts that will do the least harm not only today, but also into the future.

While I do not agree with all of the proposals in the Executive Budget, it does take some positive steps. Efforts to maximize federal funding, and continuation of tax cuts on earned income to help the working poor make sense. Investments in the development of housing for the mentally ill and programs for individuals with disabilities to keep them out of more costly institutional settings represent both good human policy and good fiscal policy. I also agree with the Governor's efforts to find administrative efficiencies in State operations and, as Comptroller, I will work with him to make our government programs more efficient and effective.

Exceptional times will require exceptional responses. Cutting spending, borrowing and finding new revenues may all be undesirable, but they will all be necessary. The key is to ensure that the approach is balanced and considers long-term consequences. As the Legislature and the Executive work to find the best balance, my Office is ready to assist in any way we can.

Sincerely,

A handwritten signature in black ink that reads "Alan G. Hevesi". The signature is written in a cursive, slightly slanted style.

Alan G. Hevesi

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Executive Summary

The 2003-04 Executive Budget proposes All Governmental Funds spending of \$90.8 billion, down one-tenth of one percent from 2002-03 estimates. State Funds spending is virtually unchanged from the 2002-03 estimate, and totals \$58.9 billion. General Fund spending is projected to decline by 2.9 percent or \$1.1 billion to \$38.6 billion.

The Executive Budget proposes to close a 14-month estimated \$11.5 billion budget gap through a combination of revenue, budgetary and savings actions influencing the remainder of 2002-03 and the 2003-04 financial plan.

Revisions to the 2002-03 Budget

The Executive Budget includes proposals to close an estimated gap of \$2.2 billion for the 2002-03 fiscal year. Lagging personal income taxes (\$1.9 billion) and business tax collections (\$320 million) account for the majority of the revenue shortfall in the current fiscal year. Additional net spending totaling \$100 million is attributable to Medicaid, Early Intervention programs, Tuition Assistance Program, and costs associated with the World Trade Center disaster. These higher costs are largely offset by lower than expected fringe benefit and other smaller program costs.

Administrative savings of \$700 million are made up of a 5 percent decrease in State agency spending, early retirement savings, and debt management actions including refinancing and federal aid maximization efforts. Although it is difficult to determine precisely, most of the debt refinancing savings occur in the first year (including freed-up reserves) and will not recur.

Additionally, the Governor proposes selling revenue from the State's Tobacco Settlement proceeds (securitization), netting \$1.9 billion for the first installment, and utilizing \$1.5 billion in the current year. The nearly \$400 million remaining will be set aside as an unrestricted reserve for use in 2003-04.

2003-04 Proposed Budget

The Executive Budget addresses a projected \$9.3 billion gap for 2003-04. Non-recurring actions already incorporated in the 2003-2003 enacted budget were over \$4 billion. The Executive Budget 2002-03 gap closing actions will increase the 2002-03 non-recurring resource actions to \$6 billion. The extensive use of one-shots has contributed significantly to the 2003-04 budget deficit.

To close the projected 2003-04 gap, the Executive Budget calls for \$5.6 billion in spending reductions, \$2.3 billion from Tobacco Settlement securitization proceeds, and \$1.4 billion in additional revenues.

Of the \$5.6 billion in spending reductions, cuts in Education account for 22.4 percent and Medicaid cuts represent 18.0 percent. Approximately \$2 billion of the total spending reductions are related to revenue maximization, offsets, debt savings, and other payment actions that do not appear to have a negative impact on service delivery, and many are non-recurring benefits.

A number of risks could affect the 2003-04 financial plan including increased required pension fund contributions, proposed tax changes at the federal level, and reliance on several proposals that have been rejected by the Legislature in the past.

Projected Out Year Gaps

The Executive Budget includes actions the Division of the Budget estimates will reduce projected baseline out year budget gaps of \$10.2 billion in SFY04-05 and \$11.1 billion in SFY05-06.

The annualized value of all spending reductions is approximately \$5.6 billion. The revenue actions decline marginally to approximately \$1.2 billion over the two years. The Tobacco Settlement securitization generates an estimated \$400 million in SFY04-05 and nothing thereafter.

If these actions are implemented, the Executive Budget projects out year gaps of \$2.9 billion in 2004-05 and \$4.2 billion in 2005-06.

Several financial risks could affect the out-year outlook, including the proposed Federal tax cut which could decrease revenue at the State level, reliance on other federal actions and increasing pension fund contribution requirements.

Potential Secondary Effects of Budget Actions

Some of the spending and revenue actions proposed in the Executive Budget may have consequences for future economic growth or may drive additional costs elsewhere in this and future budgets.

- The proposed Budget could have the effect of increasing the local tax burden which, when combined with State tax burden, contributes to New Yorkers' status as the highest taxed residents of any state in the nation.
- Actions taken in this budget, affecting students from Pre-K through college, could impact the skills of our future workforce, making New York a less attractive business location.
- Cutbacks to early learning programs including Pre-K and full day Kindergarten may impact the ability of parents of young children to work full time, and may hinder the achievement of New York students.

- Rollbacks in eligibility for public programs and higher private health insurance premiums driven by increased assessments on insurers may increase the number of uninsured New Yorkers, impacting the health and productivity of our workforce, as well as health care costs.
- The proposal to reinstate the sales tax on clothing and shoes, except for designated tax-free weeks, should be examined for its impact on the retail industry in the State, as well as the potential loss of business to surrounding states that do not apply sales tax to clothing.

Education

The Executive Budget cuts baseline education funding by \$1.27 billion on a school-year basis. State fiscal year school aid is \$13.4 billion, a decrease of \$559 million (4.5 percent) from 2002-03. While school districts are protected from overall General Fund aid reductions of more than 5 percent of their total operating budget, the percentage decrease in State support for school district budgets declines by a greater percentage when aid categories including Building, Reorganization Incentive Building, Growth and Full-Day Kindergarten are factored in. The Executive is again recommending a cap on school budget increases, in an effort to mitigate the likely impact on local property taxes. This proposal has been rejected by the Legislature in the past.

The Executive again proposes merging operating aids into “Flex-aid” that would provide a total of \$9.76 billion, representing a decrease of nearly \$407 million (4 percent) for nine aid categories in school year 2003-04.

Proposed funding for several discretionary programs has been eliminated, including Universal Pre-Kindergarten, Class-size Reduction, Full-day Kindergarten and Minor Maintenance. Proposed funding for teacher support aid has been cut. The total funding eliminated for these five programs is \$447.83 million for the 2003-04 school year.

The Executive Budget also proposes decreases in funding to programs aimed at recruiting, retaining and training teachers, recommends cost-saving measures for BOCES and makes substantial changes to the State’s Special Education Programs for a \$70 million reduction in State support for such programs in the 03-04 school year.

School Tax Property Relief (STAR)

The Executive Budget proposes a one-year cap on STAR benefits for non-senior homeowners, saving the State \$93 million. Overall spending for school tax property relief (STAR) benefits will increase \$40 million from 2002-03, to \$2.71 billion for 2003-04. A Cost of Living Adjustment applied to income eligibility for Seniors and increased program participation account for the majority of the increased spending.

Higher Education

Major reductions in support are slated for both SUNY and CUNY, resulting in a potential \$1,200 increase in undergraduate tuition. An increase of this size would bring SUNY's yearly tuition rate from \$3,400 to \$4,600, and CUNY's tuition rate from \$3,200 to \$4,400. SUNY/CUNY Community colleges face a base aid reduction of 15 percent (\$345 per student), which will likely result in substantial tuition increases and further strain local funding resources. Private colleges and universities will see a reduction in Bundy Aid, and significant cuts are proposed for a number of scholarship and opportunity programs. In addition, the Governor has once again proposed a restructuring of the TAP program, in such a way as to allow the State to "withhold" 1/3 of a student's award until after graduation.

Local Governments

General Purpose Local Government Aid remains at the 02-03 funding levels, but counties will lose \$22 million due to the expiration of an aid program created to partially offset county Family Health Plus costs. There is no call for renewal of this program in the Executive Budget.

The Division of the Budget estimates that net effect of the Executive Budget on local governments is a \$149 million loss of funding. The Executive has proposed several budget actions, that considered together, provide \$658 million in benefits for Counties, New York City and other local governments. However, the benefits of these actions are more than offset by the negative impact on local school districts of the reduction in school aid and other proposed changes, which together cost school districts and the City of New York \$807 million.

There is concern that some of the proposals advanced in the Executive Budget may aggravate the already strained fiscal condition of local governments. To meet current year budget projections, 53 Counties and New York City have already proposed local tax increases – 23 Counties and the City of New York have already proposed double-digit property tax increases.

Health Care

The Executive Budget reduces Medicaid spending supported by the General Fund by 8.1 percent to \$5.46 billion. The Budget includes new cost containment proposals totaling \$1.23 billion that offset underlying spending growth of 7.5 percent, much of it fueled by medical inflation and increased utilization, particularly for prescription drugs.

The Budget decreases eligibility for participation in Family Health Plus. In addition, 243,000 children would be shifted from Medicaid to Child Health Plus, producing savings for the State as a result of CHIP premiums that are lower than those for Medicaid. Proposed State Medicaid cuts include reduced payments to providers and pharmacies, as well as an assessment on the gross receipts of hospitals and home health

care providers. The Executive Budget recommends more than \$500 million in cuts to hospitals, nursing homes, pharmacies and home care agencies that would have a total industry impact, after including the Federal and local shares of Medicaid, of more than \$1.3 billion.

For local governments, the Executive Budget recommends a swap in some Medicaid costs with the State picking up local governments' drug costs in exchange for local governments increasing (from 25 to 37 percent) the portion they pay to hospitals and clinics. Although some local governments, including New York City are expected to lose money under this proposal, overall and over the long term Division of the Budget projects a net benefit for local governments. Local government officials have expressed concern, however, that this analysis does not accurately reflect increasing costs for county-operated hospitals and clinics.

The Executive recommends reauthorizing HCRA for two years and dedicating \$8.7 billion in revenues for health care programs over that time, most of these revenues are collected off-budget and are not included in the State's financial plan. A number of additional revenue sources, including increased assessments on providers of health care services and more revenues from insurance company conversions, are proposed to support program costs and to replace \$847 million that would be lost in the next few years if the State were to securitize Tobacco Settlement revenues. The Executive Budget recommends level funding for many current HCRA programs, proposes more than \$800 million in increased funding for some new and existing programs, and recommends \$150 million in cuts to existing HCRA programs.

Although it receives no support from the State General Fund, the Elderly Pharmaceutical Insurance Program (EPIC) is cut by \$38 million through: a reduction in the pharmacy reimbursement rate from 90% to 85% of average wholesale price; a 10% increase in program fees and deductible, and enhanced rebates from drug manufacturers.

The Executive Budget recommends changes in a number of public health care programs, most notably Early Intervention and General Public Health Works. The Executive Budget recommends requiring health insurers to cover the first \$5,000 in Early Intervention costs and requiring parents to pay for a share of the balance based on a sliding scale reflecting their ability to contribute. The State's reimbursement to counties and New York City for costs of providing basic health services such as family health, disease control, health education, community health assessment, and environmental health will decline from 36 percent to 30 percent of the amount exceeding their base grant.

Mental Hygiene

The proposed budget closes five State psychiatric facilities and recommends reinvesting savings into community-based services, but not until 2004-05. The Budget advances an initiative to develop 2,000 new community-based mental health beds. A \$65 million capital appropriation in 2003-04 will support the first 1,000 beds.

The Budget also recommends development of 1,900 beds and related day and family support services for persons with developmental disabilities (NYS-CARES II) that will be funded largely with non-General Fund resources.

Social Services

The Executive Budget estimates and uses the full expected value of the TANF surplus of \$1.82 billion in 2003-04, offsetting General Fund costs of Child Welfare Programs, the Tuition Assistance Program, the Child Care Block Grant and the Earned Income Tax Credit, among others. The Budget projects a 3 percent increase in public assistance caseloads in 2003-04.

The Executive Budget recommends a proposed \$60 million reduction in reimbursement to local governments for public assistance administration costs to reflect the decrease in caseloads since 1995.

The proposed 2003-04 Executive Budget increases total funding for the Child Care Block Grant by \$17 million, to \$929 million, continuing funding for a total of 183,400 child care subsidized slots. The Budget also continues scheduled rate increases for 2003-04 for childcare providers.

Reducing State SSI payments by the average annual federal inflationary adjustment of \$164 per recipient, as the Executive Budget proposes will reduce State costs by \$25.7 million for 2003-04 and \$103 million annually in future years.

Environment

The Executive Budget incorporates the Governor's previous proposal to provide \$138 million for the Superfund, and weaken environmental cleanup standards. The proposal, rejected in the past by the Legislature would fund three cleanup programs - Superfund, Voluntary Cleanup and Oil Spill. Funding would be split equally between the State (General Fund) and industry (special revenues), with each contributing approximately \$69 million. Of the \$69 in special revenues, \$19.4 million is from new fees proposed in the Executive Budget.

Last year, the State transferred \$325 million from the Environmental Protection Fund (EPF) to the State's General Fund for budget relief. This year's Executive Budget recommends \$125 million in funding for the EPF and calls for an expansion of its authority in order to fund programs previously ineligible to receive EPF proceeds, including staffing costs, DEC environmental infrastructure projects, and interstate water commissions.

Transportation

Under the Executive Budget, local highway and bridge construction projects face \$100 million less in funding this year as the capital funding level drops 6 percent to \$1.65 billion. The reduced funding level will delay the letting of some construction projects. This is compounded with static Marchiselli and CHIPS aid – programs that fund local construction projects - that remains at the same level for the third consecutive year.

Additionally, transit funding for the MTA and other transit systems remains flat this year as does Highway and Bridge preventative maintenance funding. Facing a \$1 billion deficit over the next two years, the MTA is considering a reduction in services, increased fares, increased government subsidies, or a combination of these options.

State Workforce

Workforce reduction as proposed in the budget would be achieved through the continued use of a hiring freeze, early retirement incentives, targeted transfers, increased administrative efficiencies, a reduction of program duplication, and layoffs if needed. A reduction of approximately 5,000 state employees in 2003-04 would be necessary to meet the Executive Budget's targeted goal of 186,000 state employees by March 2004. The Executive Budget proposes \$70 million in actions to control costs of employee health programs including pharmacy restrictions, higher co-payments and increased premium payments by State employees.

A number of State employees also would be impacted by agency mergers and consolidations included in the proposed budget, as well as potential privatization of assets the State will pursue.

Debt and Capital Plan

New York's outstanding debt is higher than every other state in the nation. The Capital Plan submitted with the Executive Budget projects \$42.6 billion of outstanding State-supported debt by 2007-08 from the projected level of \$39.4 billion at the end of 02-03. The proposed five-year Capital Plan submitted with the 2003-04 Executive Budget estimates outstanding State-supported debt per capita at \$2,063 in 2002-03. New York has the fifth highest debt per-capita in the country, behind Massachusetts, Connecticut, Hawaii, and New Jersey. New York ranks fourth in the country for debt as a percentage of personal income, behind Hawaii, Massachusetts and Connecticut.

The Executive Budget continues the practice of refinancing debt to achieve savings through lower interest rates and freed-up reserve funds. The bulk of these savings are non-recurring. Further budget relief is proposed by changing \$176 million in pay-as-you-go capital spending to debt-supported spending.

The State is expecting to generate \$4.2 billion in bond proceeds resulting from the sale of some of the Tobacco Settlement revenues. Over the next 12 years the projected

Tobacco Settlement revenues would total \$6.3 billion. Over the next 20 years, the revenues are forecast to total \$10.3 billion. The Executive has effectively reduced the cost of securitization, compared to other securitization transactions, by reducing the anticipated payoff date to 12 years and providing an enhanced credit. However, tobacco securitization will remain more expensive than other forms of borrowing. Compared with General Obligation bonds, securitization would cost an additional \$1.1 billion. Some of the additional costs are a function of the increased risks inherent in the tobacco revenue stream along with typically higher fees paid for complex transactions like this. However, aside from the additional costs, the use of non-recurring resources to plug an operating gap is contrary to good budgeting principles and results in shifting current year problems to future years and generations.

Financial Overview

The Executive Budget projects an \$11.5 billion General Fund deficit for the remainder of fiscal year 2002-03 and the 2003-04 fiscal year, as a result of the slower than expected economic recovery, declines in the equities market, and the remaining fiscal effects of the terrorist attacks of September 11th.

2002-03 Gap

The 2002-03 Enacted Budget decreased General Fund spending by 2.4 percent while increasing All Funds spending by 6.0 percent from 2001-02. The Enacted Budget utilized all available reserves (those that do not require an act of the Legislature) in conjunction with over \$4 billion in non-recurring resources to achieve balance. While spending decreased in the General Fund, much of the decline resulted from spending shifts to revenue sources from other funds.

The State's General Fund would close the current fiscal year with a deficit of \$2.2 billion absent actions recommended in the Executive Budget. The 2002-03 January financial plan update outlines the current year problem as one of lower receipts (\$2.1 billion) and higher spending (approximately \$100 million).

The Executive's proposal to address the deficit calls for \$1.5 billion in resources made available through the sale of its Tobacco Settlement revenues (securitization) and \$700 million in administrative savings including early retirement incentives, federal funding maximization efforts, a five percent reduction in State agency spending (all totaling \$328 million), and debt management savings resulting from refinancing outstanding debt totaling \$364 million.

After reflecting the Executive's proposed current year budget actions, the State would end the fiscal year with a \$1.18 billion closing fund balance. This includes \$710 million for the Tax Stabilization Reserve (rainy day) Fund, \$20 million in the Contingency Reserve Fund slated for future litigation needs, \$75 million in the Community Projects Fund for legislative and gubernatorial initiatives, and \$378 million in unrestricted reserves left over from securitizing the State's share of the Tobacco Settlement.

2002-03 Spending

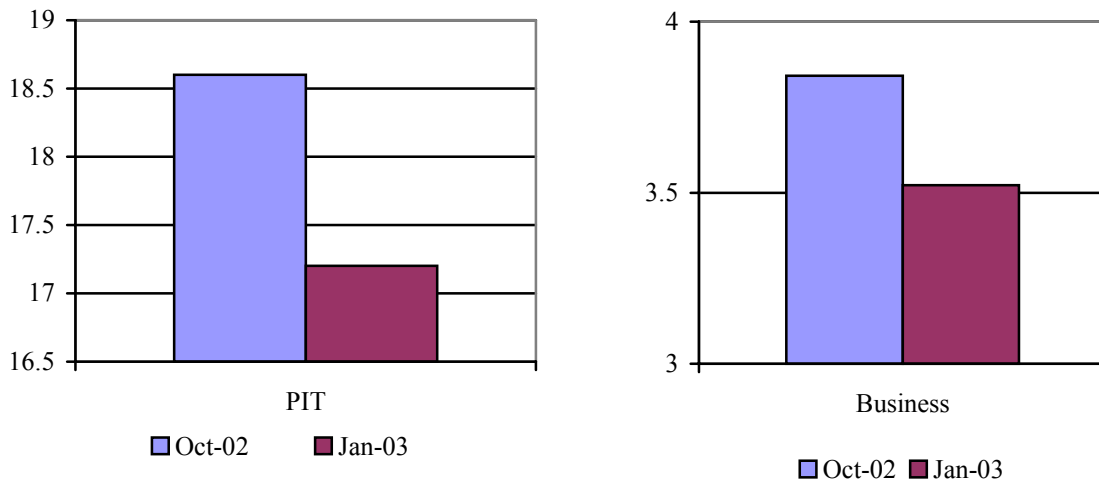
According to the Division of the Budget's January update to the 2002-03 financial plan, projected General Fund spending will be \$100 million higher than initially anticipated, primarily due to higher spending in Medicaid, costs related to the World Trade Center disaster, Tuition Assistance Program, and the Early Intervention program. This higher spending was offset by lower than expected costs for a variety of expenses, including fringe benefits.

2002-03 Receipts

The budget enacted in May 2002 projected \$39.9 billion in General Fund receipts. Of this, the Personal Income Tax was expected to generate \$23.3 billion, User Taxes and Fees (including sales and use taxes) were projected at \$7.11 billion, Business Taxes at \$3.8 billion, other taxes at \$787 million, and Miscellaneous Receipts (where many of the non-recurring resources were accounted for) at \$2.2 billion. Transfers from other funds were projected at \$2.7 billion.

According to generally accepted accounting principles (GAAP), the creation of the Revenue Bond Tax Fund and the accounting treatment for the Personal Income Tax dedicated for payment of debt service on such bonds, \$4.77 billion of Personal Income Tax collections are recorded as a receipt in the Debt Service Fund Group. An estimated \$4.61 billion of these deposits, which are in excess of current year debt service costs, will be transferred back to the General Fund, leaving \$161 million for debt service payments. Prior to the creation of the Revenue Bond Tax Fund, the \$161 million would have been funded by a transfer from the General Fund and the \$4.77 billion would have been a Personal Income Tax receipt in the General Fund. Therefore, the net effect on the General Fund financial plan is zero. Consistent with the accounting treatment for all other dedicated taxes and generally accepted accounting principles, the Division of the Budget has amended the State's financial plans to reflect the pledge of a portion of personal income taxes dedicated to the Revenue Bond Tax Fund.

SFY 2002-03 Revenue Projections - October 2002 and January 2003 (Dollars in Billions)



Source: Division of the Budget

2002-03 Non-Recurring Resources

The enacted budget for 2002-03 utilized over \$4 billion in non-recurring resources. Additional non-recurring resources of approximately \$1.8 billion in the form

of debt service savings and Tobacco Settlement securitization revenues are recommended to close the additional 2002-03 gap. This will bring total non-recurring resources used in 2002-03 to nearly \$6 billion.

**Non-Recurring Resource Actions
Enacted in 2002-03
And
Proposed in the 2003-04 Executive Budget
(Dollars in Millions)**

Description	Update January '02
State of New York Mortgage Agency	\$150
New York State Housing Finance Agency	\$50
Environmental Protection Fund (loan)	\$200
Superfund	\$64
Various Health/Medicaid Special Revenue Funds	\$341
Personal Income Tax – EFT Threshold	\$25
Sales and Use – EFT Threshold	\$33
Abandoned Property Sale	\$300
Power Authority Transfer to Power for Jobs	\$42
Tax Amnesty	\$175
Additional HCRA	\$200
Higher Education Services Transfer	\$39
Prepaid Cigarette Sales Tax Index	\$6
TANF Reserve	\$955
Dormitory Authority Transfer	\$12
Other Transfers	\$75
Change in Tax Payment Date for Businesses	\$100
Recovery of School Aid and Welfare Recipient Overpayments	\$39
PIT Refund Reserve	\$1,065
Other Refund Reserve	\$185
Subtotal – Enacted	\$4,056
Debt Service Savings ¹ (proposed)	\$364
Tobacco Securitization (proposed)	\$1,500
Subtotal – Proposed	\$1,864
Total – Non-Recurring Revenue	\$5,920

Source: OSC

2002-03 General Fund Closing Balance

In October 2002, the Division of the Budget projected a General Fund closing balance of \$716 million, made up of the Tax Stabilization Reserve Fund (\$710 million)

¹ Some small portion of these savings will likely recur. However, it is difficult to precisely estimate at this time. Note also that State Funds savings are projected to be \$395 million.

and the Contingency Reserve Fund (\$6 million). The updated 2002-03 financial plan released with the Executive Budget increases the closing fund balance to \$1.2 billion with the addition of reserved funds from the Tobacco Settlement securitization, funding for gubernatorial and legislative initiatives and additional Contingency Reserves.

General Fund Closing Balance
October and January 2002-03 estimates
(Dollars in Millions)

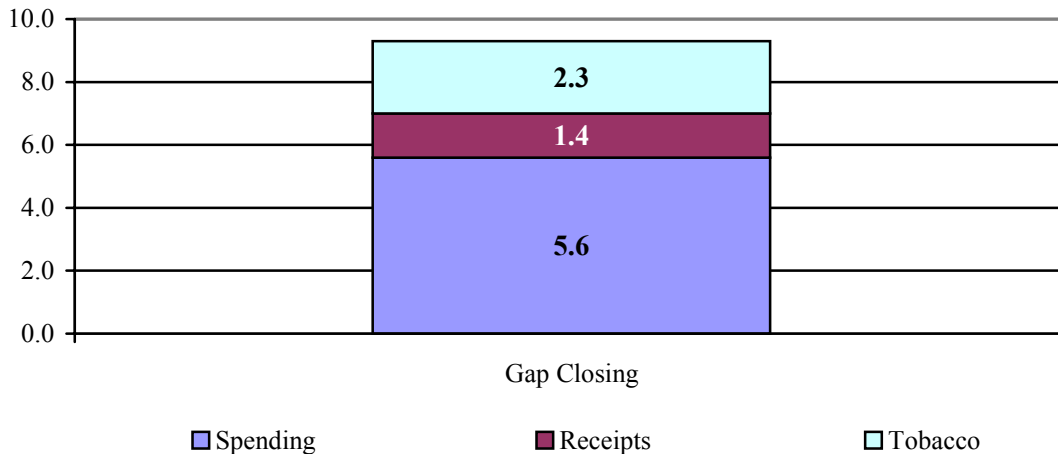
	2002-03 October Estimate	2002-03 January Update
Tax Stabilization Reserve	710	710
Contingency Reserve	6	20
Community Projects Fund	0	75
Tobacco Reserve	0	378

Source: Division of the Budget

2003-04 Baseline Budget Gap

The Executive Budget estimates a baseline 2003-04 budget gap of \$9.3 billion. To address this gap, the Executive proposes \$5.6 billion in spending actions, \$2.3 billion of proceeds from the sale of Tobacco Settlement revenues (securitization), and various revenue actions totaling \$1.4 billion.

Gap Closing Measures – 2003-04
Executive Budget Proposal
(Dollars in Billions)



Source: Division of the Budget

Spending Reductions – Gap Closing 2003-04

The 2003-04 gap-closing program calls for \$5.6 billion or 14.5 percent in reduced General Fund spending. Of this amount, it appears that approximately \$2 billion reflects revenue maximization, offsets, debt savings, and other payment actions that do not appear to affect service delivery in 2003-04. However, the ability to use such actions may not be available in subsequent years.

2003-04 Spending Reductions

(Dollars in Millions)

Total	5,670
Baseline School Aid	1,270
Medicaid cost containment	759
Hiring freeze and retirement incentives	481
Federal revenue maximization to fund state-operated mental hygiene programs	306
General Fund offsets for state operated programs to other sources (DMV, etc)	134
Federal offset for welfare spending	587
Medicaid revenue maximization and offset	261
State operations mergers and consolidations	32
Estimated higher ed cut (likely prompting a 1,200 tuition increase)	320
TAP deferral	268
Debt management to reduce costs	516
ESDC capital and CHIPs shifted to other funding sources	119
Program restructuring and non-recurring adds at SED	156
Savings from employee health insurance	70
Other spending reductions	391

- On a school year basis, the Executive Budget reduces school aid by approximately \$1.24 billion (8.5 percent) to nearly \$13.4 billion. For the State fiscal year, baseline school aid is reduced by \$1.27 billion, including a \$559 million (4.5 percent) decrease from 2002-03.
- Medicaid cost containment proposals totaling \$1.02 billion that offsets projected underlying spending growth of 7.5 percent, much of it fueled by medical inflation and increased utilization, particularly in the drug area.
- The Executive Budget projects \$516 million in debt service savings. The majority of the savings results from refinancing debt with variable rate, interest rate exchange instruments, or Personal Income Tax Revenue Bonds. Included in the savings are debt service reserve funds that were required with previous debt issuances but may be reduced or eliminated for the new debt. Such reserves can be used to pay debt service, providing additional budgetary relief for the General Fund.

- The Executive Budget continues actions taken in the current year to cut costs in State Operations, including a strict hiring freeze and retirement incentives, for projected savings of \$481 million.
- The Executive proposes restructuring the Tuition Assistance Program by deferring payments to students until graduation to achieve savings of \$268 million.

New Revenue – Gap Closing 2003-04

The Executive Budget proposes an additional \$1.4 billion in All Funds revenue actions that benefit the General Fund. There are \$60 million in administratively implemented fee increases (no legislative action required), \$653 million in new or increased fees, and \$583 million in tax actions (see appendix 1).

- The Executive Budget proposes the elimination of the permanent exemption for sales tax on clothing and footwear priced under \$110 and replaces it with four separate weeks of exemptions for clothing and footwear priced under \$500. This is projected to produce an additional \$363 million in State sales tax revenue.
- The Executive Budget increases assessments on hospitals and home care for an additional \$207 million.
- The Executive Budget proposes a one-year cap on STAR benefit increases for non-seniors for a savings of \$93 million.
- The Executive Budget proposes the securitization of Tobacco Settlement revenues for budget relief in both 2002-03 (\$1.5 billion with an additional \$400 million saved for 2003-04) and \$2.3 billion for 2003-04 (including previous years savings).

2003-04 Proposed Budget

The 2003-04 proposed budget decreases General Fund spending to \$38.6 billion, a decline of 2.9 percent or \$1.1 billion from estimated 2002-03 levels. The Executive Budget proposes All Funds spending of \$90.8 billion, a decrease of 0.1 percent. State Funds spending is proposed to decline by 0.1 percent to \$58.9 billion.

**Spending by Fund Type
2003-04 Executive Budget
(Dollars in Billions)**

	Proposed 03-04	Difference from 02-03	% Difference
General Fund	38.6	(1.1)	(2.9)
State Funds	58.9	(0.1)	(0.1)
All Funds	90.8	(0.1)	(0.1)

Source: Division of the Budget

2003-04 Proposed General Fund Spending

The largest General Fund decreases are in State Operations (\$610 million), school aid (\$559 million), and Medicaid (\$482 million). The Executive's proposal budgets \$395 million for pension and fringe benefit costs. Debt Service is expected to grow \$109 million over 2002-03 estimated levels.

As was the case with the 2002-03 Enacted Budget, General Fund spending is subject to a number of actions that mask actual program spending needs. Higher education, Medicaid, and other local assistance programs have used non-General Fund resources to support spending that previously was paid for by the General Fund. The following measures are examples of either decreased General Fund spending or increased General Fund resources, due to movements or offsets:

- The Tuition Assistance Program utilizes funding from Temporary Assistance and Needy Families (TANF) federal funding, moving \$225 million out of the General Fund.
- The budget moves approximately \$75 million of General Fund spending to the Urban Development Corporation to be paid out of corporate purpose bonds and notes.
- Department of Motor Vehicles spending is reduced by \$50 million because of a shift from the General Fund to the Dedicated Highway and Bridge Fund.

2003-04 General Fund Receipts

General Fund receipts are projected to decline a net \$1.75 billion or 4.4 percent to \$38.18 billion in 2003-04. The bulk of this decline comes in the Personal Income Tax, projected to fall \$1.93 billion or 11.2 percent to \$15.25 billion. However, this figure has been affected by numerous accounting transactions that bear no relationship to the economy and underlying growth in receipts. Analysis of adjusted personal income tax indicates growth of 0.8 percent.² This difference is caused by a large reduction in the yearly Refund Reserve transaction and increase in receipts held in the Revenue Bond Tax Fund.³

² Adjusted Personal Income Tax is gross collections less refunds.

³ The Refund Reserve is an accounting mechanism that moves funds from one year to the next, the Revenue Bond Tax Fund moves Personal Income Tax revenues to other dedicated funds.

2003-04 General Fund Receipts ⁴
Change from 2002-03

(Dollars in Millions)

Revenue Category	2002-03	2003-04	Difference	Growth	Adjusted
Personal Income Tax	\$17,182	\$15,250	(\$1,932)	-11.2%	0.8%
User Taxes and Fees	\$7,052	\$7,508	\$456	6.5%	
Business Taxes	\$3,522	\$3,682	\$160	4.5%	
Other Taxes	\$761	\$771	\$10	1.3%	
Total Taxes	\$28,517	\$27,211	(\$1,306)	-4.6%	2.4%
Miscellaneous Receipts	\$4,085	\$3,538	(\$547)	-13.4%	
Transfers from Other Funds	\$7,336	\$7,442	\$106	1.4%	
Receipts pre-accounting actions	\$39,938	\$38,181	(\$1,747)	-4.4%	
Refund Reserve Transactions	\$1,250	(\$41)	(\$1,291)	-103.3%	
STAR deposit	(\$2,667)	(\$2,707)	(\$40)	1.5%	
PIT Revenue Bonds	\$4,306	\$5,097	\$791	18.4%	
Available General Fund Receipts	\$42,827	\$40,530	(\$2,297)	-5.4%	

Source: Office of the State Comptroller

Non-recurring Resources – 2003-04

The Executive Budget recommends approximately \$3.3 billion in non-recurring resources. Proceeds from securitization of Tobacco Settlement revenue accounts for nearly 70 percent of the total non-recurring actions proposed. The second most significant portion of non-recurring actions reflects the proposed draw down of federal Child Care Block Grant funds at the start of the Federal Fiscal Year in October 2003. The proposed acceleration of receipt of these funds, earmarked for 2004-05, makes them available to the State during the 2003-04 State fiscal year.

Description	Amount (\$ millions)
Tobacco Securitization Funds	\$2,300
TANF Acceleration	\$408
Pay-As-You-Go to Bonding Projects	\$176
Debt Service Savings	\$163
Fund Sweeps	\$101
Recoveries of School Aid & Welfare Recipient Overpayments	\$88
Temporary STAR Benefit Cap	\$93
Total	\$3,329

⁴ The Division of the Budget estimates underlying growth (adjusted for non-growth related changes such as tax cuts and fund movements) for General Fund receipts to be 2.45% for 2003-04.

Source: Division of the Budget

Risks to the 2003-04 Financial Plan

There are risks in the current year and the Executive Budget that could significantly affect fiscal performance throughout the 2002-03 fiscal year.

- Economic projections that lead to revenue estimates are precarious not only here, but across the country.
- President Bush has proposed the elimination of tax on dividends and a reduction of the tax on capital gains. If such action were to take place, because New York State and City base their income taxes on the federal definition of income, both the State and the City would lose revenues due to a change in what “income” is taxed. State revenues lost from eliminating the tax on corporate dividends will amount to \$520 million in calendar year 2003 growing to a total of \$2.15 billion through 2006 and at least \$6.4 billion over 10 years. Revenues lost from the reduced capital gains that are part of the President's plan will cost the State \$200 million over four years and \$1.8 billion over 10 years. The State and its related debt issuers would have to increase interest on notes and bonds to compete with tax-free dividends. If the interest rate increased by only 50 basis points, or one half of one percentage point, that will cost the State \$31 million this year, \$201 million over four years and \$839 million over 10 years.
- The 2003-04 Executive Budget includes \$388 million for pension costs, or about 4 percent of employee salaries. This amount was based on information provided to the Division of the Budget by the Office of the State Comptroller in October 2002, providing a range of scenarios illustrating different financial conditions. The Executive Budget projection reflects the lowest pension cost figure provided, which reflected a zero percent return on equity investments. In December, the Office of the State Comptroller provided an estimate of pension fund costs of \$860 million. Most recently, OSC sent an updated estimate of \$1.05 billion, which translates into approximately 11 percent of employee salaries.
- The Executive Budget anticipates receipt of \$330 million within the next two fiscal years for reimbursement from the Federal Emergency Management Agency (FEMA) for costs the City and State incurred while responding to the World Trade Center disaster. A portion of these costs are not reimbursable under existing federal disaster assistance programs.⁵
- The Federal Transportation Act of the 21st Century (TEA-21) is scheduled to expire on September 30, 2003. The proposed five-year capital and financing plan (beginning in 2003) depends on \$236 million annually in TEA-21 funds for transportation projects.

⁵ Although a tentative agreement was reported between President Bush, Governor Pataki and Mayor Bloomberg for reimbursement of costs, the agreement is subject to Congressional approval.

- The Executive Budget relies heavily on Federal actions to maintain budget balance. The Federal government is facing record deficits and additional aid in any program may not materialize.
- The Executive provides a number of proposals that have not passed the Legislature in the past. These proposals – agency consolidations, school aid adjustments, closing of facilities, among others – are expected to provide additional savings to the State in 2003-04.

Executive Proposals Previously Rejected by the Legislature

PROPOSAL	2003-04 Impact/ Savings	Year(s) Rejected
Flex-Aid	\$407 million	2000-01 2002-03
Restructure State Education Department	-	2000-01 2001-02 2002-03
Building Aid - Restrict Enrichment and/or Change Formulas	\$144 million	1999-00 2000-01 2001-02 2002-03
BOCES Aid Reduction/Cuts	\$109.3 million	1999-00 2001-02
Special Education Placements -Reduction of Private Excess Cost Aid	\$70.7 million	1999-00
Wicks Law Reform for Construction Costs	10% School District Construction Costs	1999-00 2000-01 2001-02 2002-03
School District Spending Cap	-	1999-00 2000-01 2001-02
Review of Regents Mandates for State and Local Fiscal Impact	-	1999-00 2001-02
Restructure Regents Board	-	2001-02
Constitutional Debt Reform	-	2000-01 2001-02 2002-03
Budget Reform	-	1996-97 1998-99 1999-00
Tuition Increase	\$318 million	1996-97 1997-98

PROPOSAL	2003-04 Impact/ Savings	Year(s) Rejected
Opportunity Programs	\$21.8 million	1995-96 2000-01 2001-02
Bundy Aid	\$18.7 million	2000-01
TAP (reductions/restructure)	\$268 million	1995-98 1999-00 2001-02 2002-03
Expansion of Eligibility for Environmental Protection Fund funding	\$12 million (General Fund)	2002-03
Close Hutchings and Middletown Psychiatric Centers	\$10 million	2001-02
Limit or Eliminate Medicaid provider trend factors	\$76.5 million	2001-02 2000-01 1999-00
Modify Medicaid nursing home reimbursement methodology	\$59.9 million	2001-02 1999-00
Eliminate youth opportunity program	\$1.3 million	1999-00
Increase third-party revenues in Early Intervention program	\$0.0 million in 03-04 \$55 million in 04-05	2002-03
Eliminate Medicaid nursing home return on equity	\$5 million	2001-02
Reduce Medicaid support for graduate medical education slots	\$15.7 million	1999-00
Require Medicaid managed care recipients to make the same co-payments on pharmaceuticals as other Medicaid recipients	\$6.1 million	2001-02

Gap Overview

(Dollars in Billions)

	Projected Gap	Recurring Actions	Non-Recurring Actions
SFY 2002-03 ⁶	\$6.5	\$2.4	\$4.1
SFY 2002-03 Jan	\$2.2	\$0.3	\$1.9
SFY 2002-03 Total	\$8.7	\$2.7	\$6.0
SFY 2003-04	\$9.3	\$6.0	\$3.3
2 year total	\$18.0	\$8.7	\$9.3

Source: OSC

⁶ The 2002-03 Executive Budget closed an estimated gap of \$5.1 billion. After release of the Executive Budget, an additional \$1.4 billion revenue shortfall materialized bringing the SFY 2002-03 budget gap (prior to January) to \$6.5 billion.

Structural Balance – Outyears

Future Budget Gaps

The Executive is projecting General Fund budget gaps for 2004-05 of \$2.9 billion and \$4.2 billion for 2005-06.

Executive Projections for Future General Fund Budget Gaps

(Dollars in Millions)

	2004-05	2005-06
Receipts	\$38,010	\$39,679
Expenditures	(\$40,909)	(\$43,915)
Executive Gap Estimate	(\$2,899)	(\$4,236)

Source: Division of the Budget

The gaps projected in the Executive Budget for 2004-05 and 2005-06 assume spending growth of 5.9 percent and 7.4 percent respectively. The largest components of the growth come from education and Medicaid reflecting the fact that federal Temporary Assistance for Needy Families as well as Medicaid distressed hospital funding is no longer available as a General Fund offset.

Overall receipts, including transfers from other funds, are projected to increase 0.4 percent in 2004-05 and increase 4.4 percent in 2005-06. Personal Income Tax revenue, the largest share of General Fund receipts, is projected to increase 5.8 percent and 7.8 percent respectively in 2004-05 and 2005-06. The large reduction in miscellaneous receipts in both 2004-05 and 2005-06 is primarily due to the reduction of Tobacco Settlement securitization funds.

Revenue Growth Projected 2004-5 and 2005-06

(Dollars in Millions)

	2004-05	Growth	2005-06	Growth
Personal Income Tax	\$16,134	5.8%	\$17,392	7.8%
User Taxes and Fees	\$7,788	3.7%	\$8,034	3.2%
Business Taxes	\$3,787	2.9%	\$3,922	3.6%
Other Taxes	\$790	2.5%	\$850	7.6%
Tax Growth	\$28,499	4.7%	\$30,198	6.0%
Miscellaneous Receipts	\$2,068	-41.5%	\$1,624	-21.5%
Transfers From Other Funds	\$7,443	0.0%	\$7,857	5.6%
Total Receipts	\$38,010	0.4%	\$39,679	4.4%

Source: Division of the Budget

Outyear Economic Projections

As previously mentioned, the Executive Budget projects General Fund tax receipt growth of 4.7 percent and 6.0 percent respectively for 2004-05 and 2005-06. Personal Income Tax is projected to grow 5.6 percent and 7.8 percent in the same period. The following chart compares revenue growth projections with projections for select economic indicators.

Economic Projected Growth – 2003-04 through 2005-06 Executive Budget (Fiscal Year Growth)

	2003-04	2004-05	2005-06
General Fund Tax Receipts	(4.6)	4.7	6.0
Personal Income Tax	(11.2)	5.8	7.8
User Taxes and Fees	6.5	3.7	3.2
Business Taxes	4.5	2.9	3.6
Personal Income	4.1	4.3	4.5
Wages and salaries	4.3	4.8	4.8
Bonuses	(18.5)	6.6	6.7
Property Income	1.8	2.1	2.5
Calendar	2003	2004	2005
NYS Adjusted Gross Income	1.6	5.3	5.9
Capital Gains	(12.9)	10.5	12.5
Partnership	3.8	10.0	9.9
Business and Farm	1.9	4.5	3.2
Interest Income	(2.5)	3.1	2.4
Dividends	5.5	4.4	6.1
Unemployment Rate	5.9	5.7	5.5
Composite CPI	2.2	2.2	2.5

Source: Division of the Budget

Risks to the Outyear Financial Plan

There are risks in the current year and in the future that could significantly affect the outyear gap projections included in the Executive Budget. Continued economic stagnancy, possible war with Iraq, additional terrorist attacks are all discussed in the Executive's proposal. However, as the country is facing continual economic stress, other factors could come into play.

- President Bush has proposed the elimination of tax on dividends and a reduction of the tax on capital gains. If such action were to take place, because New York State and City base their income taxes on the federal definition of income, both the State and the City would lose revenues due to a change in what "income" is taxed. State

revenues lost from eliminating the tax on corporate dividends will amount to \$520 million in calendar year 2003 growing to a total of \$2.15 billion through 2006 and at least \$6.4 billion over 10 years. Revenues lost from the reduced capital gains that are part of the President's plan will cost the State \$200 million over four years and \$1.8 billion over 10 years. The State and its related debt issuers would have to increase interest on notes and bonds to compete with tax-free dividends. If the interest rate increased by only 50 basis points, or one half of one percentage point, that will cost the State \$31 million this year, \$201 million over four years and \$839 million over 10 years.

- The Transportation Act of the 21st Century (TEA-21) is scheduled to expire on September 30, 2003. The current program allocated \$14.8 billion to New York State since 1998 for highway and transit funding. The Capital Plan is anticipating an increase of approximately \$236 million annually for the Transportation capital program. Depending upon federal action, New York State's share of the transportation money could be significantly decreased.
- The 2003-04 Executive budget projects pension fund costs of approximately 7 percent of employee salaries in 2004-05 and 11 percent in 2005-06. Given the Office of the State Comptroller's most recent estimate that 2003-04 pension contributions will be approximately 11 percent of employee salaries, it appears that the out year costs of pension contributions have been significantly underestimated.
- The Executive Budget provides for \$140 million in annual savings as a result of proposed agency mergers and consolidations. Some of these proposed mergers have been rejected in the past.
- The proposed budget projects additional revenues from proceeds of the conversion of Empire (over and above the \$634 million already budgeted for the 15-month period) and proceeds from other health plan conversions to for-profit status.

Secondary Impacts

The Executive Budget includes a number of savings proposals and revenue raising actions that could have implications for the economy of the State and the well being of New Yorkers in both the short and long term. While cost cutting and revenue raising measures are necessary to close the \$11.5 billion 14-month gap, and projected future budget gaps, the Governor and lawmakers should be mindful of potential secondary impacts of their actions.

Budget Decisions Affecting Local Tax Base and Investments in Education

The recent study by the Beacon Hill Institute of Suffolk University, *Metro Area And State Competitiveness Index 2002*, uses a variety of objectively measurable variables to determine the competitiveness of the 50 largest metropolitan areas in the nation and the 50 States.⁷ New York ranks 32nd out of the 50 States in terms of competitiveness and New York's three largest metro areas all rank in the bottom third in terms of competitiveness.

Proposed Executive Budget actions should be considered in the context of their potential impact on State and local competitiveness. Initiatives that drive increases in the local tax burden will have a negative effect. According to the Study findings: "The greater the overall burden of taxes on a metro area's output, the less attractive that area is as a host for new investment or workers."

Similarly, proposed cuts to education will have an impact on the Human Resources measurement category included in the Study: "A high level of labor force participation, and skilled labor that is readily available and not too expensive, combined with a widespread commitment to education, training and health care, make a metro area attractive for business."

It is also worth noting, in the context of the Executive Budget, the Study's finding that businesses are more likely to be attracted to areas with "clear evidence of financial discipline."

Investment in Pre-K and Full-Day Kindergarten

Educational standards are being stressed at both the State and federal level. The Executive Budget's proposal to eliminate categorical funding for Pre-K is likely to have a negative impact on the ability of New York's children to meet those goals. Regulations associated with the Federal No Child Left Behind law can impose potentially costly consequences – including requirements to offer students tutoring by private firms – if

⁷ Houghton, Jonathan and Murg, Corina, *The Metro Area and State Competitiveness Index 2002*, The Beacon Hill Institute at Suffolk University, December 2002.

steady progress toward proficiency goals is not evident. Quality Pre-Kindergarten programs can better prepare children for learning and improve the outcome of standardized test scores.

“The accumulated evidence from evaluations of high quality early education programs tells us children advance in intellectual, social and emotional competence in the short term, do better academically (in both reading and math) and socially in school, and generally live more productive lives as adults, than children who have no preschool education or who have poor early educational experiences. All young children benefit from good preschool education, with disadvantaged children realizing greater gains. We know that the costs of providing good preschool education are outweighed by the benefits.”⁸

The State of Georgia is one of the only states in the nation to implement a universal Pre-Kindergarten program, as was originally envisioned in New York. A study of the program concluded:⁹

- First grade teachers rated 55% of Pre-K participants as above average on measures of first grade readiness (considering both behavioral and academic skills). By the end of first grade, 70.5% of Pre-K participants were rated as above average on preparedness for second grade.
- Two years after their child attended Pre-K, 80% of parents agreed or strongly agreed that their child had progressed faster as a result of having participated in Pre-K.

Another potential economic consequence of decreased funding for Pre-K, as well as full day Kindergarten initiatives, is its potential to take parents out of the workplace.

A report by the Economic Opportunity Institute, a nonpartisan, nonprofit, public policy institute, cites findings of studies issued by the National Council of State Legislatures and others to conclude:¹⁰

- Employees with inadequate childcare are more likely to be late for work, absent, or distracted on the job than parents who are confident about their children's child care arrangements. Employees may be forced to spend time at work or take time off to handle childcare concerns.

⁸ Mitchell, Anne W., *The Role of States and the Federal Government in Promoting Pre-Kindergarten and Kindergarten*, Foundation for Child Development, April 2001

⁹ Basile, Kathleen, Henderson, Laura, & Henry, Gary, *Pre-Kindergarten Longitudinal Study: Findings from the 1998-99 School Year*, Georgia State University, School of Policy Studies, Applied Research Center, 2000

¹⁰ Brown, Jen, *How Does High Quality Child Care Benefit Business And The Local Economy?*, Economic Opportunity Institute, July 2002

- A 1992 survey found that nearly 30 percent of workers knew employees who quit their jobs because of inadequate childcare. Productive and valued employees who leave their jobs because of childcare problems increase hiring and training costs.
- High rates of turnover, absenteeism, and low productivity cost employers money. It is estimated that absenteeism caused by poor quality childcare costs American business more than \$3 billion a year.

Changes in the Early Intervention Program

Efforts to decrease funding and frequency of Early Intervention services – designed to address learning and other deficits before children reach school – could increase Special Education costs as children enter the school system.

According to an Educational Resources Information Center (ERIC) Digest:

“The available data emphasize the long-term cost effectiveness of early intervention. The highly specialized, comprehensive services necessary to produce the desired developmental gains are often, on a short-term basis, more costly than traditional school-aged service delivery models. However, there are significant examples of long-term cost savings that result from such early intervention programs.

- A longitudinal study of children who had participated in the Perry Preschool Project (Schweinhart and Weikart, 1980) found that when schools invest about \$3,000 for 1 year of preschool education for a child, they immediately begin to recover their investment through savings in special education services. Benefits included \$668 from the mother's released time while the child attended preschool; \$3,353 saved by the public schools because children with preschool education had fewer years in grades; and \$10,798 in projected lifetime earnings for the child.
- Wood (1981) calculated the total cumulative costs to age 18 of special education services to a child beginning intervention at: (a) birth; (b) age 2; (c) age 6; and (d) at age 6 with no eventual movement to regular education. She found that the total costs were actually less if begun at birth! Total cost of special services begun at birth was \$37,273 and total cost if begun at age 6 was between \$46,816 and \$53,340. The cost is less when intervention is earlier because of the remediation and prevention of developmental problems which would have required special services later in life.”¹¹

Advantage After School Program

Keeping children engaged and motivated are important factors in achieving the goal of creating responsible members of the community. The Advantage Schools

¹¹ Smith, Barbara J., *Does Early Intervention Help?* ERIC Digest #455. Revised. ERIC Clearinghouse on Handicapped and Gifted Children, 1988. While dated, this Digest offers a comprehensive consideration of the benefits of Early Intervention.

Program links schools with community-based organizations that provide constructive, supervised activities and homework help for students between 3 p.m. and 9 p.m. throughout the school year. Children in underserved urban areas with ailing public schools are most at risk of getting into trouble and having negative life-affecting experiences with crime and drugs resulting from a lack of supervision after school. In 2001, the U. S. Department of Education estimated that eight million children are home alone after school. Studies show that nearly half of all crime takes place between 2 p.m. and 8 p.m. After-school programs provide responsible adult supervision, constructive activities and insulation from harmful peer pressures during high-risk hours.¹²

Cuts in these programs will put children back on the streets, unsupervised, increasing the risk that affected children will get into trouble, increasing crime, drug-use, violence and preventing these kids from being the responsible young adults and contributors to the community. In addition, affected low-income working parents would realize loss in wages and threats to job security in having to leave work early to care for children after school and when called from work to deal with resulting impacts of crime, drug-use and violence.

Economic Consequences of A Higher Number of Uninsured

Health insurance clearly has economic benefits that extend beyond the ability of people to get medical care and healthcare institutions to get paid for providing care. Cutbacks in eligibility for public health insurance programs like Family Health Plus will likely prove to be shortsighted reductions that increase other human and fiscal costs for years to come. At the same time, proposed additional insurance taxes and HCRA related surcharges will serve to increase health insurance premiums. Health insurance premiums already are skyrocketing, growing at double-digit rates, and further increases will likely cause some employers to discontinue offering health insurance coverage or to make health insurance less affordable for individuals – both leading to an increase in the number of New Yorkers without health insurance.

Many studies have shown that those who do not have health insurance do not receive adequate preventive care. According to the National Health Interview Survey, nationally 47.3 percent of adults without health insurance do not have a usual source of health care. This compares to only 11 percent of adults with health insurance who lack a usual source of health care. This is important in considering the impact that a lack of preventive care can have on people who are uninsured and also providers of health care and government who can end up paying for the higher costs of associated major health declines. For example, an uninsured person with high cholesterol would be less likely to be on a cholesterol lowering drug costing about \$800 annually and could end up seeking care in a hospital emergency room for a heart attack, resulting in an inpatient stay costing as much as \$25,000, if they survive.

¹² Focus on After-School Time for Violence Prevention, P. Patten and A. Robertson, September 2001

A recent study, *Sicker and Poorer: The Consequences of Being Uninsured*, sponsored by the Kaiser Commission on Medicaid and the Uninsured¹³ reviewed and summarized relevant academic literature related to the cost of not covering the uninsured. This report found the following:

- Health insurance improves health outcomes and healthier people are linked to educational attainment and economic opportunity. “A compelling case has been made that having health insurance does lead to improved health by means of better access to medical care.”
- The majority of people mistakenly believe that the uninsured receive the care they need from doctors and hospitals. “Contrary to these perceptions, studies and surveys have consistently found that the uninsured are less likely to obtain services (e.g., see a doctor or fill a prescription) when they have a perceived ‘need for care’ and that they suffer worse health outcomes.”

“Research generally concludes that poor health reduces annual earnings from work, primarily through reduced labor force participation and work effort in conjunction with a small effect on productivity as measured by wage rates.”

Although there has been less research on the relationship between a child’s health and their ability to succeed in school, in general, available research indicates that poor health affects educational attainment. In addition, low birth weight, often the result of inadequate medical care, has been found to negatively affect cognitive development and lead to higher medical and educational costs during childhood.

Loss of COLA for SSI Recipients

Each year the federal government increases its funding for Supplemental Security Income (SSI) to reflect inflation. The federal government gives states the option of using these funds to partially offset state costs for the program. This year, the Executive has proposed that New York State use that option.

People who are on SSI receive monthly payment benefits to compensate for limited income associated with being age 65 or older, blind or disabled. In 2002, the average individual benefit was about \$7,452 in total for federal and State payments. With the consumer price index forecast to be 2.4 percent for 2003, these people, with little money to spend on food and housing are going to be faced with some difficult choices on how to spend their SSI payments. The increased cost of living that they will experience could endanger their being able to continue at their present housing and being able to maintain their nutrition levels, increasing health care and other public costs.

¹³Hadly, Jack and Advisory Committee, *Sicker And Poorer: The Consequences Of Being Uninsured*, the Kaiser Commission on Medicaid and the Uninsured, May 2002.

Removal of Permanent Sales Tax Exemption

The proposed change in the sales tax exemption on up to \$110 purchases of clothing and footwear in favor of periodic tax free holidays will decrease the economic benefit to the State economy by decreasing disposable income and sales. In announcing the final tax free week and plans to institute a permanent exemption from sales tax for clothing and shoe purchases in 2000, Governor Pataki said: "New York's tax free weeks will have saved New York families more than \$200 million dollars since we started them in 1997. In less than two months these savings will become permanent, returning more than \$500 million annually to New Yorkers and ensuring parents no longer have to pay a tax to provide clothing for their children."¹⁴

In addition, re-imposition of the tax will likely have an effect on consumers who may chose to shop in neighboring states that do not charge sales tax on clothing purchases. As Mayor of New York City, Rudolph W. Giuliani advocated for the repeal of sales tax on clothing purchases up to \$500. Although the exemption reduced tax revenue to the City, the Mayor's office estimated that the City loses \$700 million a year in retail sales to New Jersey. When the exemption was made permanent, the Mayor projected it would help boost the economy by creating up to 15,000 new retail jobs. The potential impact of re-imposition of the sales tax on clothing and footwear on the proposed DestiNY USA center, a major economic development initiative in Central New York, also should be considered.

Road and Bridge Construction Project Delays

The proposed \$100 million cut in the contract letting for highway and bridge repair and construction will no doubt slow capital projects across the State. This action, combined with projected job cuts in the Department of Transportation's design and construction staff, hinders the improvement of the State's deficient highways and bridges. A reduction in the design and construction staff may result in a heavier reliance by DOT on consultant services. A previous audit by the State Comptroller's Office found that the use of in-house engineers was much more cost-effective than hiring consultants, reducing the cost of the project.¹⁵

Approximately 30 percent of the State's roads in 2000 rated poor or fair; nearly 30 percent of state highway bridges and 43 percent of local bridges were also rated deficient.¹⁶ The condition of these roads and bridges will only continue to worsen as capital money is reduced and as heavier trucks are authorized on state highways, as proposed in the Executive Budget. Reliable infrastructure is an important consideration in business location.

¹⁴ Press Release, *Governor: Final Sales Tax-Free Week Kicks Off Saturday*, January 12, 2000.

¹⁵ Use of Consultant Engineers (Follow-Up Review) [Issued 3/23/01]

¹⁶ Source: New York State Department of Transportation

Infrastructure improvement and development also drives other economic activity. It has been estimated that every \$1 spent on construction generates \$1.49 of economic activity, every construction job creates 1.53 total jobs, and each \$1 million in construction spending generates 26 jobs in the region.¹⁷

¹⁷ New York Building Congress report, "Fast Track to Recovery," November 1991

Education

On a school year basis, the Executive Budget cuts school aid by more than \$1.24 billion (8.5 percent) to nearly \$13.4 billion. The Division of Budget indicates that on a State fiscal year basis, baseline school aid spending is reduced by \$1.27 billion from projected levels, including a \$559 million (4.5 percent) decrease from estimated 2002-03 levels. However, when a decrease in available Lottery funds and other adjustments are considered, this actual reduction totals \$606 million. School aid represents \$11.74 billion (30 percent) of proposed General Fund spending.

While school districts are protected from overall General Fund aid reductions of more than 5 percent of their total operating budget, the percentage decrease in State support for school district budgets declines by a greater percentage when aid categories including Building, Reorganization Incentive Building, Growth and Full-Day Kindergarten are factored in.

School Aid Summary By School Year (Dollars in Millions)

Program	02-03	03-04 Recommended	Difference
Operating/Flex-Aid	\$10,167	\$9,760	(\$407)
Miscellaneous Aid	\$2,110	\$1,893	(\$217)
Building Aid and Discretionary Grants	\$1,758	\$1,151	(\$607)
Grant Programs and Other Aid Categories	\$608	\$595	(\$13)
TOTAL	\$14,643	\$13,399	(\$1,244)

Source: Division of the Budget

If the proposed cuts to school aid are enacted, property taxpayers would likely experience a significant increase in school taxes representing a State-to-local tax shift to offset the proposed cuts. The Educational Conference Board has projected that for 2003-04 school year \$1.3 billion would be needed to maintain current school district programs and services. With a scenario of no increase in State school aid for 2003-04, assuming the same Executive recommendation as 2002-03, the Board projects that school district taxes would have to increase an average of 8 percent statewide to maintain the status quo. When the proposed cut of \$1.2 billion is also considered, the Board projected that school district taxes would have to increase on average a total of 15 percent statewide with some

poorer districts experiencing an increase that more than doubles the previous year's school taxes.¹⁸

The Executive Budget includes a proposal to mitigate the impact of decreased school aid on property taxpayers. It proposes that school district spending increases exceeding the lesser of 4 percent of total budget or 120 percent of the Consumer Price Index (CPI) – which would equate to 1.92 percent – be approved by a two-thirds majority of school budget voters. Should this spending cap, which has been previously rejected, be enacted this year, school district officials report that they would be forced to cut non-mandatory programs and layoff teachers and other school staff.

In consideration of the school aid cuts proposed this year, the potential for Legislative restoration of funding and the impact of historically late State budgets, school districts will need to exercise considerable caution as they prepare their upcoming school budgets to minimize the potential negative impact on school operations, their finances and the students they serve.

School Aid

The Executive Budget proposes reductions across many programs of school aid funding and the elimination of several discretionary grant programs.

Flex Aid

The Executive Budget again proposes merging operating aids into “Flex-aid” to provide a total of \$9.76 billion, representing a decrease of nearly \$407 million (4 percent) for nine aid categories for school year 2003-04:

- Comprehensive Operating aid
- Extraordinary Need aid
- Operating Standards aid
- Gifted and Talented aid
- Educational Related Support Services aid
- Limited English Proficiency aid
- Summer School aid

¹⁸ The Educational Conference Board is a coalition of education organizations in New York State. County by County Impact of alternative State Aid Scenarios for 2003-04. The estimated increase in costs to school districts assumes salary and benefits will increase by 5%, while all other costs in will increase by 1.5%.

- Academic Support aid
- Public Excess Cost aid

In total, cuts for programs under this Flex-aid category would range between 2 and 8.75 percent. Under the proposal, operating aid allocations are said to be sensitive to each district's relative wealth and student needs. In addition, school districts will have flexibility in the use of funds. Regional costs related to school operation were not factored into the Executive Budget proposal.

Discretionary Grant Programs

Proposed funding for several discretionary grant programs has been eliminated, including Universal Pre-Kindergarten, Class-size Reduction, Full-day Kindergarten and Minor Maintenance. Proposed funding for teacher support aid has been cut to \$22.49 million (a 67 percent reduction). The total funding eliminated for these five programs is \$447.83 million for the 2003-04 school year.

Building Aid

For school year 2003-04, the Executive provides \$1.1 billion in total funding for construction of school facilities, representing a decrease of \$144 million (11.5 percent). Due to last year's changes relating to aid payable for debt service based on a thirty-year assumed amortization schedule based on the project's useful life, the Executive indicates that this proposal would not result in an aid loss for school districts. Also, the Executive Budget proposes changes that would replace the current open-ended building aid program with a priority-based system, where after February 1, 2003, all State Education Department approved projects will be selected for funding based on established priorities (such as health and safety issues). Districts would be required to use the current aid ratio, rather than choosing more favorable ratios from previous years, and the current 10 percent building aid enrichment would only be available for instruction related projects.

BOCES

The Executive Budget proposes changes for the Boards of Cooperative Educational Services (BOCES) to promote regional cost-efficiency. Proposed funding of \$387.6 million reflects a decrease of more than \$109.3 million (22 percent). Suggested changes would eliminate aid for routine administrative services; prospectively consolidate BOCES aid into Flex-aid (operating aid) and restructure the role of BOCES superintendents, resulting in a decrease in aid for related salaries.

Teachers

The Executive Budget proposes decreases in funding to programs aimed at recruiting, retaining and training teachers, citing inroads in reducing the shortage of qualified teachers. Specifically, the Teachers of Tomorrow Program is cut \$5 million to

\$20 million; teacher computer training and resource center funding is cut \$20 million to \$10 million; and the teacher-mentor intern program is cut \$3.3 million to \$1.67 million.

Prior Year Claims

The Executive Budget provides an increase in funds available for payment of prior year claims. These are funds already owed to the school districts from revised aid claims in previous years, but the State generally only pays a small proportion of these claims each year. For school year 2003-04, the Executive Budget earmarks \$90 million to be available for this purpose, representing an increase of \$33 million (58 percent).

Other

Growth aid is proposed to be cut nearly in half to \$15.8 million, based on updated pupil enrollment counts. Proposed aids for magnet schools and small city school districts are continued at \$138.5 million and \$81.9 million, respectively. In addition, the Executive proposes a cut in Employment Preparation Education (EPE) of \$19.48 million (20 percent) to \$76.7 million. EPE is a program that provides funding to public school districts and BOCES that offer educational programs for adults leading to a high school diploma or a high school equivalency diploma.

School Tax Property Relief Program (STAR)

Spending for school tax property relief (STAR) benefits will increase \$40 million from 2002-03, to \$2.71 billion for 2003-04. While a one-year cap on STAR benefit increases is proposed to generate savings of \$93 million, senior homeowners will be eligible to receive an enhanced benefit resulting from the first Cost of Living Adjustment (COLA) to their income eligibility enacted in 2002-03. The COLA, combined with an increase in program participation, accounts for most of the increase in proposed spending.

Special Education

The Executive Budget proposes changes to special education financing for the 2003-04 school year that would reduce aid by more than \$70 million. This would include consolidating \$2.1 billion in special education program funding into Flex-aid (operating aid), with allocation no longer based upon the number special education placements.

Reimbursement formulas for private special education will be changed to those used for public programs. The average State aid ratio used for private special education placements will be reduced from 85 percent to 49 percent (same as for public placements). Some of the proposed changes will address discrepancies identified in a recent audit issued by the Office of the State Comptroller - *Oversight of School Districts' Special Education Classification and Placement Processes for School-Age Children* (Report 2000-S-46). Also, existing statutes dealing with composition of special education committees will be modified to conform to Federal law; streamlining requirements for school districts and adding a 20 percent school district share in

residential costs of committee on special education (CSE) placements. As a result, counties and the State would each experience a 10 percent decrease in these costs.

Other Proposals

Legislation submitted with the Executive Budget would make a number of programmatic changes.

- Changes to Board of Regents
 - Increase the number of Regents from 16 to 18;
 - Increase term from 5 years to 6 years;
 - Executive appoints 12 of the 18 Regents (based on State judicial districts);
 - Legislative leaders appoint 6 Regents – 2 by majority of each house and 1 by minority of each house.
- School governance reforms recently implemented in NYC would be extended to other State major urban centers giving mayors in Buffalo, Rochester, Syracuse and Albany greater voice in school systems. One important difference between these cities and NYC is that the school boards in the four upstate cities are elected directly by local voters. Whereas in NYC, the traditional seven-member board was appointed by six different officials.
- Proposal to repeal Wicks Law, which requires use of multiple contractors is estimated to save 10 percent of new school construction costs.
- Charter school funding of \$6 million is maintained.
- Proposed implementation of the Federal No Child Left Behind Act requiring that students in failing or unsafe schools be provided the opportunity to transfer to another school within their district.

Restructure State Education Department

The Executive has proposed a significant restructuring of the State Education Department, transferring functions not directly related to education to other State agencies:

- Vocational and Educational Services for Individuals with Disabilities (VESID) would go to Department of Labor;
- Office of Professions would be transferred to Department of State;

- Cultural Education programs including State Museum, State Library and State Archives transferred to new entity – New York Institute for Cultural Education (public benefit corporation).

The proposed actions would result in a 55 percent net decrease of 1,735 full-time equivalent positions (FTEs) from 3,152 FTEs. In addition, the proposed actions would bring the transferred functions into entities whose leadership is appointed by the Governor.

Higher Education

The Executive Budget proposes substantial reductions in funding for higher education. Funding for both SUNY and CUNY senior and community colleges is reduced, as is Bundy Aid for private colleges and universities. The Budget also proposes significant cuts in a number of scholarship and opportunity programs. In addition, the Executive Budget again proposes a restructuring of the TAP program, in such a way as to allow the State to “withhold” 1/3 of a student’s award until after graduation.

SUNY and CUNY State Campuses

Support for SUNY State-operated campuses and programs will decline by \$183.5 million (15%), while support for CUNY senior colleges will decline by \$81.7 million (12%). This reduced level of funding would essentially drive up to a \$1,200 increase in student tuition. An increase of that magnitude would bring SUNY’s yearly undergraduate tuition rate from \$3,400 to \$4,600, and CUNY’s tuition rate from \$3,200 to \$4,400.

Once average fees are factored in, the combined cost of undergraduate tuition and fees at SUNY will exceed \$5,500 per year.

New York’s four-year public institutions currently are ranked the 14th most expensive in the nation.¹⁹ A potential 35-38% tuition hike would likely make New York’s public system of higher education less competitive with other states. Although public university systems in other states also face budget challenges, few have proposed tuition hikes of the magnitude being contemplated in New York. Proposed tuition increases in other State University systems: Connecticut State (14.5%); California State (25%); Florida State (7.5%); Maryland (up to 5%).²⁰

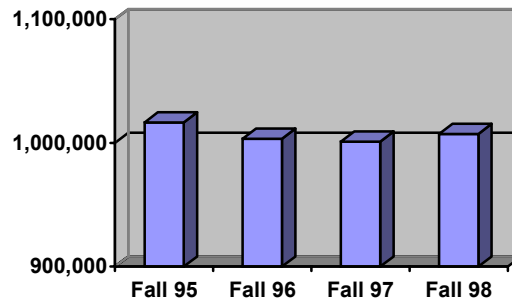
The \$750 SUNY/CUNY tuition increase in 1995-96 had a swift negative impact on enrollment.²¹ Enrollment figures did not begin to recover until three years after the increase. Significant losses in the public university system were partially offset by increased enrollment in private institutions.

¹⁹ U.S. Department of Education, *Digest of Education Statistics, 2002*. (Ranking excludes District of Columbia).

²⁰ Data compiled from American Association of Colleges and Universities and The Chronicle of Higher Education sources.

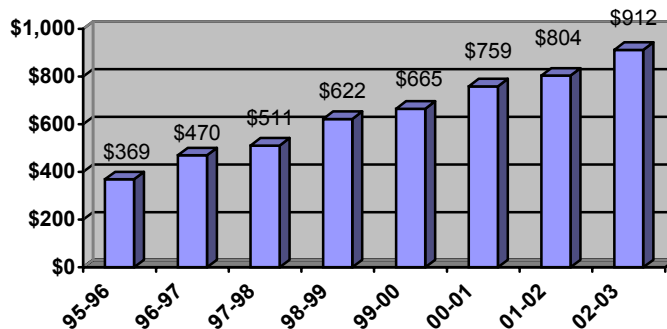
²¹ NY State Education Department, Summary of Enrollments from 1990-2000. (Headcount, all institutions).

NYS College Enrollment



While tuition costs have remained constant since that time, fees – also an important consideration in terms of affordability and competitiveness – have increased nearly 150 percent:

Average Undergraduate Fees at SUNY State-Operated Institutions²²



Community Colleges

The Executive Budget reduces funding for SUNY community colleges by \$26.5 million from 2002-03 levels. Additional funding provided for enrollment growth (\$20.6 million) is offset by a \$345 per student, 15 percent, reduction in operating aid (\$40.6 million), and elimination of both rental aid for leased space (\$5.6 million) and workforce training support (\$1 million).

The Executive Budget also reduces funding for CUNY community colleges by \$23.8 million from 2002-03 levels. This net reduction reflects an adjustment for enrollment loss (\$7.3 million), a 15 percent reduction in operating aid (\$14.4 million), elimination of rental aid for leased space (\$0.6 million), a reduction in workforce training

²² SUNY Administration, *Trends in Tuition and Fees at the State University of New York 1990-91 through 2002-03*.

support (\$1.0 million), and a reduction in the supplemental student financial aid component of the College Discovery program (\$0.4 million).

This proposal represents a major cut in one of three funding sources on which community colleges rely: State aid, support from local government sponsors and tuition. It is likely the reduction of State Aid will result in tuition increases and further strain local funding resources.

The Executive Budget's proposal in 2002-03 called for a freeze in aid to community colleges, but was rejected by the Legislature. The Enacted Budget included a \$50 (per FTE) increase in aid. Even with the added State support, the majority of SUNY's community colleges voted to increase tuition. Community colleges are traditionally considered a low-cost point of access to higher education – further tuition increases will make them less affordable. Presently, New York's public 2-year institutions cost more than double the national average.²³

Tuition Assistance Program Restructuring

The Executive Budget includes a proposal for restructuring TAP that is similar to the one proposed in 2002-03 that was rejected by the Legislature. The proposal provides for the State to withhold 1/3 of student TAP awards each year until after graduation. The Executive proposes this as a way to encourage students to complete their studies, in a timely way. The Executive Budget estimates an initial State savings of approximately \$268 million, to be reduced by roughly \$25 million each year, as TAP awards are paid out to graduating students.

As structured, the TAP proposal provides for students to finance the performance award through federal student loans. For students who have already exhausted their federal student loan eligibility, the Governor's proposal includes an \$11.5 million TAP loan component. Although the State will cover all interest costs associated with financing the performance award, an expectation that students take on additional debt is troublesome given national trends. According to a recent National Center for Education Statistics (NCES) Postsecondary Student Aid Study:

- 39% of student borrowers graduate with unmanageable levels of federal student loan debt.
- 71% of low-income students graduate with debt, compared to 44% of wealthy students.
- 55% of African-American and 58% of Hispanic student borrowers graduate with unmanageable levels of debt.

²³ U.S. Department of Education, *Digest of Education Statistics, 2002*. (Ranking excludes District of Columbia).

Scholarship and Opportunity Programs

New York State's opportunity programs help provide counseling, academic and financial support for economically and educationally disadvantaged students. Without these supports, many students would not be able to attend college, or to complete requirements for a degree. The Executive Budget proposes: elimination of the supplemental student financial aid component of HEOP (\$11 million); elimination of STEP and C-STEP funding (\$10 million); a reduction to the Liberty Partnerships Program (\$6.5 million); and a reduction in funding for the Teacher Opportunity Program (\$750,000).

The budget provides \$21.1 million in funding for various scholarship and fellowship programs – a reduction of \$2.8 million from 02-03 levels. The following scholarship programs will be suspended for new students: Scholarships for Academic Excellence, Regents Health Care Opportunity Scholarships, and the Regents Professional Opportunity Scholarship.

Bundy Aid

The Aid to Certain Independent Colleges and Universities, popularly referred to as Bundy Aid, is a program that provides direct unrestricted financial support to certain independent postsecondary institutions located in New York State. Aid is based on number of degrees conferred, and in 2002, 103 private institutions participated in the program.

The Bundy Aid program has not been fully funded since 1990 – if fully funded, the cost of Bundy Aid would exceed \$134 million in 2003-04. Last year, participating institutions received approximately \$44 million in Bundy Aid. This year, aid is reduced by \$18.7 million—a figure that reflects the discontinuation of aid for Masters and Doctoral degrees.

Governance

The Executive Budget also calls for the removal of statutory obstacles so that SUNY and CUNY Board of Trustees have more flexibility to develop a comprehensive and long-range tuition policy – one that would authorize the Boards to:

- Establish different tuition rates for graduate and professional students
- Implement annual incremental adjustments to tuition
- Maintain balance between taxpayer support and student support
- Set tuition rates prior to enactment of the State budget

SUNY Hospitals

The Executive Budget proposes to seek legislative authorization to restructure SUNY hospitals into private not-for-profit corporations. While the Executive Budget does not offer a projection of cost savings, potential long-term savings of \$96 million are anticipated as a result of eliminating of the hospital subsidy.

College Savings Program

The New York College Savings Program helps individuals and families save for higher education expenses at public or private colleges or universities, business, trade, technical or other occupational schools in New York, across the country, or around the world. Under New York's innovative program, individuals may deduct up to \$5,000 in contributions annually from State taxable income. Married couples may deduct contributions up to \$10,000 on their New York taxes.

The Executive Budget includes a proposal that would increase administrative fees charged on college saver assets by 5 basis points. This action is estimated to generate \$780,000 in revenue that will be used to offset administrative costs. This additional fee may serve as a disincentive for New Yorkers to enroll in the program or continue to participate.

Local Governments

Local governments across New York continue to struggle with rising costs and inadequate resources. Prior to the release of the Executive Budget, counties statewide faced difficult decisions in order to balance their 2003 budgets including whether to raise property and sales taxes, curtail services, implement job cuts and hiring freezes or a combination of these and other budget actions. To meet current year budget projections, 53 Counties and New York City have already proposed local tax increases – 23 Counties and the City of New York have already proposed double-digit property tax increases.

Local property taxes have long been a concern in New York State. When combined with the State tax burden New Yorkers pay more in taxes per \$1,000 of personal income than residents of any other state.

The Executive Budget recommends various changes in funding streams for local government entities, including school districts, which are projected to result in a net loss of \$149 million in funding in 2003-04.

General Purpose Local Government Aid remains at the 02-03 funding levels. The \$22 million county aid program is set to expire and the Executive Budget does not call for its renewal. Emergency aid will also remain at 02-03 funding levels.

Aid to Local Governments

(Dollars in Millions)

Program or Funding	02-03	Recommended	Difference
Aid to Counties	\$22.0	\$0	(\$22.0)
Emergency Financial Aid to Certain Cities	\$26.4	\$26.4	---
Emergency Financial Assistance to Eligible Municipalities	\$20.8	\$20.8	---
General Purpose Local Government Aid	\$561.6	\$561.6	----
TOTAL	\$630.8	\$608.8	(\$22.0)

Source: Division of the Budget

Budget Impact

The net effect of other local government actions in the Executive Budget is a \$149 million loss of funding. The Executive has proposed several budget actions, that considered together, provide \$658 million in benefits for Counties, New York City and other local governments. However, the benefits of these actions are more than offset by the negative impact on local school districts of the reduction in school aid and other proposed changes. Together, these actions cost school districts and the City of New York \$807 million.

With the exception of New York City, the potential benefits of proposed mandate relief was not calculated and is therefore not included in the \$658 million net benefit figure shown below. Past mandate relief proposals have been rejected by the Legislature.

PROGRAM AREA	SFY 03-04 IMPACT (\$ MILLIONS)	DESCRIPTION
Medicaid	\$260	Various cost containment measures; program realignment (SWAP—local governments assume greater share of in/out patient and clinic costs in exchange for State takeover of pharmacy costs); loan forgiveness on county Medicaid advances.
Welfare	(\$264)	Fewer TANF funds to reimburse prior year expenditures, reduction in State reimbursement for admin costs, cap on TANF offset
Childcare Subsidies	\$43	Increased funding
Public Health	(\$32)	Changes to General Public Health Works Program would provide 30% State reimbursement for core services and eliminate reimbursement for optional services
Early Intervention	\$37	Increased program oversight
Cap on Overburden Aid	(\$20)	Aid (OMRDD portion) is capped at 2002 levels.
Revenues	\$336	Clothing tax conversion; REP revenues; increased fines, fees, surcharges, including local option to add a \$5 surcharge to auto insurance premiums.
Wicks/Legal Parity(NYC)	\$120	Repeal of Wicks Law; transfer jurisdiction to Court of Claims; permits collateral sources to offset awards; and impose a market-based interest rate on judgments.
Battery Park City	\$220	Reflects restructuring of Battery Park City Authority outstanding debt and purchase of adjacent NYC-owned property
Miscellaneous	(\$22)	Albany PILOT, NYC PIT assessment, defense counsel rate increase, Empire Zone administration reduction, probation block grant, SOFA reduction, CUNY Building and Equipment Fund (BERF)
	Total: \$658	

Source: Division of the Budget

Impact of 2003-04 Executive Budget on Local Governments
State Fiscal Year Basis
(Dollars in Millions)

	Total	Counties	NYC	Other Locals	School Districts
Budget Action	\$658	\$237	\$409	\$17	(\$5)
School Aid Reduction	(\$807)	N/A	(\$316)	N/A	(\$491)
Total Impact	(\$149)	\$237	\$93	\$17	(\$496)

Note: Savings from some of the proposals contained in mandate relief legislation being advanced with the Budget are quantifiable for New York City and, therefore, shown in the table. Savings from these items for other classes of government have not been calculated.

Source: Executive Budget Documents

Calculations showing a net benefit for local governments other than school districts do not factor in potential negative secondary effects of proposed changes. In addition, several concerns have been raised about the actual value of the proposals.

- Secondary impact to nursing homes, hospitals: After initial review of the Executive Budget, The New York State Association of Counties (NYSAC) argues that the Medicaid net benefit of \$260 million fails to account for the potential impact many of the cost containment proposals might have on hospitals, nursing homes, and home health agencies operated by counties.
- Reduction in aid to community colleges: The Executive Budget cuts operating aid to community colleges by \$345 per full time equivalent student. Community colleges receive their funding from three main sources: state support, tuition, and sponsor (local government) contributions. Colleges have to consider student tuition increases and increases in sponsor contributions in order to address these reductions. In doing so, the potential for property tax increases is significant. The estimated savings on the State side is nearly \$55 million (\$14.0 million at CUNY, and \$40.6 at SUNY).
- Non-recurring funds: The \$172 million in Medicaid loan forgiveness to counties is a *one-time* benefit. This figure accounts for nearly 70% of the total Medicaid benefit of \$260 million. The \$200 million benefit tied to the restructuring of Battery Park City Authority debt is also a non-recurring benefit.
- County revenue sharing: This program, which last year provided \$22 million in fiscal relief to counties, has expired. The Executive Budget does not call for its renewal. This unrestricted aid program was introduced in 2000-01 budget, and was linked to HCRA and the increased costs to counties related to the Family Health Plus Program.
- Empire Zone real property tax proposal: The Executive Budget advances legislation requiring local governments to cover 50 percent of the Empire Zone real property tax credit for new designees. The move is not quantified, but county governments have

expressed concern over what they see as a significant cost shift. The Budget also recommends a \$3.5 million cut to local administrative costs related to the Empire Zone program.

- Clothing tax conversion: The Executive proposes eliminating the permanent sales tax exemption for clothing under \$110, in favor of a new exemption for clothing under \$500, which would apply for four one-week periods. Although the Executive estimates a net benefit of \$240 million, the proposal raises concern over the potential impact on retail employment and lost revenue to neighboring states that maintain permanent exemptions.
- The proposed school aid cuts of \$1.24 billion will likely force higher local property taxes.

The impact of changes in support for local governments also should be considered in the context of the potential for federal tax changes to reduce local government revenues. Like New York State, New York City and the City of Yonkers base their income taxes on the federal definition of income, so reducing the amount of dividends included in federal income will reduce state and local income tax revenues as well. President Bush's plan to stop taxing corporate dividends will cost New York City \$125 million in 2003, \$525 million over four years and \$1.55 billion over 10 years. The City of Yonkers will see a decline in revenues of about \$230,000 this year, and \$1 million over four years. New York City will lose capital gains tax revenues of \$50 million over four years and \$450 million over 10 years. Yonkers also will lose capital gains tax revenues.

Debt issuers in the State, including all local governments, would have to increase interest on notes and bonds to compete with tax-free dividends proposed in the Bush Plan. If the interest rate increased by only 50 basis points, or one half of one percentage point, borrowing costs for New York City alone will increase by \$35 million this year, \$266 million over four years and \$1.3 billion over 10 years.

Mandate Relief Proposals

A mandate relief package is also offered in the proposal. Full repeal of the Wicks Law, options for financing pension and other costs, provisions for mergers, procurement flexibility, revenue enhancements, and greater consideration of a government's fiscal constraints by binding arbitration panels are all actions highlighted in the Executive Budget. Local governments have long called for mandate relief measures as a way to alleviate their financial burdens and promote more effective and efficient local government operations. The Legislature has rejected Executive mandate relief proposals in the past. This is important to note, since the Executive Budget alludes to significant cost savings to local governments if such measures are adopted. In fact, repeal of the Wicks Law (along with other relief measures) is part of an estimated \$120 million benefit to New York City in 2003-04.

Other Actions

The Executive Budget also proposes legislation that addresses fiscal stability of local governments by outlining steps for identifying those in fiscal distress and steps for applying corrective measures. The Office of the State Comptroller would facilitate this action, and, as a result of the proposed legislation, local governments would be required to respond to the Comptroller's findings and to follow a prescribed course of action.

The Office of the State Comptroller is reviewing these proposals.

Health Care

The Executive Budget includes proposals to decrease spending for Medicaid, including a cutback in eligibility for Family Health Plus. Reauthorization of HCRA is recommended and new revenue sources are identified to replace the loss of Tobacco Settlement payments. In the area of mental hygiene, the Budget advances initiatives to develop 2,000 new community-based mental health beds, close five state operated in-patient mental health facilities and expand upon the NYS-CARES program to provide community services for persons with developmental disabilities.

Medicaid

The Executive Budget recommends \$5.46 billion in General Fund spending for Medicaid in 2003-04, which represents a net decrease of \$482 million (8.1 percent) from 2002-03. Estimated total spending of \$5.94 billion in 2002-03, includes a proposed deficiency appropriation of \$100 million to accommodate additional expenditures for pharmacy, nursing home and transportation services. The Executive Budget includes new cost containment proposals generating State savings of \$1.23 billion that offset entitlement growth of nearly \$514 million and approximately \$600 million in other additional State costs. Entitlement growth factors include \$339 million in price increases (from trend factors, managed care premiums and drug price increases) and \$174.8 million in utilization increases (prescriptions, new nursing home beds, and home health utilization). Additional State costs are driven by \$138 million for an extra week of Medicaid payments in 2003-04, replacing \$90 million in payments from the Federal government for nursing home intergovernmental transfers that are being phased out, and replacing \$91 million in Tobacco Settlement funding that had been dedicated to the Medicaid budget. The Executive Budget projects that the average monthly caseload in the Medicaid program, currently 3.3 million, will rise to 3.5 million in 2003-04, due to the economic slowdown.

Department of Health General Fund Medicaid Spending

Executive Budget (Dollars in Billions)

Fiscal Year	Amount	Growth	Program Growth
2001-02 Actual	\$6.20	9.0%	7.3%
2002-03 Estimated	\$5.94	-4.2 %	7.2 %
2003-04 Proposed	\$5.46	-8.1 %	7.5 %

The Executive Budget's \$1.23 billion in State Medicaid savings would have a far-reaching impact on specific providers, the health care industry as a whole, recipients of health care services, and the State's overall financial picture. The Executive Budget cost containment package includes:

- More than \$500 million in provider cuts to hospitals, nursing homes, pharmacies and home care agencies that would have a total industry impact, after including the Federal and local shares of Medicaid, of almost \$1.3 billion;
- Over \$75 million in savings measures directly affecting recipients of care;
- \$144 million in savings from maximizing Federal revenue; and
- \$116.5 million from transfer of previous General Fund spending to other funds.

Provider cuts include eliminating the trend factor in Medicaid rates for hospitals, nursing homes and home care providers, cutting drug reimbursement rates from average wholesale price (AWP) minus 10 percent to AWP minus 15 percent, restructuring the State's nursing home reimbursement system, and implementing a Preferred Drug program to encourage the appropriate use of prescription drugs.

The Executive's Preferred Drug program, to be implemented administratively, achieves State savings of approximately \$19 million in 2003-04 (\$136 million in 2004-05) by shifting utilization to lower cost drugs through a system of prior authorization and by requiring pharmaceutical manufacturers to provide higher rebates on preferred drugs. Certain drugs used for AIDS, mental health treatments, and organ transplants would be exempt from prior authorization requirements.

The Executive Budget reduces coverage for Medicaid recipients by rolling back parents' eligibility for Family Health Plus from 150% to 133% of the Federal Poverty Level (State share savings of \$20 million) and by reversing the Medicaid expansion for children 6-19 in families making 100% to 133% of FPL, shifting 234,000 children from Medicaid to Child Health Plus (CHIP). This achieves State share savings of \$42 million in 2003-04, as a result of lower cost CHIP premiums (\$116/month) as compared to Medicaid premiums (\$184/month). The Executive expects 214,000 enrollees in Family Health Plus by March 2004, an increase of almost 75,000 over current levels. But the rollback in FHP eligibility would keep an estimated 22,000 parents from enrolling in the program. Children affected by the Medicaid rollback would be shifted to CHIP when they come up for recertification, most of them in 2004-05 (State share savings of \$120 million in 2004-05).

In addition to rollbacks in eligibility, the Executive proposes to increase Medicaid recipients' co-payments for pharmaceuticals (State savings of \$7 million) and requires Medicaid Managed Care recipients to make pharmacy co-payments for the first time (\$6.1 million in State savings).

The Budget proposal raises \$207 million to offset General Fund Medicaid costs by imposing an assessment on the gross receipts of hospitals (\$190 million) and home care providers (\$17 million). The Executive Budget recommends a swap in some Medicaid costs between the State and local governments: the State would pick up local governments' drug costs in exchange for local governments increasing (from 25 to 37 percent) the portion they pay to hospitals and clinics (\$227 million in State share

savings). The Executive Budget projects a savings of \$220 million for counties outside of New York City as a result of the swap. This proposal increases costs for New York City.

The Executive Budget proposal to restructure the Graduate Medical Education program would eliminate 1,400 of 15,000 slots for medical residents, most them in New York City teaching hospitals. Additionally, approximately \$261 million in the Executive Budget is State share savings from Federal maximization (\$144 million) and HCRA offsets (\$117 million). The Executive Budget also makes permanent cost containment actions enacted in prior year budgets (State savings of \$307 million).

2003-04 Proposed Medicaid Reductions
(Dollars in Millions)

Provider Type	Description	State Impact	Industry Impact
Hospitals	Re-establish .7% Hospital Assessment	\$190.2	\$190.2
	Eliminate Inflationary Trend Factors	\$14.4	\$57.6
	Re-structure Graduate Medical Education	\$15.7	\$62.8
	Other reductions	\$22.6	\$90.4
Nursing Homes	Implement Regional Average Reimbursement Methodology	\$59.9	\$149.8
	Eliminate Inflationary Trend Factors	\$46.7	\$116.8
	Implement MA-Only Case Mix Adjustment	\$46.0	\$115
	Eliminate Return on Equity	\$5.0	\$12.5
Home Care	Eliminate Inflationary Trend Factors	\$15.4	\$38.5
	Re-Establish .6% Home Care Assessment	\$17.0	\$17.0
	Establish Utilization Review for CHHAs	\$7.3	\$18.3
	UR Cost	(\$0.6)	(\$1.5)
Pharmacy Care	Lower Pharmacy Reimbursement to AWP minus 15%	\$81.4	\$325.6
	Enhanced Rebates from Preferred Drug Program	\$5.7	\$22.8
	Prior Authorization on Select Drugs	\$13.0	\$52.0
	Medicare Enrollment of Pharmacy Providers	\$3.0	\$12.0
	Enhanced Rebate/Prior Authorization Admin Costs	(\$2.9)	(\$11.6)

Provider Type	Description	State Impact	Industry Impact
Federal Maximization	Hospital Upper Payment Level Savings	\$129.0	0
	Additional Nursing Home UPL Savings	\$15.0	0
Other	Program Swap – State Picks Up Local Pharmacy; Locals Pick Up 37% of Hospital/Clinic Costs	\$227.0	0
	Additional General Fund Transfers to HCRA	\$116.5	0
	Reverse MA Expansion for Kids to 133% FPL	\$42.0	0
	Medicare Crossover	\$38.1	\$152.3
	Accelerate Recovery of Over-Payments/Audits	\$22.0	\$88.0
	Rollback Family Health Plus for Parents from 150% to 133% FPL	\$20.0	\$80.0
	Limit Family Health Plus Negotiated Premium Increases	\$19.2	\$76.8
	Eliminate 4 th Year Dental Settlement Payment	\$12.0	\$48.0
	Increase MA Co-Pay For Pharmacy	\$7.0	\$28.0
	Require Pharmacy Co-Pays for MA Managed Care	\$6.1	\$24.4
	Other Reductions	\$40.0	\$85.0
Admin Costs	(\$2.0)	(\$8.0)	
Total		\$1,231.7	\$1,842.7

Health Care Reform Act (HCRA)

The Executive recommends reauthorizing HCRA for two additional years (through June 2005) and dedicating \$8.7 billion for health care programs over that time. The Executive's HCRA proposal includes a number of additional revenue sources to support new and on-going program costs and to replace \$847 million in Tobacco Settlement payments. Following the transfer of the April 2003 Tobacco Settlement payment of approximately \$456 million to HCRA's tobacco control and insurance initiatives pool, the Executive proposes to securitize future payments to provide budget relief.

Additional HCRA revenue sources in 2003-04 include:

- \$20 million increase in surcharges health plans pay when their enrollees receive health care services (for a total of \$1.03 billion in 2003-04);
- \$9 million increase in the fees health plans pay for each enrollee to support graduate medical education costs (the “covered lives assessment,” totaling \$699 million in 2003-04);
- \$30 million from an amnesty program encouraging providers to remit overdue HCRA payments; and
- \$83 million in additional Empire conversion proceeds (for a total of \$400 million in 2003-04).

HCRA continues to receive the 1 percent more than 60 percent of the proceeds from the State cigarette tax of \$1.50 per pack (an estimated \$632 million in 2003-04) as well as the 1 percent assessment on hospital gross receipts (\$157 million in 2003-04).

For the period from April 2004 through June 2005, the Executive estimates that HCRA will receive over \$1.6 billion in new revenue, including:

- \$600 million in additional Empire conversion proceeds (over and above the \$634 million already budgeted for the 15-month period);
- \$200 million in proceeds from other for-profit health plan conversions (the Executive has proposed legislation to expand current law that only authorized the Empire conversion to proceed);
- \$101 million in increased health care services surcharges;
- \$52 million in increased fees from the covered lives assessment;
- \$15 million in amnesty collections;
- \$350 million in Federal aid for New York hospitals transitioning to managed care (related to the extension of the State’s Medicaid Managed Care waiver); and
- \$330 million in World Trade Center disaster reimbursement from the Federal Emergency Management Agency (FEMA) for costs the City and State incurred while responding to the disaster; these expenses are not reimbursable under current federal disaster assistance programs.

Over half (\$170 million) of the \$330 million is for the costs of Disaster Relief Medicaid, a temporary public health insurance program created after the September 11th attack because of damage to the Medicaid program’s computer systems. The Executive Budget anticipates FEMA funding to pay for a variety of State costs borne out of the World Trade Center disaster, including guarding bridges and promoting tourism in the

City through a special *I Love New York* campaign. On February 6, 2003, the Bush Administration tentatively agreed to provide the FEMA funding. However, Congressional approval is required. The Executive's plan to use at least some of the funding for non-health care related purposes may also undermine support for spending priorities outlined in the HCRA reauthorization proposal.

An additional risk to HCRA funding is the State's reliance on existing or additional Empire conversion proceeds as well as proceeds from other prospective health-plan conversions. Litigation to prevent the State from taking most of the proceeds from the Empire conversion is still pending. Given recent stock market volatility, it is also unclear if future sales of Empire stock (listed as WellChoice on the New York Stock Exchange) will generate sufficient funds to support HCRA programs. WellChoice sold for \$25 a share at its initial public offering, generating over \$400 million for HCRA, but has traded as low as \$19.40 per share in early January and could generate far less money than the State is planning on for 2004 and 2005.

It is also worth noting that, in the past, the State has spent Federal aid for New York hospitals transitioning to managed care - \$1.25 billion over 5 years under the Community Health Care Conversion Demonstration Project (CHCCDP) – on just such activities. The Executive HCRA proposal to spend \$350 million in new CHCCDP funding on various other health care programs is a departure from past practice. It may be unrealistic to rely on these funds for HCRA programs when hospitals may be relying on the funds to help balance their own budgets.

The Executive Budget also appears to be relying on carrying over existing HCRA cash balances of \$500 to \$600 million to mitigate possible shortfalls in new and additional sources of revenue. However, it is unclear just how much of that amount would actually be available for supporting existing and/or proposed HCRA funding levels, assuming the Legislature adopts the Executive's proposal to provide flexibility to ensure that HCRA programs are appropriately funded within available resources.

The Executive Budget recommends level funding for many current HCRA programs including hospital indigent care, Graduate Medical Education, school-based health centers, hospital-based grants, maternal and child HIV services, and breast and cervical cancer treatment. [Please refer to Appendices 2, 3 and 4 for charts depicting funding sources and HCRA distributions for the Indigent Care and Health Care Initiatives Pools, the Tobacco Control and Insurance Initiatives Pool, and the Professional Education Pool].

The Executive recommends additional funding for new and existing HCRA programs including:

- Child Health Plus (\$274.9 million in additional funding, total of \$1,008 million),
- EPIC (\$390.2 million additional, total of \$1,093 million),
- AIDS drug assistance program (\$96 million additional, total of \$126 million),

- DOH public health programs (\$51.9 million additional, total of \$238.9 million),
- Medicaid buy-in program for the working disabled (\$33.6 million additional, total of \$71.7 million), and
- The State's adult home initiative to conduct client assessments, provide enhanced medication management and implement enhanced service coordination (\$4 million in new funding).

The proposed Budget also funds most of the initiatives to recruit and retain health care workers that were advanced in HCRA 2002. Under the adult home initiative, people who are assessed and designated for placement outside the adult home system would be eligible to access the Office of Mental Health's community residential system, which now supports over 26,000 beds for adults and children. The Executive Budget provides \$65 million in capital to help begin construction of 1,000 new community-based residential beds. Another 1,000 beds already in the construction pipeline are expected to come on line in 2003-04.

The Executive Budget also recommends, from July 2003 through June 2005, over \$150 million in cuts to existing HCRA programs including

- Worker retraining (\$63 million cut, revised allocations \$57 million)
- Rural health care initiatives (\$6.2 million cut, revised allocations \$27.8 million)
- Catastrophic health insurance (\$10.8 million cut, revised allocations \$0)
- Cancer initiatives (\$5.7 million cut, revised allocations \$14.3 million)
- Poison control (\$2 million cut, revised allocations \$8 million)
- Emergency medical services (\$7.4 million cut, revised allocations \$40.6 million)
- Financially distressed nursing homes (\$3 million cut, revised allocations \$17 million)
- Infertility grants (\$1.1 million cut, revised allocations \$8.9 million) and
- Anti-tobacco programs (\$15.7 million cut, revised allocations \$64.3 million).

Overall, the Executive Budget's HCRA reauthorization proposal would provide General Fund relief of \$214 million in 2003-04 and \$351 million in 2004-05, by offloading Medicaid pharmacy costs.

Child Health Plus (CHIP)

The Executive Budget's HCRA re-authorization proposal extends Child Health Plus, the State's program of subsidized health insurance coverage for children under 19, for two additional years – until June 2005.

Enrollment in the program was 520,000 children in November 2002. By March 2004, the Executive expects enrollment to reach 550,000. The Executive attributes the enrollment increase to the program's streamlined enrollment process and a proposal to reverse an initiative enrolling children 6-19 in families making 100 to 133 percent of the Federal Poverty Level in Medicaid rather than CHIP. The Executive asserts that, even though Medicaid's service package is stronger, parents prefer to enroll their children in CHIP. The Executive Budget proposal reflects this enrollment growth, increasing spending from Federal and other resources to more than \$944 million in 2003-04.

Child Health Insurance Program Summary

(Dollars in Millions)

Funding Source	Estimated 2002-2003	Proposed 2003-2004	Change	Growth
Federal Funds	\$402	\$529.1	\$127.1	31.6 %
State Funds	\$397.6	\$415.3	\$17.7	4.5 %
Total Spending	\$799.6	\$944.4	\$144.8	18.1 %

Overall, the Executive Budget projects an 18.1 percent increase in CHIP spending in 2003-04. Year-to-year growth in Federal funds is expected to be greater than State share growth due to increased enrollment at the traditional 65 percent Federal – 35 percent State shares. Roughly equivalent Federal and State shares in 2002-03 reflected the enrollment of larger numbers of legal immigrant children, who are funded at 100 percent State share. In 2002-03, CHIP enrolled 125,000 legal immigrants, but expects to enroll just over 74,000 in 2003-04. In 2002-03, CHIP enrollment included 404,000 non-immigrant children, that number is expected to increase to 475,000 in 2003-04.

Elderly Pharmaceutical Insurance Coverage (EPIC)

The Executive Budget would cut the Elderly Pharmaceutical Insurance Coverage (EPIC) program – a State sponsored drug plan for non-Medicaid eligible senior citizens – by \$38 million. A reduction in the pharmacy reimbursement rate from 90 to 85 percent of the average wholesale price (AWP), a 10 percent increase in program fees and deductibles for seniors, and a requirement for drug manufacturers to provide enhanced rebates would produce the projected savings.

Since 2000, when the Governor signed legislation raising EPIC income-eligibility levels and reducing program fees, enrollment has increased by more than 160 percent – from 115,000 in 1999 to more than 300,000 today. The Executive Budget expects EPIC enrollment to increase to 328,000 by March 2004. Estimated enrollment by March 2003 is 310,000. In March 2002, EPIC had 265,406 enrollees.

EPIC Summary
(Dollars in Millions)

Funding Source	Actual 2001-02	Estimated 2002-03	Proposed 2003-04	Change: 02-03 to 03-04	Growth: 02-03 to 03-04
General Fund	\$115.4	\$0.0*	\$0.0	\$0.0	0 %
Rebates	\$79.9	\$117.9	\$147.6	\$29.7	25.2 %
Fees and Deductibles	\$16.1	\$18.6	\$20.8	\$2.2	11.8 %
HCRA Funds	\$174.6	\$378.2	\$409.4	\$31.2	8.2 %
Total Spending	\$385.9	\$514.7	\$577.9	\$63.2	12.3 %

* General Fund disbursements in 2002-03 are carry-in spending.

Source: Division of the Budget

Even after taking proposed savings, the Executive Budget projects a 12 percent increase in EPIC spending in 2003-04. In 2004-05, to hold down costs even further, the State Health Department intends to take administrative action to implement a Preferred Drug Program for EPIC that will use expert clinical research to identify preferred drugs that are both clinically effective and less costly, taking into account the rebates offered by manufacturers. The Department's Pharmacy and Therapeutics Committee – comprised of clinicians, practitioners, and pharmacists - will guide selection of preferred drugs in the EPIC program.

Public Health

The Executive Budget recommends changes in a number of public health care programs, most notably Early Intervention and General Public Health Works.

The Early Intervention (EI) program provides services like speech and physical therapy to infants and children with developmental delays, at no cost to their families, regardless of their income level. Costs of the program have grown from \$115 million in

1999-2000 to \$270 million (projected) in 2003-04, a 135 percent increase. Currently, the State and local governments together spend an average of \$9,000 a year for each of the 75,000 children participating in the program. The Executive Budget estimates \$55 million in savings for local governments in 2003-04. The State would achieve similar savings, but not until 2004-05, because it reimburses county costs a year later.

Specific proposals to contain EI costs include requirements for:

- health insurers to cover the first \$5,000 in EI costs (State savings of \$25.6 million in 2004-05).
- families to start paying for program costs (State savings of \$23.9 million in 2004-05). Under this proposal, parents (20%) and the State and local governments (80%) would share the balance, but the Executive Budget exempts families earning less than 160 percent of the Federal Poverty Level from making any contribution.
- EI providers to bill Medicaid and health insurers directly, counties to negotiate rates with EI providers and, pursuant to Federal law, discharge children from the program at age 3, if appropriate (State savings of \$6 million in 2004-05).

The State would save \$32.3 million in 2003-04 (double that amount in 2004-05) by re-structuring the General Public Health Works program. Currently, the State reimburses counties and New York City for 36 percent of the costs exceeding their base grant of providing basic health services such as family health, disease control, health education, community health assessment, and environmental health. The Executive Budget reduces the State's reimbursement level to 30 percent. The budget proposal also eliminates the State's 30 percent reimbursement of optional health services such as home health services and long-term care.

Mental Hygiene

The Executive Budget recommends closing in-patient beds at five State psychiatric centers – the Elmira, Hutchings, and Middletown adult facilities on July 1, 2003 and the Bronx Adult and Bronx Children's facilities on October 1, 2005. The beds at Elmira, Hutchings and Middletown would be transferred to nearby facilities (the Rochester, Mohawk Valley and Rockland psychiatric centers, respectively). The facilities' outpatient programs continue. The Elmira, Hutchings and Middletown closures would eliminate 343 positions and generate \$10 million in 03-04 savings (\$18 million, full annual savings). These savings would help to fund a cost-of-living-adjustment and clinic fee increases for community mental health providers commenced in December 2002. The Office of Mental Health plans to close another 60 adult, non-geriatric beds in 2003-04 for additional savings of \$4.2 million. None of these funds would be reinvested in community services.

Closure of the Bronx facilities in 2005 would generate \$9 million in overhead and fixed cost savings in 2005-06. The 340 beds at the Bronx Adult Psychiatric Center would be transferred to the Queens Psychiatric Center and the Pilgrim Psychiatric Center on

Long Island. Twenty-eight of the 78 beds at Bronx Children's would be shifted to other downstate children's facilities, most likely the Queens Children's Psychiatric Center and the Sagamore Children's Psychiatric Center on Long Island. The Executive Budget closes the remaining 50 beds at Bronx Children's, because of chronic under-utilization of the State's bed capacity for children. The Executive Budget proposes new legislation to reinvest the Bronx Children's savings into children's crisis intervention beds, home-based crisis intervention teams and new home and community-based services waiver slots in 2004-05. The budget proposal provides no specifics about any other bed closures in 2004-05, but the Executive's first priority is to reinvest the savings from any such closures in 600 new supported housing beds. Savings from additional bed closures or facility closures would be reinvested in workforce stabilization activities. The Executive's reinvestment legislation sunsets in March 2007.

The Executive Budget also recommends closing the Nathan S. Kline Institute, an Office of Mental Health research facility in Rockland County, and consolidating it with OMH's other research facility, the New York Psychiatric Institute in Manhattan. The Executive Budget anticipates \$7.8 million in State savings from the closure and consolidation, primarily by eliminating over 100 salaried positions; a number of research titles at both facilities already have been identified for early retirement.

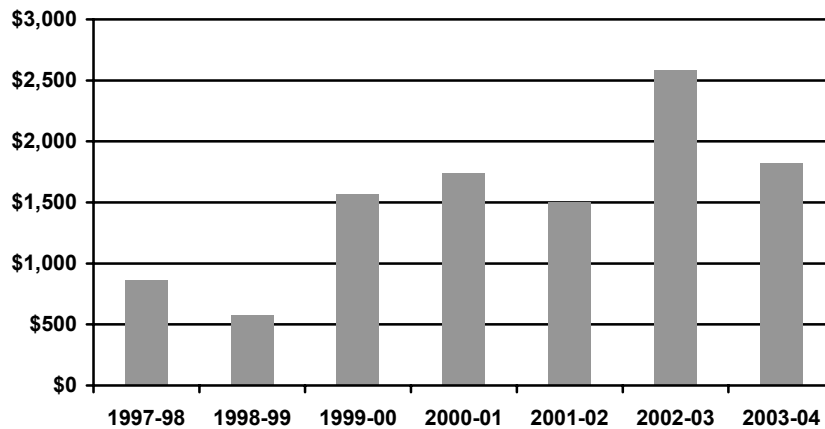
Another major budget initiative is a \$65 million capital appropriation to start development of 1,000 new community-based beds for people leaving adult homes and State psychiatric centers as well as the homeless mentally ill. The appropriation requires a match from providers or local governments, but when the beds open, the State would provide the support to operate them. The Office of Mental Health has yet to determine the location and configuration of the new beds. If their construction involves rehabilitating an existing building, the beds would take 18 months to build. The Executive Budget also recommends starting development of an additional 1,000 community-based beds, but not until 2005-06. The Executive expects 1,000 community-based beds already in the construction pipeline to open by the end of 2003-04. The pipeline includes another 1,400 beds that will come on line at a later date. Currently, the Office of Mental Health supports a total of 26,100 residential beds in community settings for adults and children.

For people with developmental disabilities, the Executive Budget recommends development of an additional 1,900 beds and related day and family support services at a cost of \$40 million in 2003-04 (NYS-CARES II). The Executive Budget also recommends closing the Institute for Basic Research on Staten Island – the research component of the Office of Mental Retardation and Developmental Disabilities - and eliminating the Youth Opportunity Program, whose mission is to attract young people to mental hygiene agencies' long-term workforce.

Public Assistance

New York receives an annual block grant of \$2.44 billion from the federal government to help fund public assistance. This amount was based on the public assistance caseload in 1995. Since that time, caseloads have declined significantly and New York now receives a greater share of total program costs from the federal government. The additional amount of federal funding compared to the old program is generally called the Temporary Assistance for Needy Families Surplus or “TANF surplus.” These monies are spent on a range of support services, including child care, job training, employment subsidies, and transportation, which are designed to assist families in attaining self-sufficiency. The Executive Budget estimates the TANF surplus to be \$1.82 billion.

**Available TANF Surplus Monies
(\$ Millions)**



Note: 2002-03 Included use of \$955 million TANF reserves.
2003-04 would use \$408 million from TANF FFY2003-04

TANF Surplus

In State fiscal year 2003-04, the proposed budget uses the entire \$1.82 billion in TANF surplus spending – it does not set aside any TANF surplus funds for future needs. The Executive Budget also proposes to draw down \$408 million in Child Care Block Grant funds on October 1, 2003, the beginning of federal fiscal year 2003-04. This change allows the State to access Child Care Block grant monies earmarked for SFY 2004-05 early, providing a one-time financial benefit. Drawdown for this block grant would need to be taken at the same time in future years in order to maintain recurring funding.

In order for the State to fully expend the federal block grant, spending must adhere to the required maintenance of effort (MOE) level, which for 2003-04 the Executive estimates would be \$1.72 billion. Generally the MOE requirement is split equally between the State and local governments. Both the State and local governments are expected to reach the required MOE for 2003-04.

Allocation of Available Federal TANF Surplus Monies²⁴

(Dollars in Millions)

Program	2003-04
Child Welfare (Title XX, local JD/PINS, NYC foster care tuition)	\$549
Tuition Assistance Program	\$225
Earned Income Tax Credit (EITC)	\$382
Child Care Block Grant	\$408
Earned Income Tax Credit (Prior year claims)	(\$2.1)
Services/Education/Health	\$86.5
Employment/Transitional Initiatives	\$50
Child and Dependent Care Credit (CDCC)	\$107.7
Child and Dependent Care Credit (Prior year claims)	\$7.3
Welfare Management System Redesign	\$10
TOTAL	\$1,823

Source: Division of the Budget

TANF surplus related highlights include:

- \$67.6 million increase of TANF surplus to \$408 million for the Child Care Block Grant (CCBG). Under the State's CCBG, funding is used to provide child care for low-income parents.
- \$155 million decrease in TANF surplus funding available for the Tuition Assistance Program (TAP) to \$225 million.
- \$31 million in increased funding for the State's Earned Income Tax Credit (EITC) to \$382 million. The EITC provides a personal income tax credit for income-eligible families. In 1999-00, the State began to claim a portion of the EITC against the MOE. Additionally, EITC is proposed to be increased to 30 percent of the Federal benefit for 2003.
- A net loss of \$282 million from 2002-03, due to the unavailability of TANF funds to reimburse for prior year EITC and Child and Dependent Care Credit.

²⁴ TANF Surplus represents initial block grant of \$2.44 billion plus \$.408 billion drawn down from FFY 03-04 and \$.026 billion in previous year recoupments -- \$1.054 billion welfare benefits administration.

- \$20.7 million in increased funding for Child and Dependent Care Credit (CDCC) for a total of \$107.7 million. This credit provides assistance through the tax system for parents/guardians to pay child care costs for one or more children under age 13 residing with them, while the parent/guardian works or looks for work.
- \$8 million in decreased funding for various health and service initiatives including a \$4.8 million cut for the Advantage Schools program, which is an after-school program and cuts of \$1.6 million each for food pantry support and pregnancy prevention.

The federal TANF statute sunset on September 30, 2002. In November 2002, TANF funding was continued until January 2003. Subsequent action has extended TANF until March 31, 2003 at the current level. The federal budget proposed by the President retains the TANF block grant and would keep overall funding at the same level. However, if any changes in the program were approved, the relative share to states could change. If this were to happen, the amount provided to New York, as well as other aspects of the funding process could be altered.

Caseloads

Between 1995 and November 2002, public assistance caseloads in New York fell by 63 percent. In 2003-04, caseloads are projected to increase 3 percent, to 1.28 million recipients. The number of family assistance recipients is projected to increase by 7.2 percent to 377,426. The number of safety net recipients is projected to increase by 2.7 percent to 278,363.

Beginning in 1997, the federal government began imposing a 60-month (five-year) lifetime limit on benefits for public assistance recipients. Once the limit is reached, family assistance benefits cease. Benefits provided after that point must come from State and local resources (i.e., federal funds cannot be used to pay for benefits).

Temporary Assistance Caseloads

Program	2002-03	2003-04	Change	Growth
Family Assistance	351,879	377,426	25,547	7.2%
Safety Net	270,965	278,363	7,398	2.7%
Subtotal	622,844	655,789	32,945	5.3%
SSI	621,500	625,900	4,400	0.7%
Total	1,244,344	1,281,689	37,345	3.0%

Source: Division of the Budget

Due to the projected increases in caseloads, General Fund spending for safety net programs is expected to increase 8.9 percent, to nearly \$501 million. Family assistance caseloads would also increase, aiding the State in meeting the required maintenance of effort (MOE). The State's share of Supplemental Security Income (SSI) is estimated to decrease by \$22.8 million, to \$610.2 million.

Temporary Assistance Programs: General Fund
(Millions)

Program	2002-03	2003-04	Change	Growth
Family Assistance	\$313	\$278	(\$35)	(11.2%)
Safety Net	\$460	\$501	\$41	8.9%
State Share of SSI	\$633	\$610.2	(\$22.8)	(3.6%)
Total	\$773	\$779	\$6.2	0.8%

Source: Division of the Budget

On a cash basis, General Fund spending for public assistance is expected to increase less than one percent, or \$6.2 million, to \$779 million, although caseloads would increase 3 percent.

Child Care

The proposed 2003-04 Executive Budget increases total funding for the Child Care Block Grant by \$17 million, to \$929 million (TANF accounts for \$408 million which will be taken from federal year 2003-04 monies, less than half of the total amount). Funding continues for a total of 183,400 subsidized child care slots. The block grant was created in 1997-98 and combines the public assistance, transitional, at-risk, and State low-income day care into one seamless funding system. In addition, the grant helps working families obtain affordable and high quality child care. General fund monies supporting the block grant are approximately \$90 million.

Restructuring and Other Program Highlights/Changes

- Proposed \$60 million reduction in State funding for local social services district welfare and food stamp administration, effective January 1, 2004, to reflect expectation of administrative savings from a decline in public assistance caseloads since 1995.
- Proposal for State offset of the yearly federal government inflationary increase in SSI payments. This action would reduce State costs by \$25.7 million for 2003-04 and \$103 million annually in future years. This offset would reduce State benefits by the amount of the federal inflationary adjustment, thereby removing any additional benefits from recipients. The average federal annual inflationary payment increase is estimated to be \$164 per recipient.
- Increase in State efforts to seek federal reimbursement for State SSI cases that should be receiving benefits under the federal SSI program.
- Continued market rate increases for 2003-04, for payments to child care providers.

- Merge the Office of the Welfare Inspector General with audit operations in the Office of Temporary Disability Assistance to streamline program administration and strengthen anti-fraud efforts.
- Decrease “restrictive” placement of special education children into private settings. School districts would be required to share 20 percent of residential costs resulting from their committees on special education (CSEs) placements. The State and counties would each have a 10 percent decrease in funding these costs.
- \$750,000 funding available for counties to enroll foster children in Medicaid managed care.
- An increase of \$23 million (16 percent) to \$167 million for adoption subsidies to reduce the number of children in foster care.

Environment

While 2003-04 General Fund environmental spending decreases by 10.7 percent the Executive Budget recommended an 11.3 percent increase in All Funds spending. Legislation submitted by with the Executive Budget proposes to broaden the scope of the Environmental Protection Fund (EPF) and shift various expenses into the dedicated fund.

The EPF was established to support programs such as open space acquisition and protection, farmland preservation, and recycling programs. It is supported by the real estate transfer tax (\$112 million) and other miscellaneous taxes. The Executive Budget recommends 2003-04 funding of \$125 million. This year's budget calls for an expansion of the Fund's authority in order to fund programs previously ineligible to receive EPF proceeds, including staffing costs, DEC environmental infrastructure projects, and interstate water commissions.

The Executive Budget proposes \$33 million in salaries and other non-traditional expenses to be shifted into the EPF. Included in these non-traditional expenses are:

- \$6.2 million in salaries for 95 positions and \$765,000 to fund the merged Hudson River Valley Greenway Commission (both appropriations previously supported by General Fund money),
- \$1.15 million to support interstate water commissions,
- \$10 million to support State Parks infrastructure and DEC stewardship, and
- \$4.95 million to support zoos, botanical gardens and aquaria.

Last year \$325 million was moved from EPF to the General Fund to provide budget relief. This year's budget proposal calls for an additional transfer of \$20 million from the EPF to the General Fund. The Executive Budget also plans a transfer of \$43 million in EPF revenues to the General Fund, replacing the revenues in the EPF with bond funds.

General Fund Support

(Dollars in Millions)

Department	02-03	Recommended	Percent change
Environmental Conservation	106.7	100.7	-5.6 %
Parks, Recreation & Historic Preservation	114.1	96.0	-15.9 %
Adirondack Park Agency	4.2	4.2	0
Environmental Facilities Corporation	0	0	0

Source: Division of the Budget

Legislation submitted with the Executive Budget would provide \$138 million in annual funding for the Superfund. This legislation is essentially the same bill the Legislature has rejected for the past three years. The proposal would weaken the existing cleanup standards used to remediate hazardous waste sites.

The proposal would fund three programs to clean up hazardous waste sites and brownfields - Superfund, Voluntary Cleanup and Oil Spill – providing \$105 million for Superfund and Voluntary Cleanup and \$33 million for Oil Spill.

Funding for the program would be split equally between the State (General Fund) and industry (special revenues), each contributing approximately \$69 million. Of the \$69 million in special revenues, \$19.4 million would be derived from new fees proposed in the Executive Budget.

Environmental Agency Staffing

The Executive Budget provides for staffing to decline in all of the State’s environmental agencies.

FTEs All Funds

Department	02-03	Recommended	Difference	Percent change
Environmental Conservation	3,535	3,301	(234)	-6.6%
Parks, Recreation & Historic Preservation	1,589	1,526	(63)	-4.0%
Adirondack Park Agency	62	59	(3)	-4.8%
Environmental Facilities Corporation	94	92	(2)	-2.1%

Source: Division of the Budget

Transportation

The Executive Budget provides \$100 million less in funding for local highway and bridge construction projects, as the construction letting level drops 6 percent to \$1.65 billion. The reduced funding level will delay the start of some construction projects. In addition, Marchiselli and CHIPS aid levels are unchanged. These programs that provide funding for local construction projects remain at the same level for the third year in a row.

Additionally, under the Executive Budget, transit funding for the MTA and other transit systems remains flat this year as does the Highway and Bridge preventative maintenance funding.

The Executive Budget also recommends transferring approximately \$50 million in transportation-related revenues (miscellaneous DMV revenues) and expenses (operating expenses) from the General Fund to the Dedicated Highway and Bridge Trust Fund. Since the revenues and expenses are equal, the net impact on General Fund is zero. It does however effectively reduce General Fund spending by moving certain Department of Transportation and Department of Motor Vehicles disbursements out of the General Fund. Enhanced revenue going into the Trust Fund maintains the revenue-to-debt-service coverage necessary to sell bonds for the highway program.

This transfer, in combination with a shifting of other transportation-related expenses to the Trust Fund to create General Fund savings, eliminates all General Fund support of the Department of Motor Vehicles.

General Fund Support

(Dollars in Millions)

Department	02-03	Recommended	Percent change
Transportation	\$163.8	\$161.6	(1.3%)
Motor Vehicles	\$107.0	\$0	(100%)

Source: Division of the Budget

FTEs

(All Funds)

Department	02-03	Recommended	Difference	Percent change
Transportation	10,113	9,590	(523)	-5.1%
Motor Vehicles	3,089	2,921	(168)	-5.4%

Source: Division of the Budget

This year's Executive Budget provides for a number of motor vehicle and transportation fee increases totaling \$29 million (See Appendix 1). In addition to the \$50 million in transportation-related revenues and expenses to be moved out of the General Fund into the Trust Fund this fiscal year, nearly \$190 million in fees and revenues will be moved into the Trust Fund in FY 2004-05. The \$190 million consists of DMV fees currently going to the General Fund, increases in existing fees, and the transportation transmission tax.

Funding recommendations for the Thruway Authority remain at the same level as last year. The 2003 budget adopted by the Thruway Authority recommended no increase in tolls.

The Executive Budget provides for state support of the Metropolitan Transportation Authority to remain at the 2002-03 level as well. The MTA, however, facing an estimated \$1 billion deficit over the next two years, is considering a reduction in services, increased fares, increased government subsidies, or a combination of these options.

State Workforce

Workforce reduction as proposed in the budget would be achieved through the continued use of a hiring freeze, early retirement incentives, targeted transfers, increased administrative efficiencies, a reduction of program duplication, and layoffs if needed. The reduction of approximately 5,000 state employees in 2003-04 would be necessary to meet the Executive Budget's targeted goal of 186,000 state employees by March 2004. These reductions bring the total decline in the State workforce to 10,000 since November 2001.

Proposed Change in Full Time Equivalent Employees Select Agencies (All Funds)

Department	02-03	Recommended	Difference	Percent Change
Environmental Conservation	3,535	3,301	(234)	-6.6%
Parks, Recreation & Historic Preservation	1,589	1,526	(63)	-4.0%
Agriculture & Markets	516	516	0	0
Banking	581	569	(12)	-2.1%
Economic Development	231	219	(12)	-5.2%
Housing & Community Renewal	950	935	(15)	-1.6%
Insurance	896	908	12	1.3%
Motor Vehicles	3,089	2,921	(168)	-5.4%
Transportation	10,113	9,590	(523)	-5.2%
Aging	145	137	(8)	-5.5%
Children & Family Services	4,280	3,703	(577)	-13.5%
Health	5,975	5,912	(63)	-1.1%
Labor	4,219	5,103	884	21.0%
Temporary & Disability Assistance	2,451	2,384	(67)	-2.7%
Mental Health	17,310	16,360	(950)	-5.5%
Mental Retardation and Dev. Dis.	22,269	22,245	(24)	-.1%
Alcohol and Substance Abuse	979	951	(28)	-2.9%
Correctional Services	31,030	30,538	(492)	-1.6%
Parole	2,235	2,172	(63)	-2.8%
State Police	5,398	5,453	55	1.0%
Education	3,152	1,417	(1,735)	-55.0%
General Services	1,777	1,631	(146)	-8.2%
Lottery	337	331	(6)	-1.8%
State	816	1,108	292	35.8%
Taxation & Finance	5,048	4,922	(126)	-2.5%
Veterans Affairs	120	113	(7)	-5.8%
Technology	733	679	(54)	-7.4%

Source: Executive Budget Documents

Employee Health Benefits

The Executive Budget projects a baseline increase in health insurance premiums of approximately \$220 million in 2003-04 to cover the rising expense and utilization of employee health care. The budget includes proposals to reduce the growth in support for employee health insurance to \$150 million. Proposed changes include:

- Placing restrictions on pharmacy benefits;
- requiring a higher co-payment for nonessential prescription drugs;
- modernizing the hospital benefit plan;
- increasing employee co-payments, deductibles and coinsurance levels for doctor visits; and
- raising the share of health insurance premiums paid by employees and retirees.

Many of the proposals, expected to produce \$70 million in savings, are subject to negotiations with State employee unions.

Agency Mergers and Consolidations

A number of State employees also will be impacted by agency mergers and consolidations included in the proposed budget, which result in projected savings of \$32 million in the first year and \$140 million when fully annualized. Proposals include:

- merging the Office of Welfare Inspector General into Office of Temporary and Disability Assistance (OTDA).
- merging Council on Children and Families with Office of Children and Family Services (OCFS).
- merging the Public Employment Relations Board (PERB) and the State Employment Relations Board (SERB) into a new Public and Private Employment Relations Board (PPERB).
- moving the Commission for the Blind and Visually Handicapped (from OCFS) and the Vocational and Educational Services for Individuals with Disabilities (VESID) (from SED) and the Equipment Loan Fund for the Disabled of the Office of Children and Family Services into the Department of Labor to consolidate vocational rehabilitation and employment related programs.
- merging the Nathan Kline Institute and the New York Psychiatric Institute research facilities.

- merging the State Liquor Authority and the Division of Alcoholic Beverage Control and transfer Administrative Functions to the Office of General Services (OGS).
- merging the Hudson River Valley Greenway Communities Council and the Greenway Heritage Conservancy into a new Hudson River Valley Greenway Commission.
- designating DCJS as a host agency for routine administrative functions of the Crime Victims Board and the Office for the Prevention of Domestic Violence.
- designating OGS as Host Agency for Division of Veterans Affairs.

The Executive Budget includes proposals to move state operations expenses to other funds supported by revenue sources other than State tax payments. Under the 2003-04 proposal, sixteen agencies would receive no general fund supports – an increase of six over last year. Traditional General Fund support of state operations is primarily replaced with capital programs and special revenue funds.

Privatization

The Executive Budget also refers to the Governor's intention to privatize State government assets during the next four years. No specific details are offered, but the potential exists for State employees in those facilities to be affected

Debt and Capital

Overview

New York holds the highest outstanding debt level in the country. The Capital Plan submitted with the Executive Budget projects \$42.6 billion of outstanding State-supported debt by 2007-08. This represents a \$3.2 billion or 8.0 percent increase from 2002-03, a slightly higher increase than the Capital Plan update released in August 2002.

Recent debt management changes are providing the State with debt service relief in the form of lower cost debt and the availability of previously required debt service reserves that are freed up for other use. Further budget relief is proposed by changing \$176 million in pay-as-you-go capital spending to additional debt.

The State is expecting to generate \$4.2 billion in proceeds from selling some of the Tobacco Settlement revenues. Over the next 12 years the projected Tobacco Settlement revenues would total \$6.3 billion. Over the next 20 years, the revenues are forecast to total \$10.3 billion. The Executive has effectively reduced the cost of securitization, compared to other securitization transactions, by reducing the anticipated payoff date to 12 years and providing an enhanced credit. However, tobacco securitization will remain more expensive than other forms of borrowing. Compared with General Obligation bonds, securitization would cost an additional \$1.1 billion. Some of the additional costs are a function of the increased risks inherent in the tobacco revenue stream along with typically higher fees paid for complex transactions like this. However, aside from the additional costs, the use of non-recurring resources to plug an operating gap is contrary to good budgeting principles and results in shifting current year problems to future years and generations.

The proposed five-year Capital Plan submitted with the 2003-04 Executive Budget estimates outstanding State-supported debt per capita increasing from \$2,063 in 2002-03 to \$2,243 in 2007-08.²⁵ Estimated outstanding debt as a percentage of personal income decreases from 5.7 percent to 5.0 percent in 2007-08 largely because personal income is projected to increase 23.1 percent through 2007-08, nearly three times faster than debt growth for the same period. Debt service as a percentage of All Governmental Funds receipts increases from 3.5 percent in 2002-03 to 4.7 percent in 2007-08.

Projected State Supported Debt Outstanding
2003-04 Executive Budget Compared to August 2002 Capital Plan Update
(Dollar in Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2003-04 Capital Plan	39.4	41.0	41.5	42.0	42.3	42.6

²⁵ Population for 2002-03 is actual count from 2000 Census. As the State population grew only slightly between 1990 and 2000 (5.5%), the calculation for debt per capita in 2007-08 uses 2000 census figures.

August 2002 Plan	39.0	40.5	41.2	41.6	41.9	NA
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Source: Division of the Budget

Annual debt service on State-supported debt is projected to be \$4.9 billion through 2007-08, an increase of \$1.7 billion or 53.5 percent. This outyear increase is primarily due to lower debt service costs early in the plan resulting from expected savings due to debt management practices, such as refundings, the use of variable rate debt instruments and Personal Income Tax Revenue Bonds. These new debt instruments reduce or eliminate debt service funds so refinancing old obligations with such requirements releases those funds for use as debt service, which may provide General Fund relief.

Projected State Supported Debt Service
2003-04 Executive Budget Compared to August 2002 Capital Plan Update
(Dollar in Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2003-04 Capital Plan	3.2	3.4	4.3	4.5	4.7	4.9
August 2002 Plan	3.7	4.0	4.4	4.6	4.7	NA

Source: Division of the Budget

Projected annual debt retirements increase \$801 million or 46.8 percent to \$2.5 billion in 2007-08. Transportation related debt retirements increase 86.0 percent. The Consolidated Local Highway Improvement and Dedicated Highway and Bridge funds account for almost half of the increase. The increased use of shorter-term maturities for tax supported debt and economic development programs account for much of the remaining increase.

Projected State Supported Debt Retirements
2003-04 Executive Budget Compared to August 2002 Capital Plan Update
(Dollars in Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2003-04 Capital Plan	1.7	1.7	2.1	2.3	2.4	2.5
August 2002 Plan	1.9	1.8	2.1	2.3	2.3	NA

Source: Division of the Budget

Projected annual debt issuance decreases \$1.7 billion or 38.2 percent to \$2.8 billion in 2007-08. This is primarily due to large issuances in the early years of the Capital Plan in the areas of economic development, environment, education, and mental hygiene. The plan projects nearly \$500 million for economic development in 2003-04 for such programs as Community Enhancement Facilities Assistance Projects (CEFAP), Strategic Investment Program (SIP), Gen*NY*sis, Centers for Excellence, and the Empire Opportunity Fund. The plan projects no spending for these programs for 2006-07 and 2007-08.

Projected State Supported Debt Issuances
2003-04 Executive Budget Compared to August 2002 Capital Plan Update
(Dollars in Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2003-04 Capital Plan	4.5	3.3	2.6	2.8	2.7	2.8
August 2002 Plan	4.3	3.3	2.9	2.7	2.6	NA

Source: Division of the Budget

Projected capital spending decreases \$199 million or 3.9 percent to \$4.9 billion in 2007-08. The August 2002 Capital Plan update increased capital spending \$375 million between 2001-02 and 2006-07. The current Capital Plan projects significantly decreased spending in the fields of housing and economic development, with smaller increases for environmental needs.

Projected Capital Spending
2003-04 Executive Budget Compared to August 2002 Capital Plan Update
(Dollars in Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2003-04 Capital Plan	5.1	5.6	5.4	5.1	4.9	4.9
August 2002 Plan	5.3	5.5	5.1	4.9	4.7	NA

Source: Division of the Budget

Capital Program

Transportation is the largest area of capital spending, averaging 58.7 percent over the life of the plan. Environment, education, public protection and mental hygiene also have significant capital programs. The Executive's debt reform bill that will constitutionally mandate debt and debt service caps imposed in the Debt Reform Act of 2000 as well as ban "back-door" borrowing is included with the Capital Plan. The proposed legislation also requires that one half of new debt be authorized by voters and includes multiple General Obligation bond proposals.

Highlights of the Capital Plan submitted with the Executive Budget:

- Capital spending for transportation will average \$3.0 billion per year through 2007-08. This includes over \$1.5 billion for local capital programs, \$1.7 billion annually for highway and bridge construction, and \$2.7 billion for mass transit systems throughout the State. Highway and bridge construction letting levels are reduced by \$100 million annually to \$1.65 billion.
- Capital appropriations and reappropriations for the balance of the \$1.8 billion Clean Air/Clean Water Bond Act and \$125 million yearly appropriation from the Environmental Protection Fund.
- Capital appropriations and reappropriations of \$2.5 billion for SUNY capital needs and a total of \$4.2 billion bonding authority for CUNY's planned bond sales.

- Capital appropriations of \$3.8 billion for educational needs including maintenance of Albany administrative facilities, the School for the Blind in Batavia, the School for the Deaf in Rome, and various rehabilitation and renovation projects on Onondaga, St. Regis, and Tuscarora reservations.
- Approximately \$800 million for economic development programs including the Empire Opportunity Fund, Centers for Excellence, Community Enhancement Facilities, Gen*NY*sis, and the Strategic Investment Program.
- The Department of Correctional Services capital appropriations and reappropriations total \$1.8 billion for preservation and maintenance of existing facilities.
- Mental Hygiene appropriations and reappropriations total nearly \$2.3 billion for rehabilitation and maintenance projects relating to facilities licensed to the Office of Mental Health, Office of Mental Retardation and developmental Disabilities, and the Office of Alcoholism and Substance Abuse Services.
- Housing appropriations and reappropriations total over \$1 billion for preservation and maintenance of low and moderate-income housing.

Capital Spending by Function: 2003-04 Capital Plan

(Dollars in Millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Transportation	2,943	3,090	3,124	3,005	2,971	2,968
Environment	699	826	829	828	826	829
Education	501	471	418	442	442	442
Public Protection	244	258	239	232	222	209
Mental Hygiene	172	203	193	193	202	197
Housing/Eco. Dev	414	593	411	237	112	112
Other	108	203	161	126	109	108
Total	5,063	5,644	5,375	5,064	4,884	4,864

Source: Division of the Budget

Financing Sources

The proposed Capital Plan significantly increases the use of federal pay-as-you-go resources by the end of the plan, similar to the August 2002 update, while all other forms of capital spending decrease. The majority of the increase is in the area of transportation spending, in which the plan anticipates an additional \$236 million annually from the 2003 Federal Transportation Act (TEA-21). Since 1998, TEA-21 has allocated \$14.8 billion to New York State for highway and transit needs.

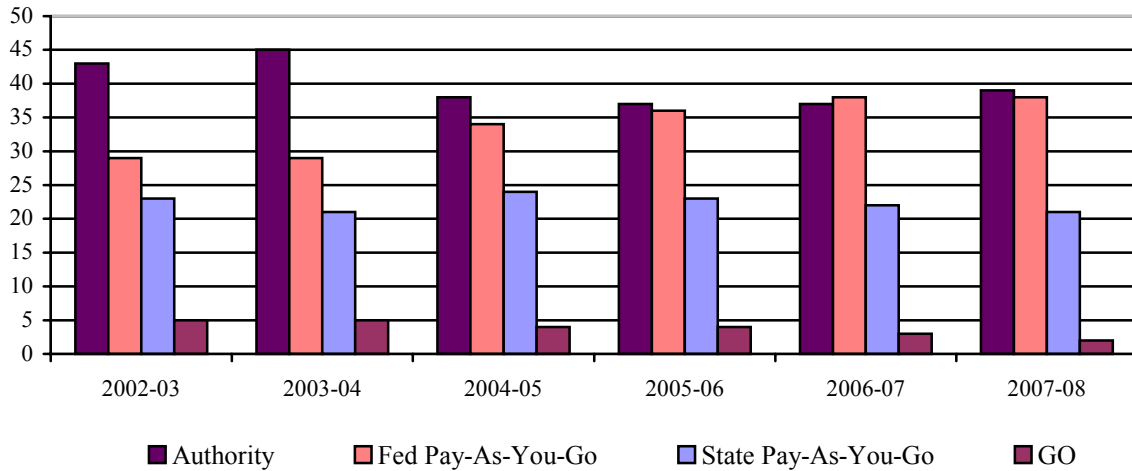
State pay-as-you-go spending as a percentage of State capital spending (less federal funding) increases to 33.5 percent from 31.6 percent in 2002-03. The plan projects a high level of State pay-as-you-go of 36.7 percent in 2005-06 and a low of 29.3

percent in 2003-04. To achieve General Fund financial plan savings, the Capital Plan proposal shifts \$176 million of pay-as-you-go projects to debt.

General Obligation debt decreases from 5.3 percent of total capital spending in 2002-03 to 2.3 percent in 2007-08. This Capital Plan supports eight previously voter authorized bond acts; there are no additional bond authorizations planned through 2007-08.

State-supported debt issued by the State’s numerous authorities decreases to 39.1 percent in 2007-08, up from 36.9 percent by the end of the previous Capital Plan (2006-07). As of March 31, 2003, authority debt is projected to account for 78.4 percent of total outstanding State-supported debt, increasing to 83.3 percent by 2007-08.

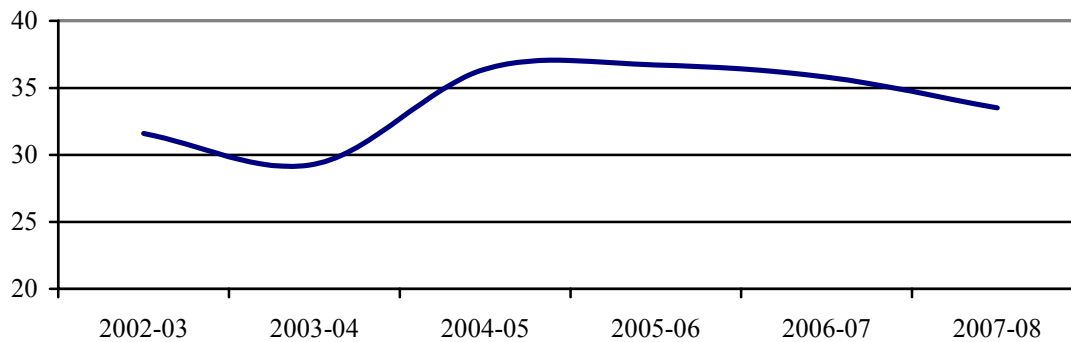
**Capital Spending By Financing Sources
2002-03 Through 2007-08
(% total)**



Source: Division of the Budget

While the above table illustrates proposed spending in the Capital Plan, State pay-as-you-go spending is better illustrated as a percentage of total capital spending less federal funding.

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



Debt Management Practices

The Executive Budget gap-closing plan calls for \$516 million in reduced debt service costs. According to the financing plan, these savings will come from the use of Personal Income Tax Revenue Bonds and variable rate debt instruments as well as interest rate exchange agreements (including swaps). The State is currently aggressively refinancing outstanding debt to take advantage of lower interest rates and the reduction or elimination of required debt service reserve funds.

Chapter 383 of the Laws of 2001 created the Revenue Bond Tax Fund and authorized the issuance of bonds backed by a portion of the Personal Income Tax. Section 92-Z of the State Finance Law requires the State Comptroller to deposit 25 percent of Personal Income Tax withholding revenues into the Revenue Bond Tax Fund to pay for such bonds. These bonds have a rating similar to General Obligation bonds and are rated slightly higher than appropriation backed bonds issued by authorities.²⁶ The higher ratings result in lower debt service costs. By 2007-08, the financing plan projects 51 percent of all debt issuances will be in the form of Personal Income Tax Revenue Bonds.

Variable rate debt instruments and interest rate exchanges allow the State to take advantage of the changing bond market in order to capitalize on lower interest rates. According to Article 5-D of the State Finance Law:

“As of the initial date of each issuance of variable rate debt instruments, the total of the principal and notional amounts of such variable rate debt instruments outstanding and in effect shall not exceed an amount equal to fifteen percent of the total principal amount of State-supported debt outstanding.”

²⁶ Standard and Poor’s and Fitch both rate the Personal Income Tax Revenue Bonds and General Obligation bonds as “AA”. Moody’s rates the Personal Income Tax Revenue Bonds as “A1” and General Obligation bonds slightly lower at “A2”. It is significant to note that bonds issued by the Local Government Assistance Corporation, backed by one quarter of the State’s share of sales tax revenue, is rated “A1” by Moody’s and “AA-” by Fitch. Standard and Poor’s rates LGAC Bonds AA.

The Capital Plan anticipates variable rate debt will increase from 8.12 percent to 10.58 percent in 2007-08 of total outstanding State-supported debt.

Interest rate exchange agreements allow the State to enter into short-term contracts exchanging fixed rate for variable rate debt or visa versa. These actions are commonly referred to as swaps and allow debt managers to take advantage of interest rate fluctuations. Just like the level of variable rate debt, the State is limited to 15 percent of outstanding debt for such agreements. In 2002-03, the State will have entered into agreements totaling 9.2 percent of its outstanding State-supported debt, projected to rise to 11.2 percent in 2007-08.

Tobacco Securitization ²⁷

The Executive's updated 2002-03 financial plan and proposed 2003-04 Budget rely on \$1.5 billion in 2002-03 and \$2.3 billion in 2003-04 from the sale of the State's Tobacco Settlement revenue stream, resulting from the 1998 Master Settlement Agreement (the MSA). (The structure and amount of proceeds to be derived through a securitization of the State's Tobacco Settlement revenue presented by the Executive are based on preliminary estimates that are subject to change based on the final form of the enabling legislation, market conditions and the final bond structure.)

Under the MSA, participating cigarette manufacturers agree to make payments to the settling states in exchange for the release by such states of all past, present and future claims related to the use of tobacco products. There are also provisions related to more stringent advertising restrictions and to fund educational programs. The MSA sets forth three primary types of payments to settling states:

- Initial payments are due on or before January 10th each year through 2003. (In the past, some tobacco companies have made these payments early, in late-December, in order to get a tax benefit.) No more initial payments will be paid after the 2003 payment.
- Annual payments are due on or before April 15th each year in perpetuity.
- Strategic contributions are also due on or before April 15th each year from 2008 through 2017. These payments are intended to reward states that initially expended significant time and money on the tobacco litigation. These payments are not shared with localities.

The MSA sets forth base payments amounts which are then subject to a number of adjustments, the major of which include inflation (the greater of 3% or the consumer

²⁷ The estimates and figures cited in the Tobacco Securitization section, unless otherwise noted, were done by Public Resources Advisory Group (PRAG). PRAG currently serves as the Office of State Comptroller's financial advisor.

price index), changes in the amount of domestic cigarette shipments and adjustments for the four states (Florida, Minnesota, Mississippi and Texas) which reached independent settlements with the cigarette manufacturers. The MSA also provides the percentages for how the payments are to be allocated among the settling states. New York further allocates a portion of its payments to New York City and New York counties, pursuant to a Consent Decree.²⁸ (New York and California are the only states that allocate a portion of their settlement payments to localities.)

In New York, the bulk of the Tobacco Settlement revenues have been dedicated to the Tobacco Control and Insurance Initiatives Pool (in HCRA) to fund a variety of health care programs. Through January 1, 2003, the State's share of tobacco funding has totaled approximately \$1.6 billion. The HCRA pool would receive the April 1, 2003 payment estimated to be approximately \$345 million.

Actual Tobacco Settlement Revenues Received to Date

Calendar Year			State Fiscal Year	
Date	Payment Type	Received		Total
12/99	First Payment	\$161.3	1999-00	\$301.8
1/1/00	Initial	\$140.5		
4/15/00	Annual	\$225.8	2000-01	\$352.3
1/1/01	Initial	\$126.5		
4/15/01	Annual	\$265.2	2001-02	\$399.1
1/1/02	Initial	\$133.9		
4/15/02	Annual	\$358.5	2002-03	\$498.3
1/1/03	Initial	\$139.8		
Total Received		\$1,551.5	Total Received	\$1,551.5

Source: OSC

Using a January 16, 2003 forecast of national cigarette consumption from Global Insight (previously known as WEFA), New York State is estimated to receive approximately \$6.3 billion between 2004 and 2016, or on average approximately \$485 million annually. Over the next 20 years the projected Tobacco Settlement revenues are estimated to total approximately \$10.4 billion, averaging approximately \$518 million each year over this time period.²⁹

²⁸ The State shares tobacco revenues with New York City and every county. The State's share of the total is approximately 51% with New York City receiving approximately 27%, and counties dividing the remaining 22% based on population. The funding is unrestricted and many counties and New York City have already securitized all or part of their funding stream, as have numerous other states.

²⁹ Based on a January 16, 2003 cigarette consumption forecast by Global Insight. Other assumptions are a 3% inflation adjustment, the application of the previously settled states adjustment and cigarette manufacturer market shares of 90% for original participating manufacturers, 5% for subsequent participating manufacturers and 5% for nonparticipating manufacturers.

The Executive proposes securitizing the State's Tobacco Settlement revenues, or selling the future revenue stream for a period of years (which will be determined by the final structure of the sale) in return for an estimated \$4.2 billion of net bond proceeds. Legislation submitted with the Executive Budget proposes creation of a new subsidiary (Tobacco Settlement Financing Corporation) of the Municipal Bond Bank Agency to issue debt that will be repaid from the Tobacco Settlement revenue stream. The Tobacco Settlement Financing Corporation, as a subsidiary of the Municipal Bond Bank Agency, will be managed by six appointments (two ex-officio) of the Governor and one from the State Comptroller.

A 20-year final maturity is anticipated, which is shorter than many of the tobacco transactions that have come to market. Frequently, the final maturity length is between 30 and 40 years. In addition, the Executive plans to use a "turbo" structure whereby all tobacco revenues in excess of required debt service payments are used to prepay principal. Using the Executive's preliminary estimates, the turbo feature would shorten the actual maturity length by 7 to 8 years. (This assumes, of course, that the actual settlement revenue received is not materially different from the projected revenue stream.)

The relatively short final maturity and the turbo feature are positive elements of the proposed structure. Another positive element of the proposed transaction is the expected use of an enhanced credit. The Legislation provides that the State of New York Mortgage Agency (SONYMA) could use certain corporate resources in the event there is a shortfall in the Tobacco Settlement revenue. Many institutional investors view all tobacco bonds, regardless of the geographic location of the issuer, as a single credit -- the payment obligations made under the MSA -- and limitations on the amount of exposure to this single asset class can affect their ability to buy tobacco bonds. The SONYMA credit enhancement could help differentiate the State's bonds from other tobacco bonds and expand the pool of potential buyers. When the debt has been fully repaid, the Tobacco Settlement revenues will flow back to the State and into the HCRA pools.

If New York were to securitize its future settlement revenues and issue two series of tobacco bonds, each secured by 50% of the State's Tobacco Settlement revenue, no additional SONYMA enhancement and using "turbo" bond structures with 20-year final maturities, it is estimated that between approximately \$3.6 and \$3.8 billion of net bond proceeds could be generated, short of the target amount of \$4.2 billion³⁰. In addition, the State's borrowing cost is estimated at between approximately 5.35% and 5.50%. The additional enhancement through SONYMA should enable the State to generate more net proceeds and lower its borrowing cost. This is because the added reserves created by the SONYMA enhancement should allow lower debt service coverage levels for a given rating category and expand the pool of potential buyers for the bonds, which should improve pricing. It is estimated that between \$4.2 to \$4.3 billion in net proceeds could be

³⁰ All estimates provided herein are preliminary and subject to change based on a number of factors including market conditions and changes to the bond structure.

generated through an enhanced borrowing, at a borrowing cost of between approximately 5.15% to 5.25%.

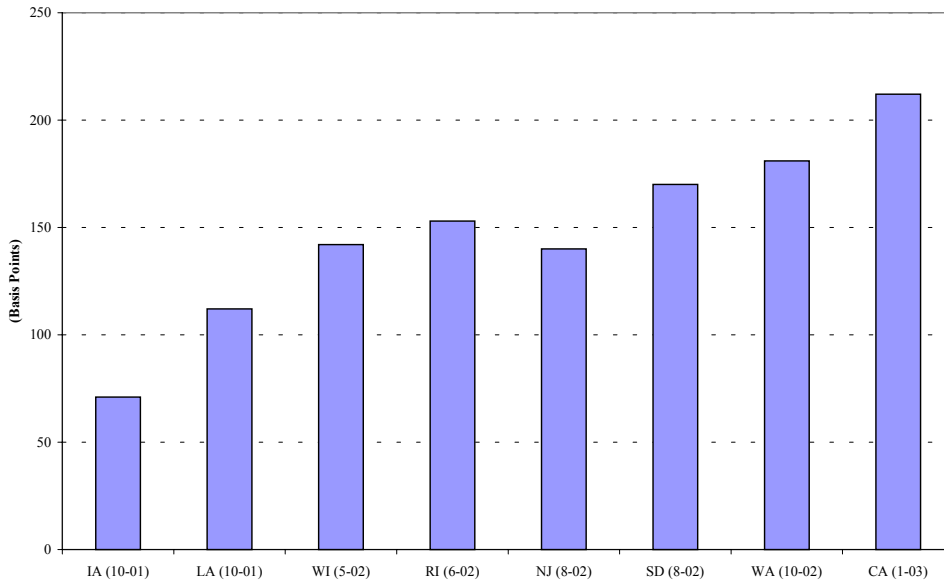
The first tobacco financing was TSASC, Inc. (New York City) in 1999. Since then, 13 states, the District of Columbia, Puerto Rico, other U.S. Territories and numerous counties in New York and California, have securitized all or part of their Tobacco Settlement payments, with approximately \$17.5 billion of tobacco bonds issued. According to the National Conference of State Legislators, eight of these 13 states have or are planning on using such cash infusions for deficit reduction needs. There are also several state-level tobacco bond issues pending. The State of New Jersey is expected to bring a \$1.8 billion securitization to market later this month. This will be the state's second transaction; another \$1.8 billion was sold in August 2002. After coming to market in January 2003 with a \$3 billion transaction, California is planning to sell another \$2.3 billion before June of this year. Virginia and West Virginia are planning to issue tobacco bonds in the near future, each with an expected transaction size of between \$750 to \$800 million. Missouri is also planning a financing of approximately \$600 million but with a back-up state pledge. Other states considering tobacco bonds include Illinois, Oregon and Nevada.

The use of debt to cover operating costs during a budget deficit is ill-advised and problematic in that the State would be using non-recurring resources to pay for recurring expenses. To the extent possible, the State should avoid this type of action.

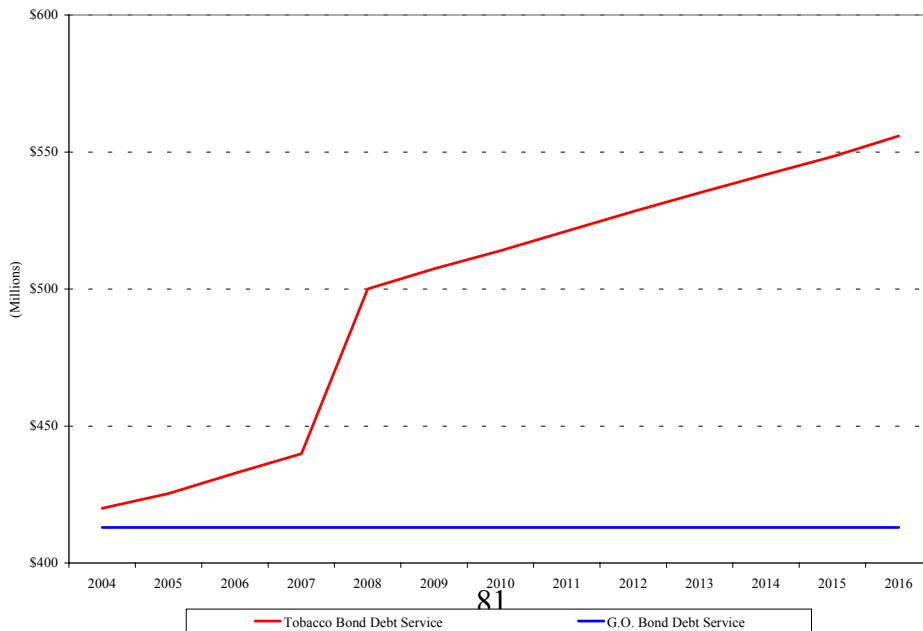
Securitization results in a shift in generational equity. The Tobacco Settlement revenues that would be sold under the Executive Budget proposal are revenues that would be available to fund health care programs for taxpayers over the next 12 to 20 years that would instead be used to pay for State operating expenses (budget deficit) over the next 2 to 3 years.

Tobacco bonds can also be a very expensive form of borrowing, as compared to other forms of borrowing such as general obligation bonds or appropriation-back debt. Yields on tobacco bonds have been observed to be as much as 200 basis points or more over other types of municipal debt. There are several reasons for the higher yields on tobacco bonds, including investor concerns about tobacco risk, limited secondary market liquidity, concerns about market saturation given both the current and forward supply of tobacco bonds and limitations arising from the treatment of tobacco bonds as a single asset class, the relatively large size of certain transactions and the complexity of tobacco transactions. The graph below compares the yields on final bond maturities for several state tobacco financings since late 2001 to the 30-year Municipal Market Data (MMD) AAA-Index, a widely used benchmark in municipal finance. As shown, tobacco spreads have widened over this time.

Spreads to MMD AAA for Final Term Bond Maturities



Tobacco securitization will cost an estimated \$1.1 billion more than traditional forms of debt. The cost of securitization can be compared to raising the same amount of net proceeds through another form of borrowing, such as general obligation bonds or appropriation-backed debt. Using the estimated cost of funds (about 3.65 percent) and assuming a level-pay borrowing, it is estimated that the State would have lower debt service costs of approximately \$7 million in the first year increasing to more than \$100 million annually after 7 years. This relationship is shown in graph below. (Borrowing through appropriation-backed debt would result in a cost of funds of between approximately 12 to 15 basis points higher, reducing the debt service savings by about \$3 million per year.) This comparison does not consider the effects of using another state credit to borrow \$4.2 billion on other capital spending priorities.



Simply put, the structure being proposed by the Executive appears to be an effective way of reducing the costs below the traditional securitization structure. (As previously noted, the structure and amount of proceeds proposed by the Executive are based on preliminary estimates that are subject to change.) However, it is important for taxpayers to understand that the State is paying a price/premium when selling these future revenue streams and that this price is higher than some other forms of debt.

Note: The Executive's capital plan does not include any obligations relating to the sale of the State's Tobacco Settlement revenues. The Executive Budget contends that this transaction should not be considered State-supported debt pursuant to the proposed legislative changes. The Office of the State Comptroller, in consultation with the State's auditor (KPMG), will be reviewing the appropriate reporting pursuant to generally accepted accounting principles.

Debt Condition

New York's State-supported debt burden has increased from \$1,332 per person in fiscal year 1992-93 to an estimated \$2,063 per person in fiscal year 2002-03. This debt represents 5.71 percent of New York's personal income, an increase from the 1992-93 level of 5.26 percent.

For years, New York has had one of the lowest credit ratings in the nation. Although Standard and Poor's rates the State's credit in the middle in comparison to other states, Moody's continues to rate New York's credit as the lowest in the nation, along with Louisiana.

Standard and Poor's Ratings of State General Obligation Bonds
(As of June 2002)

AAA	AA+	AA	AA-	A+	A	A-
Delaware	Florida	Alabama	Hawaii	California	Louisiana	
Georgia	Indiana	Arkansas	Massachusetts			
Maryland	Iowa	Connecticut	Montana			
Michigan	Kansas	Illinois	North Dakota			
Minnesota	Maine	Kentucky	Rhode Island			
Missouri	New Hampshire	Mississippi	West Virginia			
North Carolina	New Mexico	Nevada	Wisconsin			
South Carolina	Ohio	New Jersey				
Utah	Vermont	New York				
Virginia	Washington	Oklahoma				
		Oregon				
		Pennsylvania				
		Tennessee				
		Texas				
		Wyoming				

Source: Standard and Poor's Corporation.

Moody's Ratings of State General Obligation Bonds
(As of March 31, 2002)

Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Delaware	Indiana	Alaska	Alabama	California	Louisiana	
Georgia	Iowa	Arkansas	Hawaii		New York	
Maryland	Kansas	Connecticut	Idaho			
Michigan	New Mexico	Florida	Mississippi			
Minnesota	Ohio	Illinois	Montana			
Missouri	Texas	Kentucky	North Dakota			
North Carolina	Vermont	Maine	Oklahoma			
South Carolina	Washington	Massachusetts	Rhode Island			
			West Virginia			
Utah		Nevada	Wisconsin			
Virginia		New Hampshire				
		New Jersey				
		Oregon				
		Pennsylvania				
		Tennessee				

Source: Moody's Investors Services

New York Compared to Other States

According to a Moody's Investors Service report, *2002 State Debt Medians*, New York ranks among the top five of all states in two measures of tax-supported debt burden:

- New York is fifth highest in tax-supported debt per capita, with Connecticut, Hawaii, New Jersey, and Massachusetts as the four states with heavier debt loads per person. New York's per capita debt of \$2,045 is nearly two and a half times the national average of \$810.³¹ This does not include local debt paid through local taxes.
- Per capita figures do not account for differences in ability to pay for debt among the states. A more precise measure relates debt to the total income of a state's residents. New York ranks fourth in tax-supported debt as a percentage of personal income, with only Connecticut, Hawaii, and Massachusetts having higher burdens. In 1997-98, when it peaked, New York's debt burden of 6.2 percent of personal income was over two times the average level of all states.³²

³¹ Moody's measure of tax supported differs slightly from New York's measure of State-supported debt in that Moody's includes some outstanding debt not directly attributable to the State. Moreover, Moody's provides data on a calendar year basis, whereas the State reports on a fiscal year.

³² Moody's Investors Service, *2002 State Debt Medians*, April 2002.

Appendix 1
Proposed Fee and Revenue Actions 2003-04

Fee Description	Effective Date	Fund Type & Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 03-04 (000's)
Increase penal bonds	10/1/2003	GFMR	\$1,000	\$2,500	1967	\$500
Increase the Do Not Call registry fee	2/1/2004	SFMR	\$800	To be determined during rule making	2002	\$0
Increase the Unified Court System's data processing fee for criminal history searches	10/1/2003	SFMR	\$16	\$43	1991	\$9,450
Increase current user fees	4/1/2003	SFMR	Various	Various	1994	\$500
Increase photo ID fee	4/1/2003	SFMR	\$3.00	\$5.00	1997	\$10,000
Increase administration fee for College Choice Tuition Savings Program	4/1/2003	SFMR	60 basis points	65 basis points	2002	\$718
Impose assessment to offset costs of disaster preparedness unit	4/1/2003	SFMR	Assessment finances Insurance Dept's costs	Increase assessment to finance new costs	N/A	\$2,081
Impose assessment to offset costs of fraud proof prescription program	4/1/2003	SFMR	Assessment finances Insurance Dept's costs	Increase assessment to finance new costs	N/A	\$10,000
Impose assessment to offset costs of immunization program	4/1/2003	SFMR	Assessment finances Insurance Dept's costs	Increase assessment to finance new costs	N/A	\$8,000
Impose assessment to offset costs of new born screening	4/1/2003	SFMR	Assessment finances Insurance Dept's costs	Increase assessment to finance new costs	N/A	\$6,000
Impose assessment to offset costs of Center for Community Health screening and wellness programs	4/1/2003	SFMR	Assessment finances Insurance Dept's costs	Increase assessment to finance new costs	N/A	\$10,000
Increase current user fees at 130 state facilities	4/1/2003	SFMR	Various	Various	1994	\$2,500
Administrative Actions Subtotal						\$59,749

Fee Description	Effective Date	Fund Type & Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue
Establish new biennial fee on unregistered/unlicensed retail stores, food warehouses, feed mills	4/1/2003	SFMR	None	\$200 for food warehouses; \$100 for other	New	\$342
Establish new annual fee for certificates of free sale	4/1/2003	SFMR	None	\$25 per certificate	New	\$65
Increase biennial fees for slaughterhouses, refrigerated warehouses, food salvage facilities	4/1/2003	SFMR	\$20-\$100	\$200	1988	\$19
Increase biennial fees for Nursery Dealers and Nursery Growers	4/1/2003	SFMR	\$20-\$40	\$100	1992	\$254
Increase Crime Victims Assistance Fee	10/1/2003	SFMR	\$10	\$20	2000	\$780
Impose Crime Victims Assistance fee on V&T offenses	10/1/2003	SFMR	None	\$5	New	\$4,045
Increase mandatory surcharges on penal law convictions by 25-50%	10/1/2003	SFMR	\$200/\$110/ \$50	\$250/\$140/ \$75	2000	\$1,950
Increase mandatory surcharges on V&T convictions by 25-50%	10/1/2003	SFMR	\$200/\$110/ \$30/\$20	\$250/\$140/ \$45/\$25	2000	\$1,525
Increase mandatory surcharges on V&T felonies, misdemeanors, violations & equipment	10/1/2003	SFMR	Felonies \$200 Misd \$110 Violations \$30 Equip \$20	Felonies \$250 Misd \$140 Violations \$45 Equip \$25	2000	\$11,850
Increase attorney registration biennial fee	10/1/2003	SFMR	\$300	\$350	1991	\$2,000
Impose \$35 surcharge on driver's license reinstatement	10/1/2003	SFMR	None	\$35	New	\$8,950
Require holders of HAZMAT license endorsement to undergo criminal background check	4/1/2003	GFMR	None	\$75	New	\$2,000

Fee Description	Effective Date	Fund Type & Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue
Require sex offenders to pay fees for DNA databank, sex offender registration, and a sex offender registration change fee	4/1/2003	GFMR	None	\$50/\$50/\$10	New	\$800
Raise fingerprinting fee	4/1/2003	SFMR	\$50	\$75	1996	\$9,900
Impose fee on new tire sales	10/1/2003	GFMR	None	\$2.25 per tire sold	N/A	\$22,500
Increase Oil and Gas Depth fees	4/1/2003	GFMR	Varies by depth	Double	1987	\$200
Increase by 25% fee charged per industrial facility permitted to discharge pollutants into NYS waters	4/1/2003	SFMR	\$375-\$37,500	\$475-\$47,000	1989	\$1,000
Increase by 25% fee charged per power plant permitted to discharge pollutants into NYS waters	4/1/2003	SFMR	\$40,000	\$50,000	1989	\$500
Increase fees for mining permits	4/1/2003	SFMR	\$1,200 to \$2,000 per acre	\$1,500 to \$4,000 per acre	1991	\$750
Increase annual fee paid by nuclear generating facility operators	4/1/2003	SFMR	\$550,000 for each reactor	\$950,000 for each reactor	1994	\$2,400
Increase certificate of vehicle sale fee	10/1/2003	GFTX/CFMR	\$1	\$5	1993	\$6,000
Increase data search fee by \$1	10/1/2003	GFMR/CFMR	\$5 manual \$4 electronic	\$6 manual \$5 electronic	1991	\$5,500
Increase original title application fee	10/1/2003	GFTX/CFMR	\$5	\$10	1989	\$7,338
Increase emissions sticker fee	10/1/2003	SFMR	\$2	\$4	1993	\$8,000
Increase cost recovery assessments' cap	4/1/2003	GFMR/SFMR	\$20 million	\$40 million	1989	\$15,000
Increase charge for license plates	4/1/2003	GFTX	\$5.50	\$15.00	1992	\$21,700
Reestablish a temporary .7% non-reimbursable assessment on hospital revenues	4/1/2003	SFMR	None	.7% of gross revenues	Phased out in 1999	\$190,2000
Reestablish a temporary .6% assessment on home care services revenues	4/1/2003	SFMR	None	.6% of gross revenues	Phased out in 1999	\$17,000

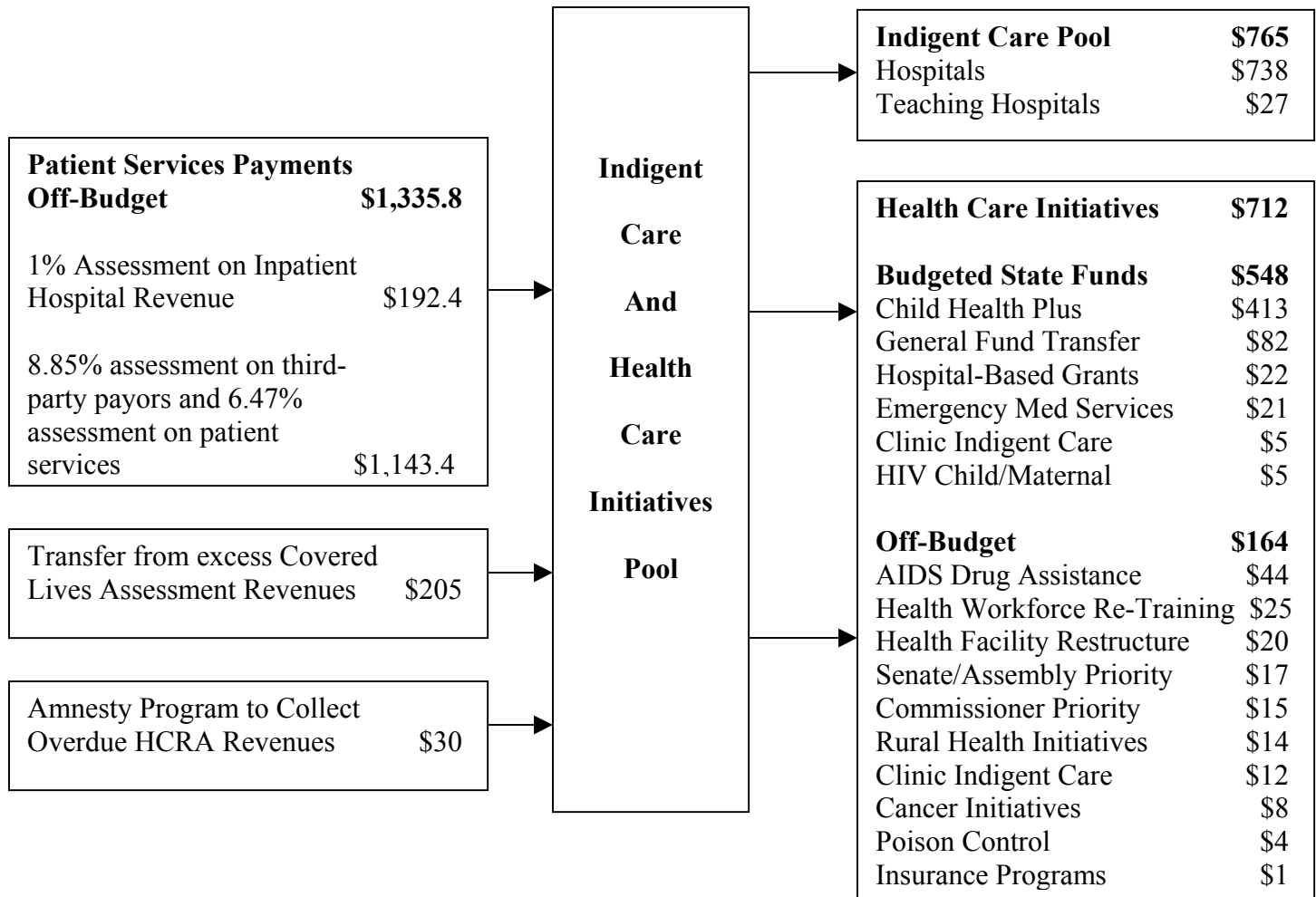
Fee Description	Effective Date	Fund Type & Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue
Increase vital records fee	4/1/2003	SFMR	\$15	\$30	1989	\$1,680
Increase EPIC rates and deductibles by 10%	4/1/2003	SFMR	Various	Various	2001	\$1,500
Increase covered lives assessment in HCRA	1/1/2004	Non-State Fund	\$690 million	\$725 million	2002	\$35,000
Increase HCRA surcharges	7/1/2003	Non-State Fund	\$8.18 (private payors) \$5.98 (Medicaid payors)	\$8.85 (private payors) \$6.47 (Medicaid payors)	1996	\$20,000
Increase heavyweight "killer truck" fine schedule by average of \$500	10/1/2003	GFMR	Various	Average increase of \$500	1985	\$1,500
Revise and expand the heavyweight truck permit program	10/1/2003	CFMR	Varies	No increase in fees, but an increase in number of statutory permits allowed	N/A	\$750
Raise vehicle insurance fee	4/1/2003	SFMR	\$1	\$5	1992	\$42,700
Increase parking surcharges	10/1/2003	GFMR	\$5	\$15	1991	\$16,000
Impose an Appellate Court motion fee	10/1/2003	GFMR	None	\$35	New	\$630
Increase all civil courts fees by 25%	10/1/2003	GFMR	Various	Various	1990	\$18,150
Impose a \$25 surcharge on DWI or DWAI convictions	10/1/2003	GFMR	None	\$25	New	\$500
Impose a \$35 motion fee on Supreme/County courts	10/1/2003	GFMR	None	\$35	New	\$4,200
Increase fee for broker/dealer statements	4/1/2003	SFMR	\$20-\$800	\$30-\$1,200	1989	\$2,000
Increase the fee for real estate syndication offering	4/1/2003	SFMR	\$500-\$20,000	\$750-\$20,000	1989	\$1,000
Increase the fee on real property transfers	4/1/2003	SFMR	\$25	\$50	1991	\$9,600
Increase criminal fines deposited into the Justice Court Fund	4/1/2003	GFMR	Varies from \$100 to \$1,500	Varies from \$150 to \$2,250	1989	\$6,250
Reduce dormancy period of uncashed checks from three years to one year	4/1/2003	GFMR	N/A	N/A		\$38,000
Double boat registration fees	9/1/2003	GFTX	\$9 - \$30 per boat	\$18 -\$50 per boat	1987	\$1,300

Fee Description	Effective Date	Fund Type & Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue
Assess a .5% fee on annual racing handle (total amount wagered) to support regulatory activities	4/1/2003	SFMR	\$0	.5% of total wagered	New	\$16,000
Cap STAR benefits for nonseniors at 2002-03 levels	4/1/2003	GFTX/SFTX	N/A	Cap STAR benefits for nonseniors at 2002-03 levels		\$93,000
Double annual lobbyist registration fees	4/1/2003	GFMR	\$50	\$100 (2004) \$200 (2005) biennially thereafter	1983	\$200
Statutory Actions Subtotal						\$652,528
Impose interest assessment on employer unemployment insurance taxes	4/1/03	SFTX	None	Varies: Average of \$1.80 per employee	N/A	\$22,000
Replace current clothing sales tax exemption with four one-week exempt periods	6/1/03	GFTX/DFTX	Clothing items costing less than \$110 are exempt all year	Clothing items costing less than \$500 would be exempt for four one-week periods	2000	\$363,400
Eliminate the income base and other non-premium bases other than the fixed dollar minimum; raise the premiums' tax base to 2% of premiums	1/1/03	GFTX/SFTX	Life & Health 0.7% Accident & Health 1.0% Prop & Cas 1.3%	2% all insurers	1999	\$158,000
Increase limited liability company filing fee	1/1/03	GFTX/DFTX	\$50 per partner	\$100 per partner	1995	\$25,000
Initiate withholding for nonresident partnership	7/1/03	GFTX/DFTX	No Withholding	Implement withholding	N/A	\$15,000
Decouple from Federal expensing for certain SUV's	1/1/04	GFTX/DFTX	Expense full amount in first year	Use regular depreciation	N/A	\$0
Other Revenue Actions Subtotal						\$583,400
All Fee and Revenue Actions TOTAL						\$1,295,677

Appendix 2

HEALTH CARE REFORM ACT Indigent Care and Health Care Initiatives Pool

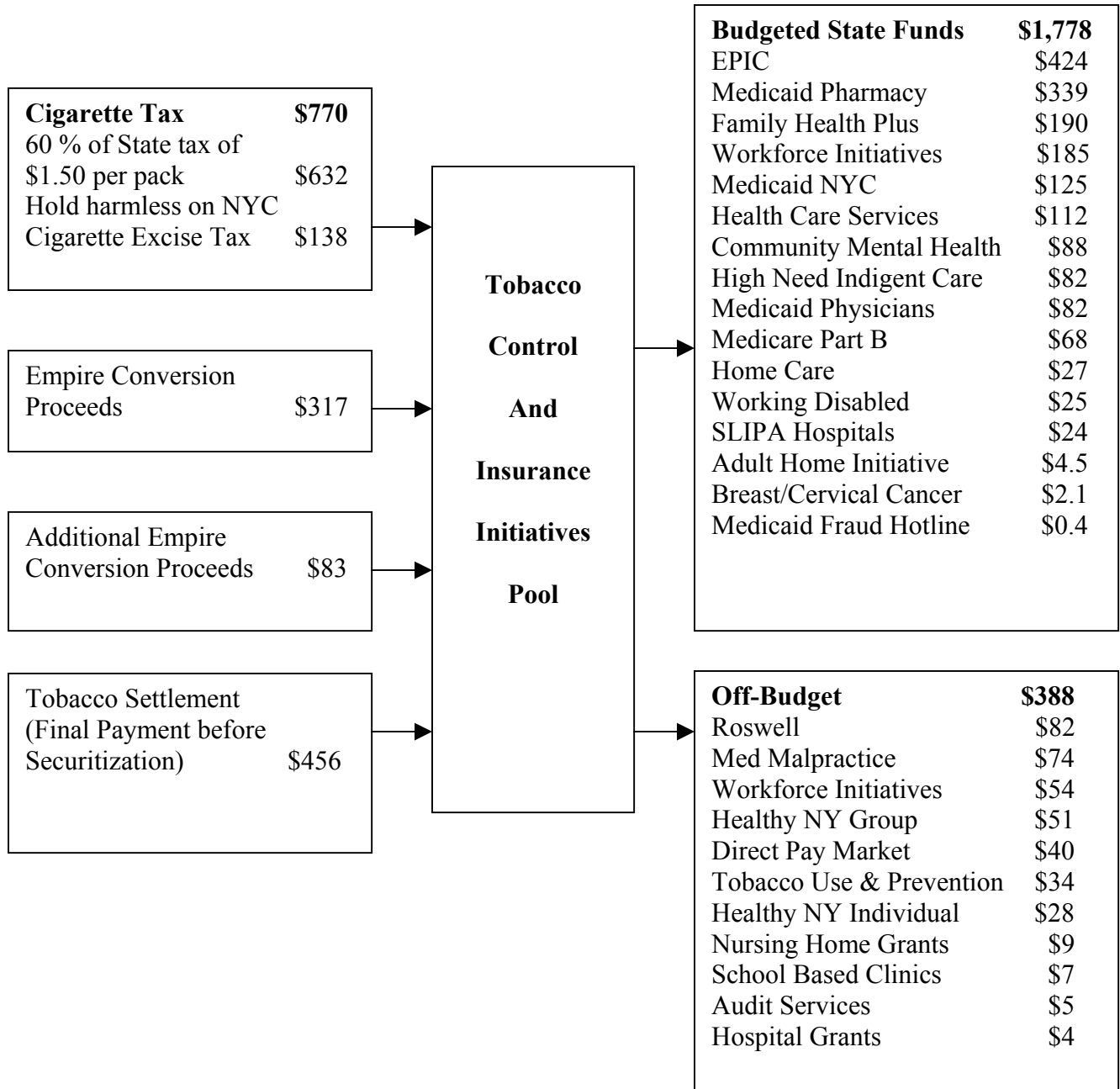
FY 2003-04 State Funding
(Dollars in Millions)



The Indigent Care and Health Care Initiatives Pools are funded by three main sources of revenue: patient services payments (\$1.3 billion), excess Covered Lives Assessment revenues (\$205 million) and, in 2002-03, an amnesty program (\$30 million) by which providers are expected to remit \$30 million in overdue HCRA/NYPHRM surcharges, assessments and other payments. These funding sources support almost \$1.5 billion in health care programs. More than \$160 million in Health Care Initiatives Pool funding is off-budget and not appropriated.

Appendix 3

HEALTH CARE REFORM ACT Tobacco Control and Insurance Initiatives Pool FY 2003-04 State Funding (Dollars in Millions)



This pool supports over \$2 billion in programs; \$388 million is off-budget, not appropriated, and subject to less oversight and public accountability. The Pool does not appear to have enough revenues to support all programs fully, but up to \$600 million in anticipated HCRA cash balances may mitigate possible shortfalls, assuming the Executive’s “pool flexibility” proposal wins Legislative approval.

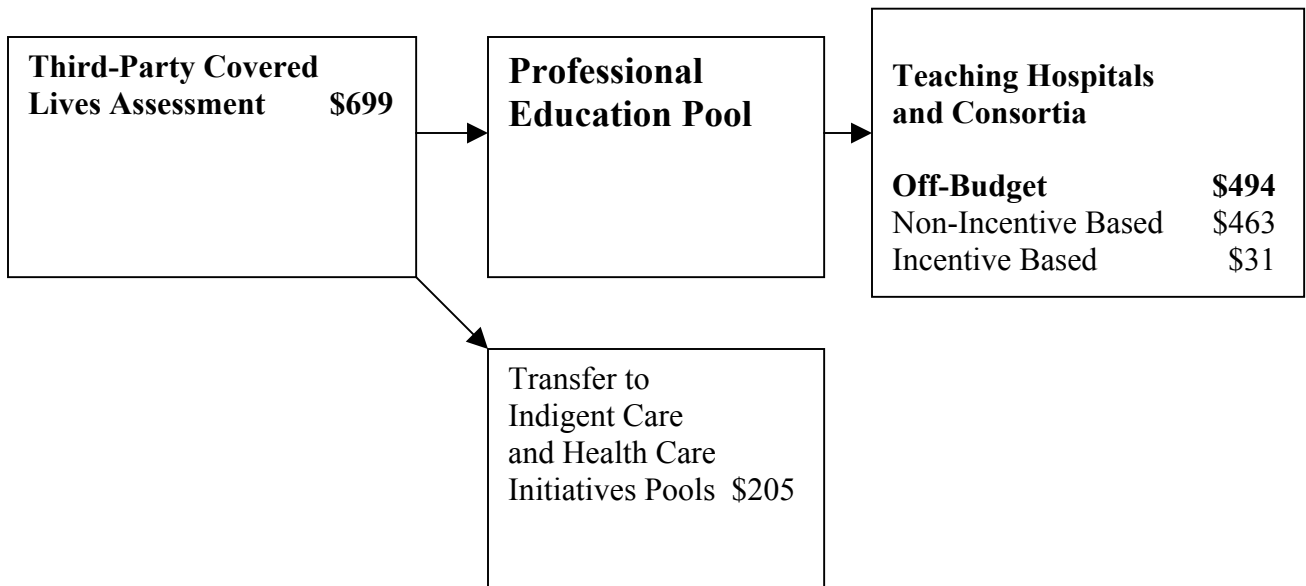
Appendix 4

HEALTH CARE REFORM ACT

Professional Education Pool

FY 2003-04 State Funding

(Dollars in Millions)



The Professional Education Pool receives funding from the Covered Lives Assessment levied on third-party payors. This funding supports graduate medical education for teaching hospitals and consortia. The remaining \$205 million is transferred to the Indigent Care and Health Care Initiatives Pools. All \$699 million is off budget and is not appropriated.

This report was prepared by the State Comptroller's
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