State Fiscal Year 2008-09
Budget Analysis
Review of the Enacted Budget

June 2008

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New York State Comptroller

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Introduction

Our nation is facing very challenging times. The current economic climate, characterized by escalating fuel and food costs, ongoing volatility in the financial markets and continued weakness in the housing market, is straining budgets at every level from federal, state and local governments to individuals.

New York State is no exception. With the rate of revenue growth declining, accompanied by an inherent structural imbalance, New York's ability to maintain a balanced budget is becoming more difficult. Furthermore, because New York relies on the financial markets for a large proportion of its revenue and many of the current economic problems are focused on the financial sector, any prolonged downturn has the potential to impact the State for a longer duration and to a greater degree than the rest of the nation.

Spending, Revenue and Gap Projections

The State Fiscal Year (SFY) 2008-09 Enacted Budget Financial Plan increases All Governmental Funds spending by 4.8 percent over SFY 2007-08, to $121.6 billion. All Governmental Funds receipts are projected to grow by 3.9 percent over SFY 2007-08, to a total of $119.6 billion.

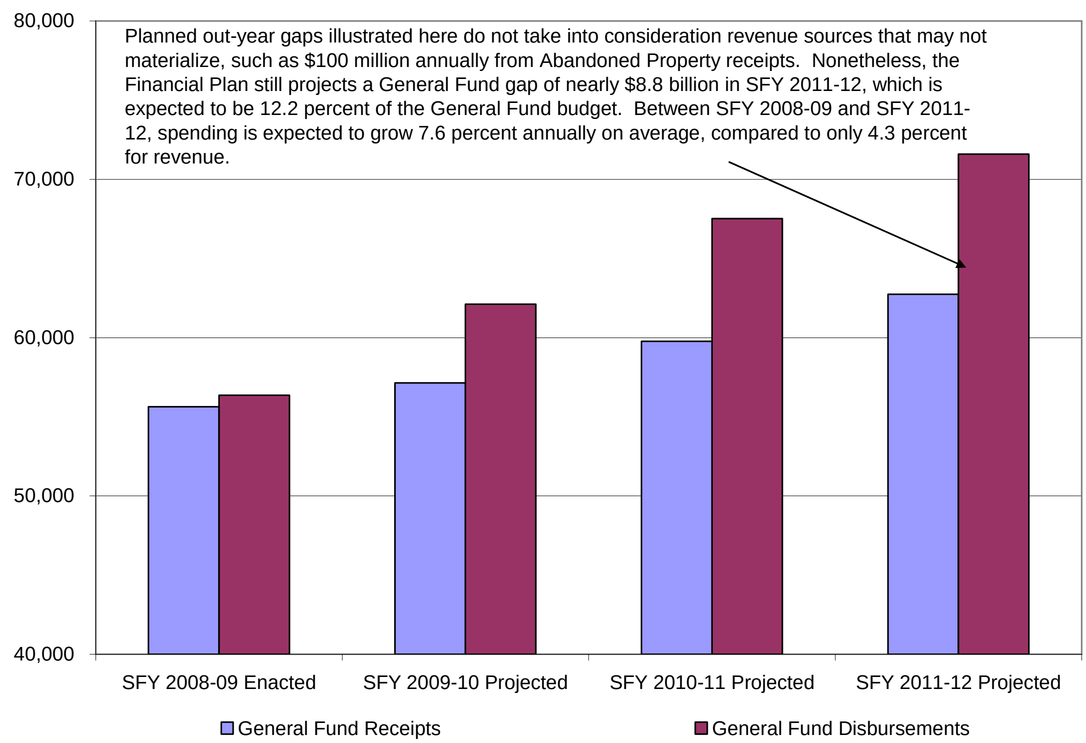
The Division of the Budget (DOB) estimates a three-year structural cumulative deficit through SFY 2011-12 totaling $21.5 billion. This deficit estimate reflects spending commitments made in the current and prior fiscal years that increase costs in the future, and which cannot be met with existing recurring revenue sources. Furthermore, this deficit may be understated by several hundred million dollars because of new projected revenue that may not materialize and unrealistic out-year revenue assumptions, such as fund sweeps, which are treated by DOB as recurring revenue.

Instead of striking a balance between natural revenue growth and spending, the State relies on significant non-recurring resources and new debt to meet ongoing expenses. This trend is unsustainable, and the projected structural imbalance for SFY 2009-10 and the future is not addressed in the SFY 2008-09 Enacted Budget. Instead, the SFY 2008-09 Enacted Budget continues the State's long tradition of focusing on current year spending without consideration for the out-year budget implications.

Structural Imbalance

Despite uncertain economic and revenue forecasts, the State is projected to continue to spend more money than it takes in, and spending is projected to grow faster than revenue. Over the four-year period covered by the SFY 2008-09 Enacted Financial Plan, DOB projects General Fund spending will increase by 34.1 percent, while receipts are expected to increase by only 18.2 percent, just more than half the spending rate of increase. General Fund disbursements are expected to grow 7.6 percent annually on average, compared to only 4.3 percent average annual growth for receipts through SFY 2011-12, also just more than half the disbursement rate of increase. In fact, in SFY 2009-10 alone, disbursements in the General Fund are expected to grow almost four times faster than revenue.

General Fund Receipts vs. Disbursements
SFY 2008-09 through SFY 2011-12
(in millions of dollars)



The SFY 2008-09 Enacted Budget contains $710 million in spending reductions in State funds. Nonetheless, compared to the SFY 2008-09 Executive Budget, the SFY 2008-09 Enacted Budget increases the rate of growth in General Fund spending from 5.2 percent over SFY 2007-08 to 5.6 percent, while at the same time growth projections for General Fund receipts are reduced from 5.3 percent to 4.8 percent over SFY 2007-08.

Growth in State Operating Funds spending increases from 4.8 percent to 5.0 percent from the SFY 2008-09 Executive Budget to the SFY 2008-09 Enacted Budget. Projections for State Operating Funds receipts are reduced from 5.3 percent to 4.0 percent over SFY 2007-08 in the Enacted Budget. Conversely, growth in All Funds spending declines in the SFY 2008-09 Enacted Budget from the SFY 2008-09 Executive Budget, from 5.0 percent to 4.8 percent. However, projected growth in All Funds receipts is reduced from 5.3 percent to 3.9 percent, again less than the rate of increase in spending.

Risky Revenue

In addition to not closing the State's inherent structural gap, the SFY 2008-09 Enacted Budget is balanced on optimistic assumptions for revenue proposals that may not materialize, including new debt, one-shots and the use of reserves.

The SFY 2008-09 Enacted Budget includes over $1.6 billion in revenue estimates, savings and other initiatives that either in the past have not produced the anticipated revenue or savings or prospectively may not be able to do so. It also relies on nearly $2.8 billion in non-recurring resources to meet its spending needs, including nearly $200 million in costs that are normally paid for with cash, but will instead be paid for with new debt.

Furthermore, the out-year gaps presented in the Financial Plan assume that at least $195 million will be received each year. However, this assumption includes monies which may not materialize and that have traditionally been counted as non-recurring resources, or one-shots. For example, funds from Abandoned Property ($100 million), annual sweeps from the Environmental Protection Fund ($45 million) and additional undefined fund sweeps ($50 million), are not presently authorized for use in future years or may not be available.

Too Much Debt, Not Enough Planning

Over the ten-year period ending March 31, 2008, New York's State-Funded debt burden grew from $34.3 billion to $52.5 billion, a 53 percent increase. State-Funded debt per capita increased 48.2 percent, from $1,834 to $2,718, over the same period. New York's debt burden is surpassed only by the State of California.

With the addition in the SFY 2008-09 Enacted Budget of over $11 billion in new debt to be issued over the next several years, the State's debt burden is projected to grow to $67.2 billion by the end of SFY 2012-13, an increase of 180 percent over 1993, and contributing significantly to the increase in out-year spending. As a result, debt service is one of the fastest growing categories of State spending and the availability of funds to meet future spending needs is reduced as tomorrow's tax dollars are being committed to meet today's spending desires.

Despite the continued escalation in the amount of debt issued by the State, the need for investment in many critical components of New York's infrastructure remains, including deteriorating dams, bridges and water systems. The State lacks a comprehensive capital assessment and planning process to effectively prioritize capital needs and ensure the prudent use of debt. Until such a process is implemented, achieving the proper balance between meeting current needs and investing in the capital projects necessary to ensure future economic growth will continue to challenge the State.

Conclusion

Many New Yorkers are struggling to make ends meet, as costs for basic needs are quickly growing faster than their incomes. The State is also struggling to provide current services in an environment of weakening revenues. The Executive and the Legislature have begun to take steps to reign in spending, including agreeing to across the board State spending reductions and ongoing dialogue on where further reductions may be possible. However, the structure of the State's budget remains out of balance.

The difficult decisions must be made now to stop spending more money than the State takes in, reduce the State's reliance on borrowing and plan for the future more thoughtfully. Such actions will reduce expected out-year budget deficits, providing a stronger financial base to maintain equitable tax rates, while still meeting the State's needs.

Section

2

Financial Overview

The SFY 2008-09 Enacted Budget was formulated during a period of economic contraction, but does not reflect the risk of the current economic uncertainty. During the end of the negotiating process, the Executive proposed spending cuts totaling approximately $800 million in State Operating Funds. In addition, the Executive urged constraint and lowered revenue estimates twice. However, the final product enacted on April 9, 2008 increased spending at a rate faster than the Executive's proposal, 5.6 percent in the General Fund in the SFY 2008-09 Enacted Budget compared to 5.2 percent in the Executive's proposal. Furthermore, receipts in the General Fund are only projected to grow 4.8 percent in the SFY 2008-09 Enacted Budget as compared to 5.3 percent in the Executive's proposal.

Spending and Receipt Growth Comparison
Executive Proposal and Enacted Budget
SFY 2007-08 to SFY 2008-09

	Executive Proposed Percent Change	Enacted Percent Change
General Fund Receipts	5.3%	4.8%
General Fund Disbursements	5.2%	5.6%
State Operating Funds Receipts	5.3%	4.0%
State Operating Funds Disbursements	4.8%	5.0%
All Funds Receipts	5.3%	3.9%
All Funds Disbursements	5.0%	4.8%

As a result, in SFY 2008-09, the State will spend $723 million more from the General Fund than it collects, further exacerbating the State's structural imbalance. This shortfall will be filled with existing funds from reserves. In addition, spending in the

SFY 2008-09 Enacted Financial Plan again depends on increased debt, non-recurring resources and revenue and savings actions that may not materialize.

The SFY 2008-09 Enacted Budget Financial Plan (Financial Plan) projects All Funds spending of $121.6 billion, an increase of $5.6 billion, or 4.8 percent, over actual SFY 2007-08 spending. The Financial Plan projects State Operating Funds spending of $80.9 billion, an increase of $3.9 billion, or 5.0 percent, over SFY 2007-08. General Fund spending projected in the Financial Plan totals $56.4 billion, representing an increase of nearly $3.0 billion, or 5.6 percent, over SFY 2007-08.

Receipts are projected to total $119.9 billion, an increase of $4.5 billion, or 3.9 percent, on an All Funds basis and total $55.6 billion, an increase of $2.5 billion, or 4.8 percent, in the General Fund (including transfers from other funds). State Operating Fund receipts are projected to total $78.6 billion, an increase of $3 billion, or 4.0 percent, over SFY 2007-08.

By comparison, the SFY 2008-09 Executive Budget, updated with the 21-Day Amendments, offered an All Funds spending plan of $124.3 billion for State Fiscal Year (SFY) 2008-09, representing an increase of $5.9 billion, or 5.0 percent, over the amount projected for SFY 2007-08. The SFY 2008-09 Executive Budget increased State Operating Funds by 3.7 billion, or 4.8 percent, and General Fund spending by $2.8 billion, or 5.2 percent.

The SFY 2008-09 Executive Budget projected an increase of $6.2 billion, or 5.3 percent, for All Funds receipts, $4.0 billion, or 5.3 percent, in State Operating Funds and $2.8 billion, or 5.3 percent, in the General Fund (including transfers).

However, comparing the size of the SFY 2008-09 Executive Budget versus the Enacted Budget is of minimal value because actual spending and revenue collections in SFY 2007-08 were significantly lower than anticipated throughout the year and reported in the SFY 2008-09 Executive Budget. In fact, total All Funds spending was over $2.2 billion below projections made just six weeks prior to the end of the fiscal year and $4.6 billion below projections made when the SFY 2007-08 Budget was enacted in April 2007. The significantly lower than anticipated spending and revenue figures caused the Division of the Budget (DOB) to reduce their projections for SFY 2008-09 to reflect a lower base.

Enacted Budget
SFY 2007-08 and SFY 2008-09
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Enacted	Dollar Change	Percent Change
General Fund Receipts	53,094	55,638	2,544	4.8%
General Fund Disbursements	53,385	56,361	2,976	5.6%
State Operating Funds Receipts	75,596	78,623	3,027	4.0%
State Operating Funds Disbursements	77,001	80,862	3,861	5.0%
All Funds Receipts	115,421	119,944	4,523	3.9%
All Funds Disbursements	116,056	121,606	5,550	4.8%

SFY 2007-08 Results

All Funds

Revenue collections and spending in SFY 2007-08 fell throughout the year and ended significantly below updated Financial Plan projections issued with the Executive's 21-Day Amendments to the SFY 2008-09 Executive Budget released on February 21, 2008 (February Plan).

All Funds revenue collections through SFY 2007-08 demonstrate these variances. Final All Funds revenue collections of $115.4 billion were $4.1 billion below Enacted Financial Plan (Enacted Plan) projections released in April 2007 and $1.5 billion below the February Plan projections. Although tax collections were nearly $1.1 billion below Enacted Plan projections, they were slightly above February Plan projections ($20 million). Miscellaneous Receipts were $761 million below Enacted Plan projections and $552 million below February Plan projections. Federal receipts were $2.2 billion below Enacted Plan projections and $932 million below February Plan projections. Within taxes, business taxes were $688 million below Enacted Plan projections and $215 million below February Plan projections. The decline is primarily due to the slowdown in the national economy.

All Funds spending for SFY 2007-08 of $116 billion was $4.6 billion below Enacted Plan projections and $2.2 billion below February Plan projections. Spending was lower in Capital Projects ($1.1 billion), Local Assistance ($639 million) and State Operations ($400 million).

The following tables illustrate that local assistance spending differences were concentrated in school aid ($311 million below Plan) and health and social welfare spending other than Medicaid ($351 million below Plan). These were offset by higher spending for transportation ($439 million above Plan). In State Operations, significant variances were found in health and social welfare spending other than Medicaid ($108 million below Plan) and other spending areas ($201 million below Plan). Capital projects spending variances in transportation ($603 million below Plan) and economic development ($394 million below Plan). It is not unusual to see delays in capital spending as outlays depend on a number of variables, including cost of materials, weather, labor supply and market conditions for financing.

Cash Financial Plan
All Funds
SFY 2007-08
(in millions on dollars)

	SFY 2007-08 February (21 Day Amends)	SFY 2007-08 Actual	Difference February to Actual
Receipts:			
Taxes	60,851	60,871	20
Personal Income Tax	36,402	36,564	162
Consumer Taxes and Fees	13,866	13,993	127
Business Taxes	8,446	8,231	(215)
Other Taxes	2,137	2,083	(54)
Miscellaneous Receipts	20,193	19,641	(552)
Federal Grants	35,841	34,909	(932)
Total Receipts	116,885	115,421	(1,464)
Disbursements:			
Grants to Local Governments	83,834	83,195	(639)
State Operations	18,621	18,221	(400)
General State Charges	5,445	5,476	31
Debt Service	4,292	4,104	(188)
Capital Projects	6,112	5,060	(1,052)
Total Disbursements	118,304	116,056	(2,248)

	Local Assistance			*State Operations*			*Capital Projects*		
	February Financial Plan Update	Actual Year-End Results	Difference Feb to Actual	February Financial Plan Update	Actual Year-End Results	Difference Feb to Actual	February Financial Plan Update	Actual Year-End Results	Difference Feb to Actual
Disbursements	83,834	83,195	(639)	18,621	18,221	(400)	6,112	5,060	(1,052)
Economic Development	544	504	(40)	495	516	21	649	255	(394)
Parks/Environment	292	222	(70)	578	562	(16)	341	444	103
Transportation	2,875	3,314	439	115	116	1	3,676	3,074	(603)
Health/Social Welfare	7,917	7,566	(351)	2,118	2,010	(108)	207	67	(140)
Medicaid	31,936	31,874	(62)	-	5	5	-	-	-
Welfare	3,567	3,588	21	-	-	-	-	-	-
Mental Health	3,506	3,491	(15)	2,943	2,920	(23)	135	148	13
Public Protection	795	672	(124)	3,503	3,527	23	314	323	9
Other Education	9,542	9,389	(153)	5,272	5,197	(75)	613	591	(22)
School Aid	21,854	21,543	(311)	-	-	-	-	-	-
General Government	299	253	(47)	1,346	1,318	(27)	75	92	18
All Other	706	779	73	2,250	2,049	(201)	101	65	(36)

General Fund

General Fund receipts for SFY 2007-08 of $53.1 billion were $73 million below February Plan projections and $578 million below Enacted Financial Plan projections. General Fund Tax collections in total were $113 million below February Plan projections and $869 million below the April 2007 Enacted Financial Plan projections. Business Tax collections were significantly below the Plan throughout the year. Unlike All Funds collections, General Fund federal receipts and Miscellaneous receipts did not significantly vary from the Financial Plan throughout the year.

General Fund spending of $53.4 billion was $201 million below February Plan projections and $299 million below Enacted Financial Plan projections. Local Assistance payments were below the SFY 2007-08 Enacted Plan projections by $746 million and February Plan projections by $162 million. Spending for State Operations was $41 million below Enacted Plan projections and $94 million below February Plan projections.

SFY 2008-09 Enacted

On May 1, 2008 DOB updated the SFY 2008-09 Financial Plan to reflect the Enacted Budget, re-estimates subsequent to the 21-Day Amendments and the close of the 2007-08 fiscal year were released. The updated Plan reflects the consensus revenue forecast released March 1, 2008 and spending reductions (with modifications) proposed by the Executive on March 18, 2008.

The SFY 2008-09 Enacted Budget projects All Funds receipts to increase to $119.9 billion, representing a $4.5 billion, or 3.9 percent, increase. Spending is projected to increase to $121.6 billion on an All Funds basis, representing an increase of $5.5 billion, or 4.8 percent, over SFY 2007-08.

General Fund spending is projected to total approximately $56.4 billion, an increase of nearly $3.0 billion, or 5.6 percent, over SFY 2007-08. General Fund receipts are projected to total $55.6 billion, an increase of $2.5 billion, or 4.8 percent, over SFY 2007-08. Spending from State Operating Funds is projected to increase 5.0 percent over SFY 2007-08.

Compared to the SFY 2008-09 Executive Budget, the Enacted Budget increases the rate of growth in General Fund spending from 5.2 percent over SFY 2007-08 to 5.6 percent, while at the same time growth projections for General Fund receipts are reduced from 5.3 percent to 4.8 percent over SFY 2007-08. Growth in spending for State Operating Funds increases from 4.8 percent in the SFY 2008-09 Executive Budget to 5.0 percent in the SFY 2008-09 Enacted Budget. Projections for State Operating Funds receipts, on the other hand, are reduced from 5.3 percent to 4.0 percent over SFY 2007-08 in the Enacted Budget. Conversely, growth in All Funds spending declined in the SFY 2008-09 Enacted Budget from the SFY 2008-09 Executive Budget, from 5.0 percent to 4.8 percent. However, projected growth in All Funds receipts is also reduced from 5.3 percent to 3.9 percent.

Reserves

As a result of lower than expected spending, the General Fund ended SFY 2007-08 with a closing balance of nearly $2.8 billion, or $128 million higher than anticipated in February. In SFY 2007-08, the State utilized $528 million in unrestricted reserves, but also added $237 million to other reserves. The SFY 2008-09 Enacted Budget will further reduce unrestricted reserves by $723 million. Although the following table does not indicate a fund balance in the Debt Reduction Reserve Fund (DRRF) at the end of SFY 2006-07 and SFY 2007-08, in SFY 2006-07, $250 million was used to retire debt and an additional $250 million was planned for the same purpose in SFY 2007-08. However, only $127 million was used in SFY 2007-08 and a portion of the authority ($122 million) will be moved into SFY 2008-09. Spending from DRRF only occurs when funds are transferred into the Fund and only the amount to be used is transferred.

General Fund Reserves
SFY 2007-08 through SFY 2008-09
(in millions of dollars)

	Actual SFY 2006-07	Actual SFY 2007-08	Dollar Change from SFY 2006-07 to SFY 2007-08	Enacted SFY 2008-09	Dollar Change from SFY 2007-08 to SFY 2008-09
Tax Stabilization Reserve Fund	1,031	1,031	-	1,031	-
Rainy Day Reserve	-	175	175	175	-
Contingency Reserve Fund	21	21	-	21	-
Prior Year Surplus	1,715	1,187	(528)	445	(742)
Community Projects Fund	278	340	62	237	(103)
Debt Reduction Fund	-	-	-	122	122
Total	**3.045**	**2,754**	**(291)**	**2,031**	**(723)**

Current Services Gap

The SFY 2008-09 Executive Budget estimated a current services gap of $4.4 billion, which was increased to $4.6 billion with the 21-Day Amendments as a result of lower than anticipated revenue collections offset by lower spending re-estimates. Actual spending and receipts from SFY 2007-08 caused further downward adjustments to revenue projections. In addition, adjustments related to ratified labor contracts and the SFY 2007-08 closeout further increased the projected General Fund current services gap.

The SFY 2008-09 Executive Budget added $416 million to the gap with the introduction of new spending initiatives. The Executive proposed to close the initial $4.4 billion current services gap and finance the new spending with a combination of savings actions ($2.3 billion), recurring revenue actions ($1.1 billion) and non-recurring resources including the use of unrestricted reserves ($1.5 billion).

According to the SFY 2008-09 Enacted Budget Financial Plan, the revised current services gap of $5.2 billion is increased by $873 million, reflecting new General Fund initiatives agreed to in the SFY 2008-09 Enacted Budget, including an additional $447 million for education, $156 million in Health Care and $270 million in various programs for higher education, housing, agriculture and economic development.

The new initiatives, combined with the existing current services gap, created a need of $6.1 billion in order to balance the budget. This need is met with a combination of savings actions, including reductions, of $2.8 billion, the use of non-recurring resources, including reserves, of $2 billion, and recurring revenue actions of $1.3 billion. The following table outlines the current services gap from the SFY 2008-09 Executive Budget through the SFY 2008-09 Enacted Budget as defined by DOB.

Transition of Current Services General Fund Gap
SFY 2008-09 Executive Budget to SFY 2008-09 Enacted Budget
as Per the Division of the Budget
(in millions of dollars)

	SFY 2008-09
Initial Current Services Gap Estimates	**(4,422)**
21-Day Revenue Re-estimates	(304)
21-Day Spending Re-estimates	147
21-Day Current Services Gap Estimates	**(4,579)**
Consensus Revenue Reduction	(300)
Post Consensus Revenue Re-estimates	(532)
Labor Settlement	(254)
Post 21-Day Spending Re-estimates	442
Revised Current Services Gap	**(5,223)**
New Initiatives	**(873)**
Education (School Aid)	(447)
Health Care	(156)
Human Services	-
Community Projects Fund Deposit	-
Other	(270)
New Recurring Revenue	**1,264**
Improve Audit and Compliance	487
Abandoned Property *	150
Capital Base Rate Reduction	89
LLC Min Partner Fees	85
Authority Resources	60
Sales Tax Nexus	50
Federal QPAI Decoupling	50
Credit Card Nexus	49
REIT Loophole Correction	42
All Other	202
Non-Recurring Actions	**1,997**
Aqueduct Franchise Fee	250
Bond Financing over PAYGO	173
Blanket Fund Sweep *	150
SONYMA Sweep	100
Mental Hygiene Property Sale	100
Business Tax Prepayment	95
AIM Restoration	82
EPF Sweep	80
EPIC Sweep	70
Mental Hygiene/Patient Income Account revenue	66
Recover Early Intervention Costs from NYC	60
Student Loan Default Fee	27
District Attorney Settlement Revenue	25
Pension Prepayment Savings	24
Motor Vehicle Sweep	16
Reserves	620
Other	59
Savings	**2,835**
Across the Board Reductions (General Fund)	485
Health Care	763
STAR	354
Cigarette Tax Financing	265
General State Charges	202
Mental Hygiene	199
Welfare/TANF	151
Judicial Pay Exclusion	143
Criminal Justice	20
Other	253
New Gap Projection	**-**

Spending Reductions

On March 18, 2008, the Executive proposed an $800 million reduction in State Operations spending in all agencies and Local Assistance, not including education and certain entitlement programs.

According to the Enacted Financial Plan, the proposed reduction in spending totals approximately $509 million from State Operations and $269 million from certain Local Assistance programs ($778 million total in State Operating Funds of which $485 million is from the General Fund). These reductions translate into agency State Operations savings of 3.35 percent and Local Assistance savings of 2 percent. The SFY 2008-09 Enacted Budget reduced this reduction by $68 million (primarily for various local assistance programs in the General Fund) for a total reduction of $710 million.

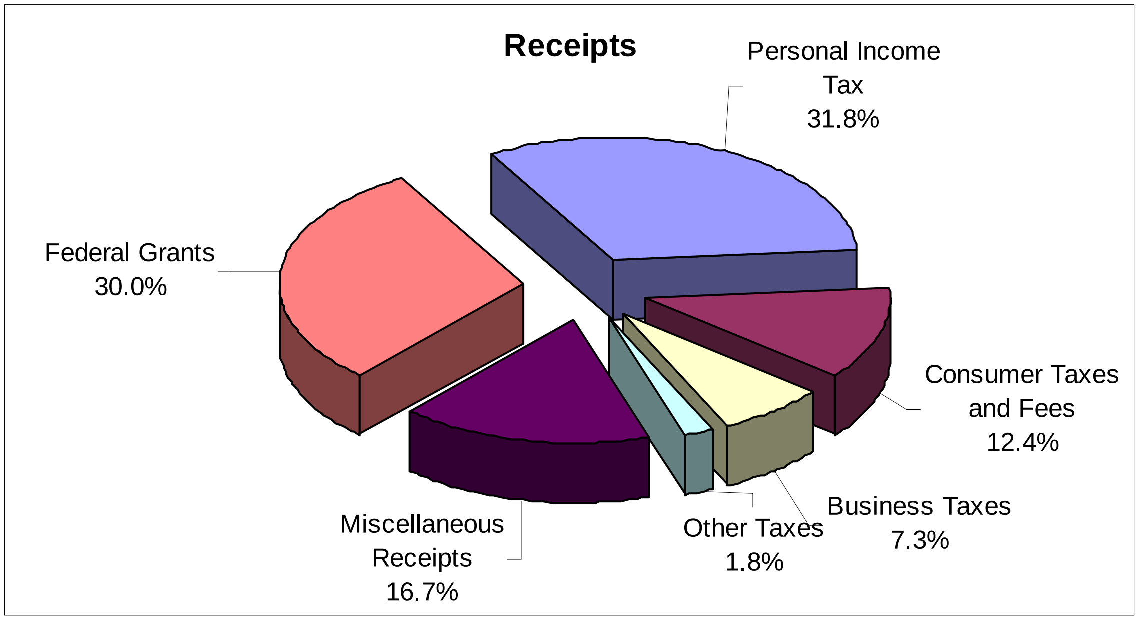
SFY 2008-09 - Sources and Uses

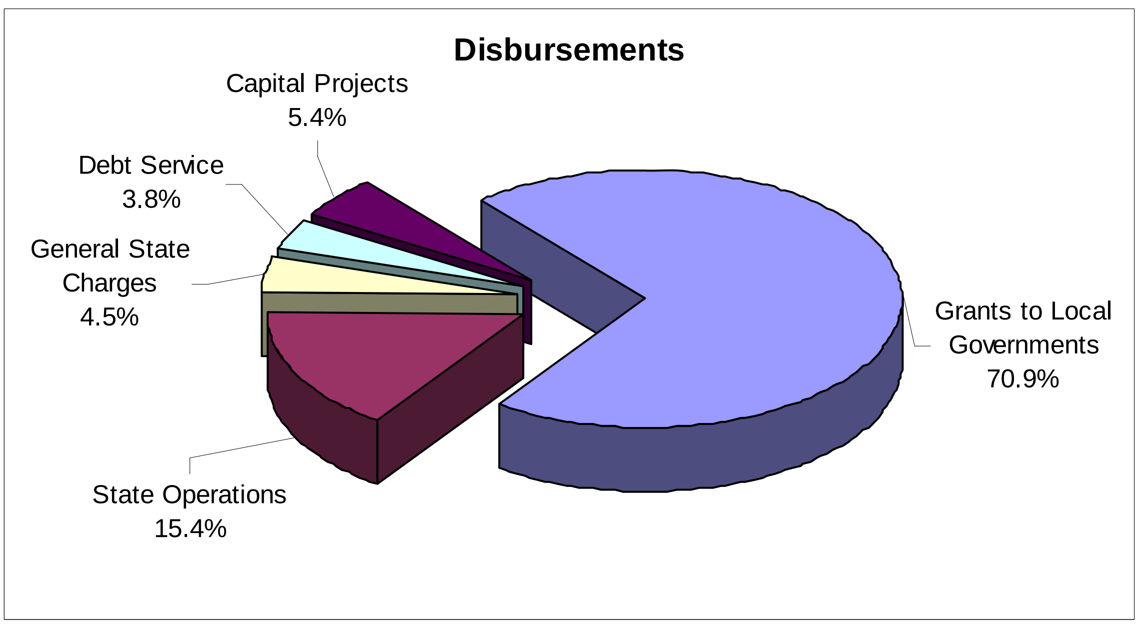
The SFY 2008-09 Enacted Budget increases spending by 4.8 percent on an All Funds basis from $116.1 billion in SFY 2007-08 to $121.6 billion in SFY 2008-09. Of this amount, local assistance payments are projected to increase $3.1 billion, or 3.7 percent. Spending for State Operations is projected to increase 2.8 percent, or $516 million, to $18.7 billion. Spending for State-Supported debt service is projected to increase 13.4 percent from $4.1 billion to nearly $4.7 billion, and spending for capital projects is projected to increase to $6.5 billion, an increase of 28.7 percent.

Within local assistance, the largest spending increase is for school aid, projected to increase $1.8 billion, or 8.4 percent, to $21.5 billion. Spending for the Medicaid program within the Department of Health (DOH) is projected to increase from $31.9 billion to $32.6 billion, or 2.2 percent, after declining nearly 4 percent in SFY 2007-08. Spending for welfare programs is projected to decline from nearly $3.6 billion to $3.4 billion. Combined spending for school aid, Medicaid (DOH) and welfare make up nearly 70 percent of All Funds local assistance spending, which takes up approximately 71 percent of the budget as a whole.

Receipts are comprised of various taxes, miscellaneous receipts (such as Lottery revenue and various fees) and federal receipts. In SFY 2003-04, taxes made up only 42.7 percent of All Funds Receipts, and federal grants made up 37.7 percent. The SFY 2008-09 Enacted Budget projects taxes will make up 53.3 percent of All Funds receipts and federal grants will decline to 30.0 percent of the total.

All Funds – Sources and Uses
SFY 2008-09





Non-Recurring Resources

DOB identified nearly $2 billion in non-recurring resources used to support spending in SFY 2008-09. This Office identified approximately $3.0 billion in one-shots in the SFY 2008-09 Executive Budget. The SFY 2008-09 Enacted Budget did not include $982 million in non-recurring resources that were proposed, most of which would have been spent off-budget (primarily reflecting the sale of surplus Javits Convention Center property), and added another $683 million, for a total of $2.75 billion in non-recurring resources planned for use in balancing the SFY 2008-09 Financial Plan.

Non-Recurring Resources
Identified by the Office of the State Comptroller
(in millions of dollars)

Source	**Proposed Executive Budget**		**Enacted Budget**
Asset Sales	1,000	*	100
Reserves	337		620
Delay STAR	354		354
Aqueduct Franchise Fee	-		250
Belmont Franchise Fee	250		-
Additional Fund Sweeps	-		150
Abandoned Property	50		150
Environmental Protection Fund Sweep	125		125
State of New York Mortgage Agency (SONYMA) Sweep	100		100
Additional SONYMA Sweep	100	*	100
Power Authority of New York State Resources	33		93
Business Tax Prepayment	95		95
Pension Bill Prepayment	86		86
Delay of AIM Restoration for New York City	164		82
Bond Financing in Environmental Protection Fund (additional sweep)	75		75
Bond Software Costs	71		71
Elderly Pharmaceutical Insurance Coverage (EPIC) Sweep	-		70
Mental Hygiene Patient Income Account revenues	66		66
Recovery of Early Intervention Overpayments to New York City	60		60
All Other	34		34
Use Bond Financing instead of current cash resources (PAYGO)	33		53
Motor Vehicle Sweep	16		16
Total	**3,049**		**2,750**

* Note: Funds will be diverted and spent off-budget.

Off-Budget Capital Spending

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

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

The SFY 2008-09 Financial Plan includes All Funds spending growth of $5.6 billion, or 4.8 percent, over SFY 2007-08. However, this expected growth does not include capital spending that is expected to occur off-budget. If the Financial Plan included all off-budget capital spending, totaling $1.6 billion in SFY 2007-08 and $2.1 billion in SFY 2008-09, All Funds spending would show an increase from 4.8 percent over SFY 2007-08 to 5.2 percent, and State Funds spending would show an increase from 5.6 percent over SFY 2007-08 to 6.2 percent.

According to the SFY 2008-09 Enacted Budget Financial Plan, off-budget capital spending is projected to total nearly $7.0 billion over the four-year period between SFY 2008-09 and SFY 2011-12.[1] Furthermore, in SFY 2008-09, off-budget capital spending is projected to increase by $433 million, or 26.5 percent, over SFY 2007-08 levels. This increase is primarily attributable to spending for the EXCEL program, which was added in SFY 2006-07. Overall, off-budget capital spending is projected to decline over the four-year period to nearly $1.6 billion in SFY 2011-12. The decline in off-budget capital spending over the four-year period is primarily related to the full disbursement of EXCEL funds by the end of SFY 2009-10.

According to the Capital Plan, disbursements for capital projects are projected to total over $9.1 billion in SFY 2008-09. A significant portion, approximately 22.6 percent, of these disbursements is related to off-budget capital spending. Off-budget capital projects spending is projected to decline to 14.4 percent of total capital projects disbursements in SFY 2010-11.

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[1] New York State Division of the Budget. *SFY 2008-09 Enacted Budget Financial Plan*. May 2008: page T-26.

See the Debt and Capital section of this report for more information on off-budget capital spending.

Other Off-Budget Spending

The SFY 2008-09 Executive Budget included $1.1 billion in additional off-budget spending that did not appear in either the Financial Plan or the Capital Plan.[2] The total proposed included $1 billion from three property sales (surplus Javits Convention Center property and two mental hygiene facilities no longer in use) and a $100 million fund sweep from the State of New York Mortgage Agency (SONYMA).

The SFY 2008-09 Enacted Budget includes $339 million in new off-budget spending for various housing and energy programs, financed in part with the $100 million sweep from SONYMA.

Various Housing Programs

The SFY 2008-09 Executive Budget included an affordable housing program that was to be financed completely off-budget with the $100 million sweep from SONYMA and an additional $300 million from the sale of surplus Javits Center property. The proposed housing program and the sale of Javits property were not enacted. However, the sweep of funds from SONYMA will finance the following housing-related programs:

- $54 million – Mitchell Lama (Rehabilitation and Preservation Program and All Affordable Program),
- $25 million – Housing Trust Fund Corporation (subprime mortgage foreclosure prevention),
- $15 million – Housing Trust Fund (Greater Catskill Flood Remediation), and
- $6 million – Long Island Partnership (Homeownership and Economic Stabilization).

System Benefits Charge and Renewable Portfolio Standard

The State of New York currently imposes two separate surcharges on residential and commercial utility customers and on public utilities, and directs these funds to the New York State Energy Research and Development Authority (NYSERDA). The Authority uses these monies to finance a number of energy related projects, all outside of the State's Financial Plan. These off-budget taxes are expected to result in new spending of $239 million in the current fiscal year.

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[2] For a complete description of the SFY 2008-09 Executive Budget off-budget actions, see the Office of the State Comptroller's *Budget Analysis – State Fiscal Year 2008-09: Review of the Executive Budget,* February 2008.

In 1996, the Public Service Commission (PSC) established the Systems Benefit Charge (SBC) to fund energy related policy initiatives. The SBC program is administered by NYSERDA and monitored by the PSC. SBC receipts are either paid to contractors based on work completed under the New York Energy $mart program or are retained by the utilities to fund their own low-income energy assistance programs. The SBC surcharge is expected to yield $172 million in SFY 2008-09.

Renewable Portfolio Standard

In 2004, the PSC established the Renewable Portfolio Standard (RPS). NYSERDA administers the RPS program, which is monitored by the PSC. Contracts awarded by NYSERDA provide incentives for renewable energy producers who sell and deliver their energy in New York's wholesale electricity market and for companies that provide funding for customers to create renewable electricity generating capabilities. The RPS is expected to generate $67.3 million in SFY 2008-09. It is expected to grow to $167 million by 2013.

SFY 2007-08 Actual to SFY 2008-09 Enacted
(adjusted for off-budget spending)
(in billions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Enacted	Dollar Change	Percent Change
Reported General Fund	53.39	56.36	2.98	5.6%
Adjusted General Fund	**53.39**	**56.36**	**2.98**	**5.6%**
Reported State Funds	81.38	85.97	4.59	5.6%
Off-Budget Capital Spending	1.63	2.07		
Off-Budget Other Spending	0.22	0.34		
Adjusted State Funds	**83.23**	**88.38**	**5.15**	**6.2%**
Reported All Funds	116.06	121.60	5.54	4.8%
Off-Budget Capital Spending	1.63	2.07		
Off-Budget Other Spending	0.22	0.34		
Adjusted All Funds	**117.90**	**124.01**	**6.10**	**5.2%**

Risks to the Financial Plan

According to the SFY 2008-09 Enacted Budget Financial Plan, the General Fund is balanced. However, the Plan contains significant risks, including the possibility of additional spending needs and revenues that may not materialize.

Risks to the SFY 2008-09 Financial Plan
(in millions of dollars)

	Value
Tax Audit Revenue	487
HIP/GHI Conversion	284
Aqueduct Franchise Fee	250
Remaining Wellpoint Conversion	185
Tax Collections from Native American Sales	150
Asset Sales	100
Additional Medicaid Audit Recoveries	75
Internal Retail Sales Tax (“Amazon” Tax)	50
Debt Service	21
Total	**1,602**

Economy

While this Office has not quantified the risk to the Financial Plan related to the current economic climate, particular risks to the SFY 2008-09 Financial Plan include:

- The risk of a further economic slowdown or deeper than anticipated recession, which could cause lower tax collections across the board,
- Continued consequences of the subprime lending crisis, including negative impact on the real estate market, as well as the bond market,
- Lower than expected earnings and bonuses from Wall Street, and
- Higher than anticipated energy costs.

Lottery

The SFY 2008-09 Enacted Budget includes $250 million from a franchise fee associated with the introduction of Video Lottery Terminals (VLTs) at the Aqueduct Racetrack. This fee has not been imposed on other operators of VLT facilities, but is being counted on to close the SFY 2008-09 projected gap.

Tax Enforcement

The SFY 2008-09 Financial Plan includes approximately $150 million from the enforcement and collection of fuel, sales and cigarette taxes from sales by Native American establishments to non-Native American consumers, as per statutes enacted in 2005.

Various Tax Audit Recoveries/Actions

The SFY 2008-09 Enacted Budget includes an additional 75 full-time equivalent (FTE) employees to combat tax fraud through the Department of Tax and Finance with an expectation of $487 million in additional revenue. The majority of the recoveries is for business taxes. Recoveries were below projections for SFY 2007-08. Should associated savings from these activities fall short of expectations, this would negatively impact the Financial Plan.

Debt Service Savings

The Executive recommended various debt management proposals that were intended to increase debt management efficiencies and reduce borrowing costs by a projected $31 million in SFY 2008-09. While a number of proposals are administrative and do not require legislative approval (such as increasing the use of competitive bond sales), others were not enacted (such as consolidating bonding authority for Personal Income Tax Revenue Bonds). In addition, although the Executive lowered the projected savings figure by $10 million, fluctuations within the bond market have actually increased costs by an estimated $23 million, thus offsetting any savings that may materialize.

Asset Sales

The Executive projects sale proceeds of $100 million from the sale of two mental hygiene related properties in Manhattan and the Bronx to be used to offset costs in the Mental Hygiene budget. As with any land sale, these transactions are subject to real estate market fluctuations.

Not-For-Profit Insurance Conversion Proceeds

A conversion of not-for-profit insurers HIP and GHI to for-profit status was enacted in SFY 2007-08. DOB projects $284 million in proceeds from the conversion of HIP and GHI in SFY 2008-09. If funding from the conversion is not available in SFY 2008-09, since the conversion process can be lengthy, funding will be required from another source or spending will have to be reduced.

In addition, the State still holds approximately 7.3 million shares of Wellpoint stock that is planned for sale in SFY 2008-09 with projected proceeds of $550 million (approximately $75 per share). In early March 2008, the share price of Wellpoint dropped from a previous high of $90 per share to $43.02 per share. As of May 23, 2008, it is selling at $54.07 per share. If the remaining stock were to sell at $50 per share, the State would only net approximately $365 million, or $185 million below projections. Coupled with the risk associated with HIP/GHI, HCRA funds could be nearly $470 million short in SFY 2008-09, which would require a General Fund backfill of the same amount.

Health Care

The Medicaid program provides health care for low-income individuals, long-term care for the elderly and services for disabled persons, primarily through payments to health care providers. In New York, Medicaid is financed jointly by federal, State and local governments. However, the federal government has issued or proposed a series of regulations that could pose significant risks to the State Financial Plan and result in hundreds of millions of dollars in the loss of federal funding in SFY 2008-09.

These regulations would significantly curtail federal Medicaid funding to public hospitals in the State, as well as programs operated by the State Office of Mental Health and the State Office of Mental Retardation and Developmental Disabilities, eliminate Medicaid funding for graduate medical education, affect the State's use of provider tax receipts to finance various health care programs, restrict Medicaid reimbursement for hospital outpatient services and restrict coverage to rehabilitative services. The State and various provider groups are actively lobbying the federal government to be held harmless from the regulations.

Comparison of
SFY 2007-08 Actual Results vs. SFY 2008-09 Enacted
General Fund
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Enacted	Dollar Change	Percent Change
Opening Fund Balance (April 1)	**3,045**	**2,754**	**(291)**	**-9.6%**
Receipts:				
Taxes	38,395	40,610	2,215	5.8%
Personal Income Tax	22,759	23,920	1,161	5.1%
Consumer Taxes and Fees	8,555	8,937	382	4.5%
Business Taxes	6,018	6,559	542	9.0%
Other Taxes	1,063	1,194	131	12.4%
Miscellaneous Receipts	2,458	2,505	47	1.9%
Federal Grants	69	41	(28)	-40.5%
Sub-Total	**40,922**	**43,156**	**2,234**	**5.5%**
Transfers from Other Funds	12,172	12,482	310	2.5%
Total Receipts	**53,094**	**55,638**	**2,544**	**4.8%**
Disbursements:				
Grants to Local Governments	36,412	39,126	2,714	7.5%
State Operations	9,579	8,662	(917)	-9.6%
General State Charges	4,620	3,023	(1,597)	-34.6%
Sub-Total	**50,611**	**50,811**	**200**	**0.4%**
Transfers to Other Funds	2,774	5,550	2,776	100.1%
Total Disbursements	**53,385**	**56,361**	**2,976**	**5.6%**
Changes in Fund Balance	**(291)**	**(723)**		
Closing Fund Balance (March 31)	**2,754**	**2,031**	**(723)**	**-26.3%**
Statutory Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	0	0.0%
Rainy Day Fund	175	175	0	100.0%
Contingency Reserve Fund	21	21	0	0.0%
Community Projects Fund	340	237	(103)	-30.4%
Debt Reduction Reserve Fund	0	122	122	100.0%
Refund Reserve				
SFY 2005-06 and SFY 2006-07 Surplus	1,187	445	(742)	-62.5%

Note: Totals may not add due to rounding.

Comparison of
SFY 2007-08 Actual vs. SFY 2008-09 Enacted
State Operating Funds
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Enacted	Dollar Change	Percent Change
Opening Fund Balance (April 1)	**6,949**	**6,559**	**(390)**	**-5.6%**
Receipts:				
Taxes	58,824	61,794	2,970	5.0%
Miscellaneous Receipts	16,703	16,787	84	0.5%
Federal Grants	69	42	(27)	-39.1%
Total Receipts	75,596	78,623	3,027	4.0%
Disbursements:				
Grants to Local Governments	52,569	56,356	3,787	7.2%
State Operations	15,068	15,263	195	1.3%
General State Charges	5,252	4,588	(664)	-12.6%
Debt Service	4,104	4,652	548	13.4%
Capital Projects	8	3	(5)	-62.5%
Total Disbursements	77,001	80,862	3,861	5.0%
Other Financing Sources (uses):				
Transfers from Other Funds	19,185	22,110	2,925	15.2%
Transfers to Other Funds	(18,170)	(21,298)	(3,128)	17.2%
Bond and Note Proceeds	0	0	0	
Net Other Financing Sources (uses)	1,015	812	(203)	-20.0%
Changes in Fund Balance	(390)	(1,427)		
Closing Fund Balance (March 31)	**6,559**	**5,132**	**(1,427)**	**-21.8%**

Note: Totals may not add due to rounding.

Comparison of
SFY 2007-08 Actual vs. SFY 2008-09 Enacted
All Governmental Funds
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Enacted	Dollar Change	Percent Change
Receipts:				
Taxes	60,871	63,904	3,033	5.0%
Personal Income Tax	36,564	38,150	1,586	4.3%
Consumer Taxes and Fees	13,992	14,821	829	5.9%
Business Taxes	8,232	8,782	550	6.7%
Other Taxes	2,083	2,151	68	3.3%
Miscellaneous Receipts	19,641	20,084	443	2.3%
Federal Grants	34,909	35,956	1,047	3.0%
Total Receipts	**115,421**	**119,944**	**4,523**	**3.9%**
Disbursements:				
Grants to Local Governments	83,195	86,276	3,081	3.7%
State Operations	18,221	18,737	516	2.8%
General State Charges	5,476	5,429	(47)	-0.9%
Debt Service	4,104	4,652	548	13.4%
Capital Projects	5,060	6,512	1,452	28.7%
Total Disbursements (1)	**116,056**	**121,606**	**5,550**	**4.8%**
Other Financing Sources (uses):				
Transfers from Other Funds	21,878	25,281	3,403	15.6%
Transfers to Other Funds	(21,879)	(25,371)	(3,492)	16.0%
Bond and Note Proceeds	269	473	204	75.7%
Net Other Financing Sources (uses)	**269**	**383**	**114**	**42.6%**

(1) Does not include off-budget spending.
Note: Totals may not add due to rounding.

Section
3

Debt and Capital

Over the ten-year period ending March 31, 2008, New York's State-Funded debt burden grew from $34.3 billion to $52.5 billion, a 53 percent increase.[3] State-Funded debt per capita increased 48.2 percent, from $1,834 to $2,718, over the same period.

With $52.5 billion in State-Funded debt outstanding at the end of SFY 2007-08, New York State's debt burden is surpassed only by the State of California. According to Moody's Investors Service, New York State is the fifth highest in the country for both debt per capita (3.1 times higher than the national median) and debt as a percentage of personal income (2.4 times the national median).[4]

Furthermore, under the SFY 2008-09 Enacted Budget Capital Program and Financing Plan, New York's debt burden will continue to grow. The Plan contemplates a total of $29.2 billion in new State-Supported debt issuances over the five-year period between SFY 2008-09 and SFY 2012-13.[5] This amount does not include approximately $3.4 billion in new debt issuances backed with future State Building Aid payments that are planned by the New York City Transitional Finance Authority (TFA). Considering these additional issuances, total State-Funded issuances planned for the next five years increase to $32.6 billion.

The SFY 2008-09 Executive Budget included over $11 billion in new capital initiatives that would be primarily financed with debt. While the SFY 2008-09 Enacted Budget does not include $746 million of the Executive's proposed increase, $1.1 billion in new

[3] State-Funded debt is a comprehensive measure of the State's debt burden developed by the Office of the State Comptroller over the last several years. It includes all debt for which State resources are used as the sole source of repayment.

[4] Moody's Investors Service. *2008 State Debt Medians*. March 2008.

[5] As defined by Section 67-A of the State Finance Law.

capital initiatives is added, primarily for spending on economic development initiatives to be allocated by the Legislature.

Factoring in these new debt authorizations, the State-Funded debt burden will grow to nearly $67.2 billion by the end of 2013, an increase of 180 percent over 1993 (5.5 percent average annual) and 72 percent from 2003 (5.7 percent average annual). The State's new debt, combined with existing obligations, will increase State-Funded debt service costs to nearly $7.5 billion by SFY 2012-13 from $4.8 billion in SFY 2008-09, an increase of $2.7 billion, or 55.2 percent, from SFY 2007-08, and 127.8 percent from SFY 1997-98.

By the Executive's own measure of State-Related debt, between the period of 1998 and 2007, debt as a percentage of personal income consistently exceeded the national average and the average for peer states.[6] Further, State-Related debt outstanding is projected to grow 12.9 percent in the first two years of the Five-Year Capital Plan (6.5 percent and 6.4 percent, respectively). This represents the second and third largest increase in State-Related debt outstanding over the past 12 years, exceeded only in SFY 2003-04 when it grew by 15.4 percent.

State-Related debt service is projected to increase in each of the next five fiscal years and exceed 5 percent of the All Funds budget by the end of SFY 2012-2013. State-Related debt per capita is also projected to increase in each of the next five fiscal years from $2,733 in SFY 2008-09 to $3,151 in SFY 2012-13, a total increase of 15.3 percent.

What is Counted as State Debt?

Since SFY 2003-04, $7.6 billion in bonds has been issued to provide budget relief to the State and its local governments with no resulting physical asset for the State and its taxpayers. Moreover, this debt is *not* counted as State-Supported debt in the Five-

[6] State-Related debt is not statutorily defined although it is described in historic budget and disclosure documents. According to the Executive, the "State-Related" debt levels reported in the SFY 2008-09 Enacted Budget Capital Program and Financing Plan are cash-basis components of the actual Generally Accepted Accounting Principles (GAAP) debt levels reported in the Comptroller's Comprehensive Annual Financial Report (CAFR), including all debt issued by the State (including blended component units) for government activities and business-type activities. However, debt is reported in the CAFR in accordance with GAAP and there is no conversion to cash reporting in the CAFR as described by the Executive. There are also elements of debt reported in the CAFR that are not included in the State-Related debt figures presented in the SFY 2008-09 Enacted Capital Program and Financing Plan, such as all capital lease obligations, mortgage loan commitments, bond premiums and accumulated accretion on Capital Appreciation bonds. Furthermore, the CAFR does not report Moral Obligation, State Guaranteed or Contingent Contractual Obligations as debt of the State in accordance with GAAP. This debt is disclosed as a contingency commitment of the State in the CAFR. The Office of the State Comptroller presents a different accounting of State-Related debt in the *State of New York Comptroller's Annual Report to the Legislature on State Funds Cash Basis of Accounting*, which incorporates State-Supported debt, State-Funded debt, Moral Obligation debt, Contingent-Contractual and State Guaranteed Obligations. All of the State-Related figures contained in this report are as presented by the Executive in the SFY 2008-09 Enacted Budget Capital Program and Financing Plan.

Year Capital Program and Financing Plan, even though these obligations are funded with State resources. This is a clear illustration that the definition of State-Supported debt of the State Finance Law, as added by the Debt Reform Act of 2000, is not a comprehensive measure of the State's outstanding debt obligation.

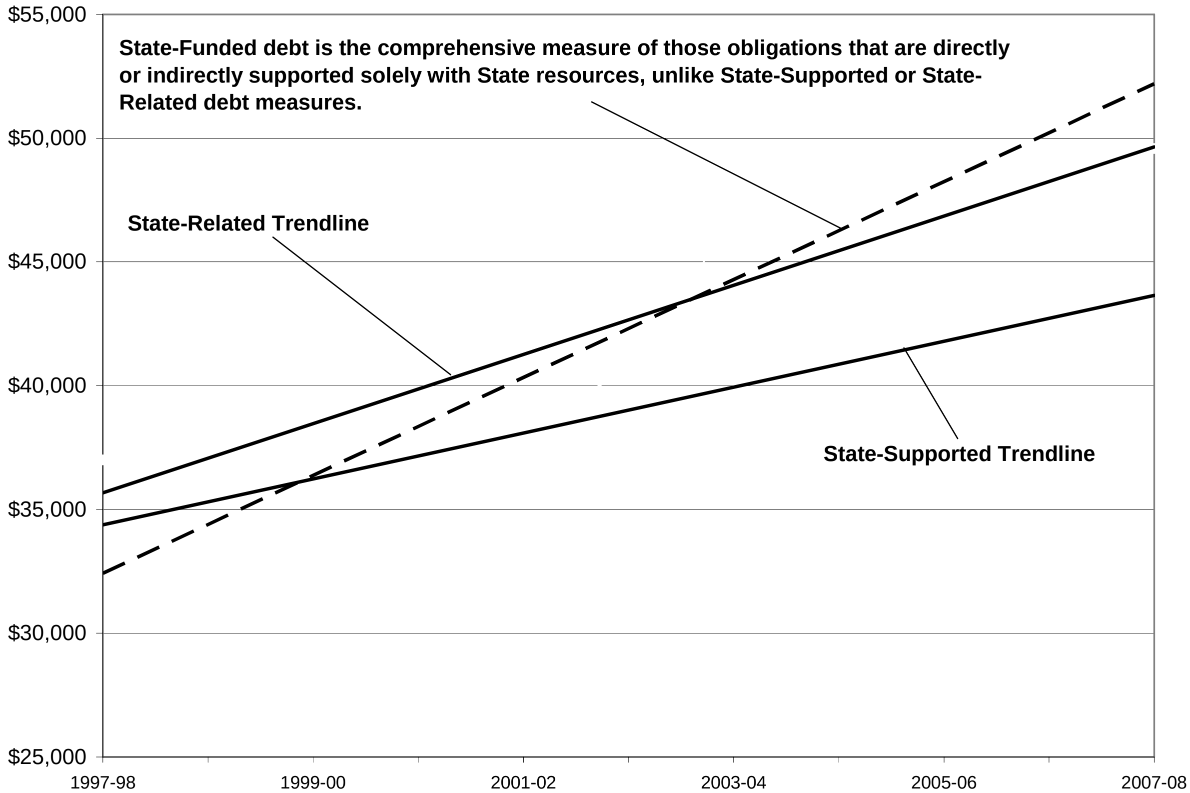
To provide a more comprehensive measure of the State's debt burden, this Office has developed a new measure called State-Funded debt over the past several years. This concept not only includes State-Supported debt, as defined and limited by the provisions of the Debt Reform Act of 2000, but also includes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

Following the lead of this Office and others, including bond rating agencies and fiscal watchdog groups, in SFY 2006-07, the Executive expanded the reporting of debt in the Capital Program and Financing Plan to include a modified version of State-Related debt in addition to State-Supported debt. The SFY 2008-09 Enacted Budget Capital Program and Financing Plan continues this practice.

State-Related debt as presented in the SFY 2008-09 Enacted Budget Capital Program and Financing Plan, however, includes obligations that should not be counted in the State debt burden (such as Moral Obligation and State Guaranteed debt). While it is unlikely the State will ever be called on to make payments, the Plan does not include other obligations that should be counted in the State debt burden. These include debt issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance outstanding obligations from the New York City Municipal Assistance Corporation (MAC) and the recently authorized Building Aid Revenue Bonds (BARBs) issued by New York City's Transitional Finance Authority (TFA), both of which are funded solely with State local assistance payments.

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

Trends in Debt Growth
State-Supported, State-Related and State-Funded
SFY 1997-98 through SFY 2007-08
(in millions of dollars)



State-Funded vs. State-Related Debt Outstanding

The SFY 2008-09 Enacted Budget Capital Program and Financing Plan indicates that that the State ended SFY 2007-08 with approximately $49.6 billion in State-Related debt outstanding, compared to $52.5 billion in State-Funded debt outstanding reported by the Office of the State Comptroller. The following table illustrates the difference between State-Supported debt as defined in statute, State-Related debt as presented by the Executive in the SFY 2008-09 Enacted Budget Capital Program and Financing Plan and, finally, State-Funded debt as defined by the Office of the State Comptroller.

State Debt Outstanding
SFY 2007-08
(in millions of dollars)

	State-Supported	State-Related (1)	State-Funded
State-Supported	44,408	44,408	44,408 (2)
Contingent Contractual			
Secured Hospitals		749	(3)
Tobacco Settlement Financing Corporation (TSFC)		3,870	
Moral Obligation			(4)
Housing Finance Agency (HFA)		47	
Medical Care Facilities Finance Agency (MCFFA)		4	
State-Guaranteed			
Job Development Authority (JDA)		37	(5)
Other			
TSFC			3,870 (6)
Municipal Bond Bank Agency (MBBA) Prior Year Claims		464	464 (7)
Sales Tax Asset Receivable Corporation (STARC)			2,407 (8)
Transitional Finance Authority Building Aid Revenue Bonds			1,300 (9)
Total	**44,408**	**49,579**	**52,449**

(1) As presented by the Executive in the SFY 2008-09 Enacted Budget Capital Program and Financing Plan.
(2) As defined by Section 67-a of the State Finance Law.
(3) Issued by Dormitory Authority of the State of New York and the Medical Care Facilities Finance Agency.
(4) Moral Obligation debt was capped in 1976.
(5) The State Constitution unconditionally guaranteed the debt service for certain obligations issued by the New York State Thruway Authority, the Job Development Authority, and the Port Authority of New York and New Jersey. Only State guaranteed debt issued by the Job Development Authority remains outstanding.
(6) The Office of the State Comptroller counts debt issued by the Tobacco Settlement Financing Corporation (TSFC) as State-Funded due to the foregone tobacco settlement revenues, rather than the contingent obligation.
(7) Obligations issued by the Municipal Bond Bank Agency (MBBA) to finance prior-year school aid claims of eight school districts.
(8) The Sales Tax Asset Receivable Corporation (STARC) issued $2.6 billion to refinance New York City Municipal Assistance Corporation debt, and the debt service is funded solely with payments from the State.
(9) The SFY 2006-07 Enacted Budget authorized the Transitional Finance Authority (TFA) of New York City to issue $9.4 billion in bonds that are funded solely with future State Building Aid payments. Two sales totaling $1.3 billion occurred in SFY 2006-07.

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

The debt service on STARC debt is paid only with a specific revenue stream provided through an annual State appropriation to New York City and, therefore, should be included in any measure of the State's debt burden.[7] Furthermore, STARC is authorized to pledge that revenue to the bondholders. In the SFY 2006-07 Enacted Budget, the State authorized up to $9.4 billion in new debt that is funded solely with future State Building Aid payments to be issued by the TFA. Similar to STARC, the State authorized the City to assign its future State Building Aid payments to the TFA and pledge the aid as the sole source of payment to bondholders.

New Debt

The Capital Program and Financing Plan submitted with the SFY 2008-09 Executive Budget proposed approximately $11 billion in new initiatives that would be primarily funded with debt, as well as existing, ongoing capital spending. The SFY 2008-09 Enacted Budget includes $11.5 billion in new initiatives that will be primarily paid with debt. The new debt authorized in the SFY 2008-09 Enacted Budget will contribute to increasing debt service costs of $2.7 billion, or 55.2 percent, to nearly $7.5 billion by SFY 2012-13.

Chapter 18 of the Laws of 2008 authorized the issuance of $250 million in bonds on behalf of the State to be used to enhance and expand the Aqueduct Race Track for the purposes of allowing Video Lottery Terminals (VLTs) to be housed within the facility. The bond proceeds are intended to be used for design, acquisition, construction and equipment associated with the expansion. In addition, Chapter 18 authorized an additional $105 million to be issued for the purpose of obtaining clear title to the three thoroughbred racetracks historically operated by the New York Racing Authority (NYRA)—Saratoga, Belmont and Aqueduct.

The State is projected to receive $250 million in non-recurring revenues to be paid by a future operator of the Aqueduct VLT franchise by March 31, 2009, which will be used as budget relief in SFY 2008-09.

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

New Debt Authorized SFY 2008-09
Executive Budget vs. Enacted Budget
(in millions of dollars)

Description	Executive Proposed	Enacted	Difference from Executive
Transportation	**-**	**60.0**	**60.0**
Local Highway Improvement (CHIPs)	-	60.0	60.0
Parks and Environment	**110.0**	**125.0**	**15.0**
New York State Parks Capital	110.0	95.0	(15.0)
Hudson River Park	-	20.0	20.0
Governor's Island	-	10.0	10.0
Economic Development and Housing	**1,255.0**	**1,710.0**	**455.0**
New York State Capital Assistance Programs	-	350.0	350.0
New York State Economic Development Assistance Program	-	350.0	350.0
Aqueduct Video Lottery Terminal Facility*	250.0	250.0	-
Upstate City by City	115.0	145.0	30.0
Upstate Regional Blueprint	250.0	120.0	(130.0)
Clear Title To NYRA Racetracks*	105.0	105.0	-
Investment Opportunity Fund	150.0	50.0	(100.0)
Luther Forest Infrastructure	-	45.0	45.0
Upstate Agriculture Fund	50.0	40.0	(10.0)
Downstate Revitalization	200.0	35.0	(165.0)
Economic and Community Development	60.0	35.0	(25.0)
Downstate Regional Economic Development	35.0	35.0	-
Additional Low Income Housing Trust Fund	-	31.0	31.0
Arts and Cultural Capital Grants	40.0	30.0	(10.0)
Additional Affordable Housing	-	20.0	20.0
New York State Economic Development Fund	-	20.0	20.0
Additional Homes for Working Families	-	10.0	10.0
Homeless Housing	-	6.5	6.5
Rural Revitalization	-	6.0	6.0
Additional Public Housing	-	5.0	5.0
Main Street Program	-	5.0	5.0
Infrastructure Development Demonstration	-	5.0	5.0
Additional Housing Opportunities	-	4.0	4.0
Access to Home Program	-	4.0	4.0
Urban Initiatives	-	3.5	3.5
Education	**9,363.7**	**9,346.0**	**(17.7)**
State University of New York	6,485.6	6,338.8	(146.8)
City University of New York	2,836.5	2,965.6	129.1
Education Museum Renewal	15.0	15.0	-
Education Library Construction	14.0	14.0	-
Education Records Center Expansion	12.6	12.6	-
Public Protection	**6.0**	**6.0**	**-**
State Police Facilities Rehabilitation	6.0	6.0	-
General Government	**348.0**	**210.6**	**(137.4)**
State Equipment (Includes IT and Software)	141.0	141.0	-
Information Technology and Related Research	84.0	-	(84.0)
State Equipment	60.0	-	(60.0)
Office of General Services Various	42.0	45.5	3.5
Office For Technology - Interim Data Center	11.0	11.0	-
Office For Technology - Broadband	10.0	10.0	-
Hearing Rooms (Legislative Office Building)	-	3.1	3.1
TOTAL NEW DEBT	**11,082.7**	**11,457.6**	**374.9**

* As added in Chapter 18 of the Laws of 2008 and reappropriated in the 21-Day Amendments to the SFY 2008-09 Executive Budget and SFY 2008-09 Enacted Budget.

Projected Outstanding State-Funded Debt and Debt Service Levels

State-Funded Debt Outstanding

New initiatives, along with existing debt authorizations included with the Five-Year Capital Program and Financing Plan submitted with the SFY 2008-09 Executive Budget, were expected to increase State-Funded debt outstanding to over $67.2 billion by the end of SFY 2012-13. The Executive's proposal included $1.3 billion for additional economic development and housing projects and initiatives, as well as $9.4 billion for new SUNY and CUNY capital plans.

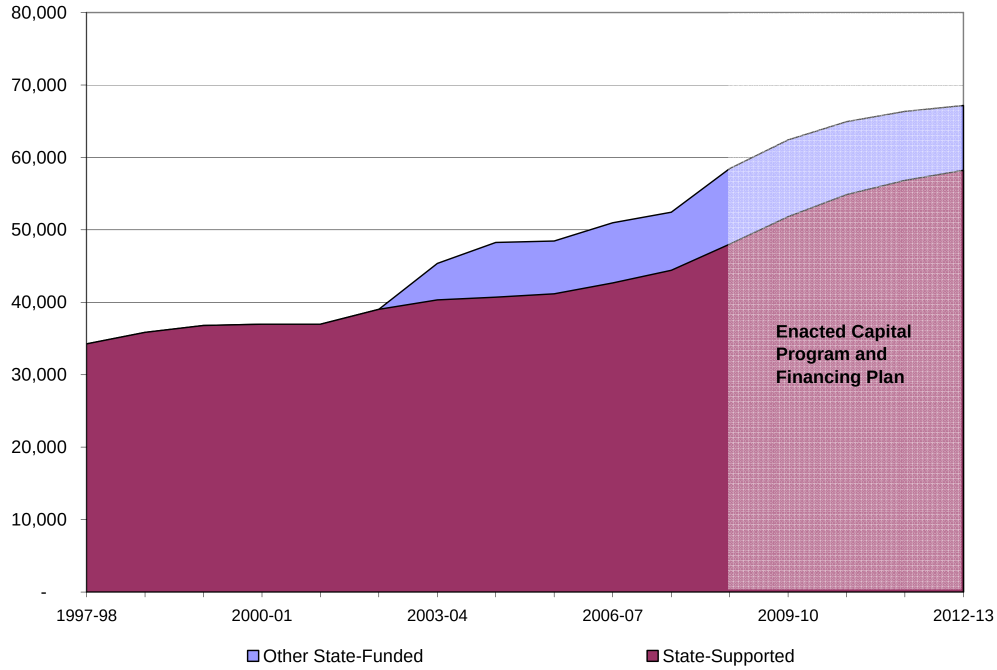
As shown in the New Debt Initiatives table, debt initiatives for a number of programs, primarily in the economic development and housing areas, were either not included or reduced in the Enacted Budget. These reductions were more than offset by a number of new programs, including two that total $700 million—the New York State Capital Assistance Program ($350 million) and the New York State Economic Development Assistance Program ($350 million)—in which grants or loans are based on plans submitted to the Division of the Budget by the Leaders of the Assembly and the Senate, respectively.

The SFY 2008-09 Enacted Budget includes $50 million for the new Investment Opportunity Fund (Fund), a $100 million reduction from the SFY 2008-09 Executive Budget. As proposed by the Executive, the Enacted Budget includes a new five-member board to review and approve potential investments by the Fund. However, the projects and the bonds issued to support the projects are expressly excluded from approval by the Public Authorities Control Board (PACB), thus eliminating the Comptroller's review and comment role and reducing oversight and accountability in the process.

The projected $67.2 billion in State-Funded debt outstanding represents an increase of $14.7 billion, or 28 percent, over SFY 2007-08. The largest share of this growth is $13.0 billion from bonds issued by public authorities on behalf of the State (back-door borrowing) and TFA BARBs. These obligations are backed solely by future State Building Aid payments that have been assigned by New York City to the TFA. General Obligation debt increases $852 million over the next five years.

As the chart below illustrates, State-Supported debt outstanding grows significantly faster annually over the life of the Capital Plan than the annual growth of the previous ten years. In fact, State-Supported debt increases an average of 5.6 percent annually, as compared to 2.6 percent average annual growth between SFY 1997-98 and SFY 2007-08. This is in large part due to the $11.5 billion in new State-Supported debt added in the SFY 2008-09 Enacted Budget that will be reflected in debt issuance over the life of the Plan.

Outstanding and Projected State-Supported and State-Funded Debt
SFY 1997-98 through SFY 2012-13
(in millions of dollars)



The average annual growth in State-Funded debt over the life of the Five-Year Plan is slightly higher than over the previous ten years, even though the City forecast for TFA issuances is only through 2010. State-Funded debt grew an average of 4.4 percent annually between SFY 1997-98 and SFY 2007-08.

Over the life of the Capital Program and Financing Plan, State-Funded debt outstanding grows annually by an average of 5.1 percent. Voter-approved General Obligation bonds comprise only $852 million, or 5.8 percent, of the growth, largely because no new bond acts were proposed or enacted in the SFY 2008-09 Budget. This growth is primarily due to the growth in State-Supported authority debt. The new TFA BARBs add to the growth, but those obligations only account for approximately $3.1 billion of the net $14.7 billion increase in State-Funded debt—State-Supported public authority debt comprises 88.1 percent, or nearly $13 billion, of the growth.

These increases are offset by declines in debt outstanding related to TSFC, STARC and MBBA for bonds issued to support prior year school aid claims.

State of New York Projected State-Funded Debt Outstanding
SFY 2008-09 through SFY 2012-13
(in thousands of dollars)

		Enacted Capital Plan					Total Percent Change Cap Plan	Total Dollar Change Cap Plan
	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2008 end - SFY 2013 end	SFY 2008 end - SFY 2013 end
General Obligation	3,220,801	3,324,579	3,572,544	3,853,594	4,001,060	4,073,173	26.46%	852,372
Other State-Supported Public Authority	41,187,476	44,683,777	48,243,929	50,986,267	52,821,687	54,147,354	31.47%	12,959,878
SFY 2008-09 Capital Plan (State-Supported)	**44,408,277**	**48,008,356**	**51,816,473**	**54,839,861**	**56,822,747**	**58,220,527**	**31.10%**	**13,812,250**
TSFC	3,870,270	3,549,460	3,205,735	2,839,050	2,447,555	2,029,375	-47.57%	(1,840,895)
TFA BARBs	1,300,000	4,081,190	4,661,680	4,600,926	4,525,043	4,446,155	242.01%	3,146,155
STARC	2,406,775	2,355,255	2,301,730	2,245,990	2,187,820	2,127,005	-11.62%	(279,770)
MBBA	463,685	442,065	419,475	395,775	370,910	344,760	-25.65%	(118,925)
Total Other	**8,040,730**	**10,427,970**	**10,588,620**	**10,081,741**	**9,531,328**	**8,947,295**	**11.27%**	**906,565**
Projected Outstanding (State-Funded)	**52,449,007**	**58,436,326**	**62,405,093**	**64,921,602**	**66,354,075**	**67,167,822**	**28.06%**	**14,718,815**

New Debt Issuances

Over the next five years, the State will issue $29.1 billion in new State-Supported bonds and the New York City TFA is planning to issue approximately $3.4 billion in State-Funded BARBs for a total $32.5 billion. Transportation spending will drive the majority of new issuances with 31 percent of total State-Supported issuance. Education needs, both higher and lower education, will be funded with the next largest share at 27.5 percent of State-Supported issuances (this share includes the $2.6 billion in EXCEL bonds authorized in SFY 2006-07). However, when $3.4 billion in new BARBs is added, education needs will drive 35.5 percent of new State-Funded debt issuances.

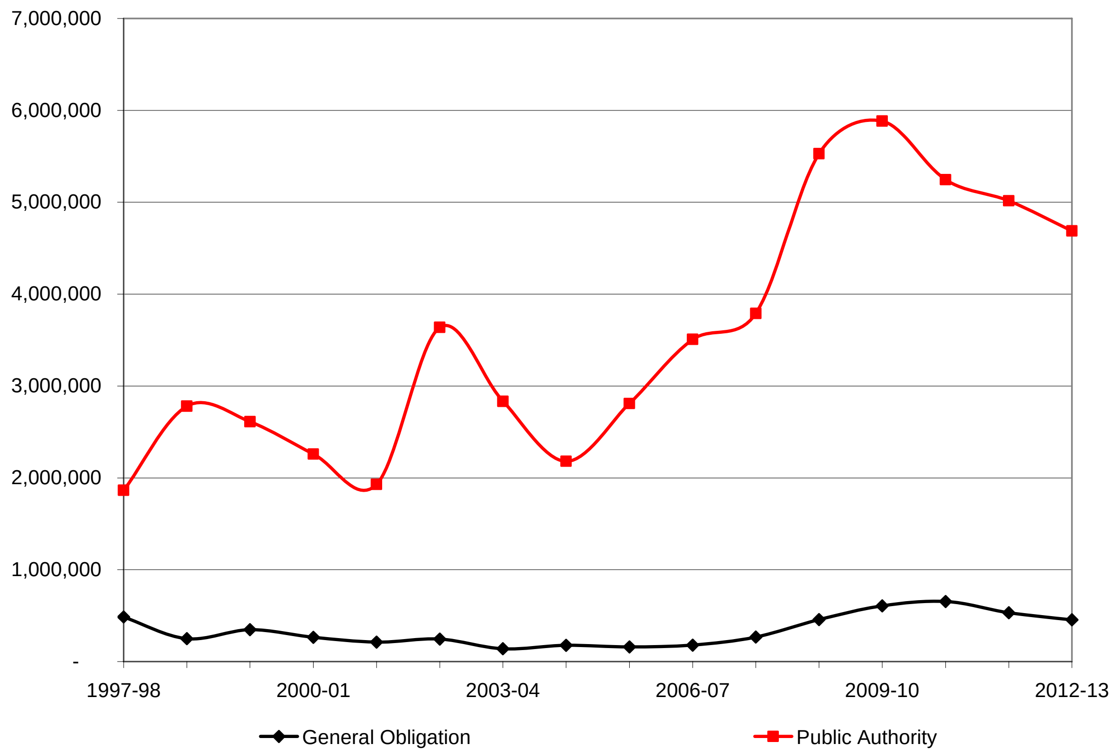
State of New York Projected State-Funded Issuances
SFY 2008-09 through SFY 2012-13
(in thousands of dollars)

		Enacted Capital Plan					Total Cap Plan
	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2009-2013
General Obligation	268,065	456,600	607,600	654,600	531,100	455,100	2,705,000
Other State-Supported Public Authority	3,789,475	5,529,174	5,883,522	5,246,806	5,016,350	4,687,707	26,363,559
Total State-Supported Issuances	**4,057,540**	**5,985,774**	**6,491,122**	**5,901,406**	**5,547,450**	**5,142,807**	**29,068,559**
TFA BARBs	-	2,800,000	600,000	-			3,400,000
Total State-Funded Issuances	**4,057,540**	**8,785,774**	**7,091,122**	**5,901,406**	**5,547,450**	**5,142,807**	**32,468,559**

Note: The amounts shown for Transitional Finance Authority Building Aid Revenue Bonds (TFA BARBs) reflect the Financing Program proposed by the Mayor on May 1, 2008 and $1.3 billion issued in SFY 2006-07.

Although projected annual State-Supported issuances are projected to decline after SFY 2009-10, the State is still issuing significantly more debt annually than it has historically. Although State-Supported issuances are projected to decline to $5.1 billion in SFY 2012-13 (the lowest year in the Plan), these issuances are 62 percent higher than the annual average of $3.2 billion for the period between SFY 2003-04 and SFY 2007-08.

Growth in State-Supported Debt Issuance
SFY 1997-98 through SFY 2012-13
(in millions of dollars)



New Debt Retirements

The SFY 2008-09 Enacted Five-Year Capital Program and Financing Plan projects $15.2 billion in State-Supported debt will be retired over the next five years, about half the amount of planned issuances. In addition, another $2.5 billion in other State-Funded obligations is estimated to be retired, bringing total planned State-Funded debt retirements to more than $17.6 billion over the next five years.

State of New York Projected State-Funded Debt Retirements
SFY 2008-09 through SFY 2012-13
(in thousands of dollars)

		Enacted Capital Plan					Total Cap Plan
	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2009-2013
General Obligation	349,701	352,822	359,635	373,550	383,635	382,986	1,852,628
Other State-Supported Public Authority	1,885,659	1,931,710	2,323,370	2,504,467	3,180,930	3,362,040	13,302,517
Total State-Supported Retirements	**2,235,360**	**2,284,532**	**2,683,005**	**2,878,017**	**3,564,565**	**3,745,026**	**15,155,145**
TSFC	214,935	320,810	343,725	366,685	391,495	418,180	1,840,895
TFA BARBs		18,810	19,510	60,754	75,883	78,888	253,845
STARC	49,730	51,520	53,525	55,740	58,170	60,815	279,770
MBBA	20,770	21,620	22,590	23,700	24,865	26,150	118,925
Total Other	**285,435**	**412,760**	**439,350**	**506,879**	**550,413**	**584,033**	**2,493,435**
Total State-Funded Retirements	**2,520,795**	**2,697,292**	**3,122,355**	**3,384,896**	**4,114,978**	**4,329,059**	**17,648,580**

Debt Service

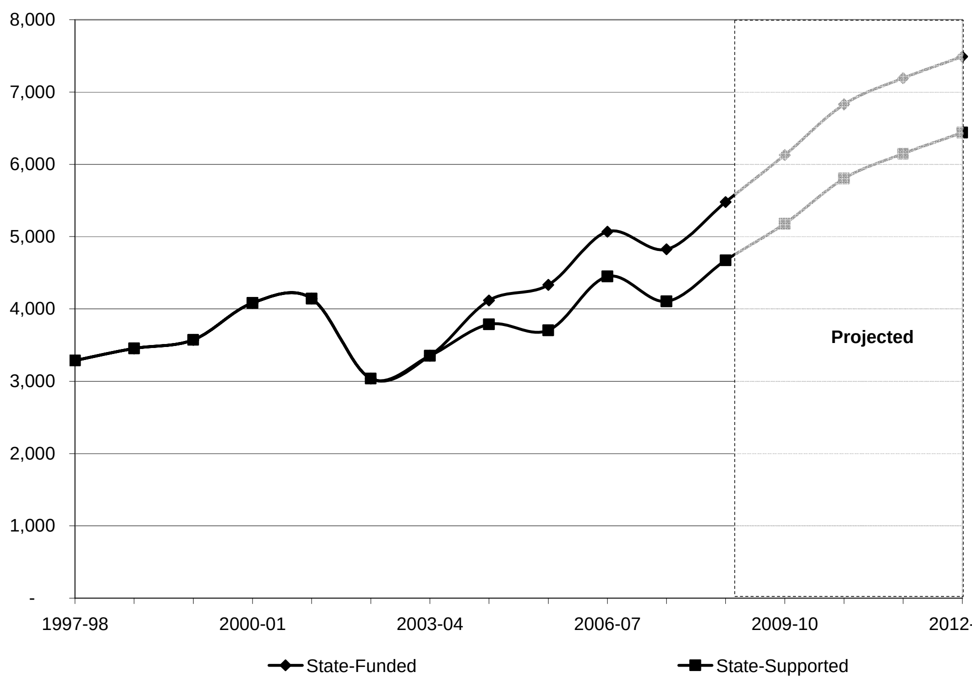
Debt service projections are dependent on how much debt is issued each year and the structure of the bonds, as well as future interest rates. In SFY 2007-08, the State spent $4.1 billion for debt service on outstanding State-Supported debt with an additional $721 million for other State-Funded obligations, for a total of $4.8 billion. State-Funded debt service is anticipated to grow to nearly $7.5 billion by SFY 2012-13, a 55.2 percent increase from SFY 2007-08.

State of New York Projected State-Funded Debt Service
SFY 2007-08 through SFY 2012-13
(in thousands of dollars)

		Proposed Capital Plan					Total Percent Change	Total Dollar Change
SFY 2007 Actual	SFY 2008 Projected	SFY 2009	SFY 2010	SFY 2011	SFY 2012	SFY 2013	SFY 2009-2013	SFY 2009-2013
498,197	488,585	479,503	494,174	521,318	546,889	556,678	13.94%	68,093
3,952,937	3,615,416	4,192,683	4,683,917	5,282,052	5,599,469	5,883,381	62.73%	2,267,965
4,451,134	**4,104,001**	**4,672,186**	**5,178,091**	**5,803,370**	**6,146,358**	**6,440,059**	**56.92%**	**2,336,058**
403,051	443,989	510,978	521,588	527,242	533,184	539,007	21.40%	95,018
	62,208	80,791	214,969	283,515	296,489	296,163	376.09%	233,955
170,000	170,000	170,000	170,000	170,000	170,000	170,000	0.00%	-
45,189	45,186	45,184	45,182	45,189	45,182	45,192	0.01%	6
618,240	**721,383**	**806,953**	**951,739**	**1,025,946**	**1,044,855**	**1,050,362**	**45.60%**	**328,979**
5,069,374	**4,825,384**	**5,479,139**	**6,129,830**	**6,829,316**	**7,191,213**	**7,490,421**	**55.23%**	**2,665,037**

Both State-Funded and State-Supported debt service grow faster annually over the life of the Plan than over the previous ten years. While the average growth in the period from SFY 1997-98 to SFY 2007-08 was lower partially due to refundings in SFY 2002-03, thus helping to reduce Debt Service in that year, new debt issuances since that time have primarily contributed to annual growth since SFY 2002-03 through the end of the Five-Year Capital Plan. State-Funded debt service grows an average of 9.3 percent annually, compared to 4.8 percent between SFY 1997-98 and SFY 2007-08, and State-Supported debt service increases 9.5 percent annually compared to 3.1 percent annually in the previous ten-year period. State-Supported debt service is again one of the fastest growing major spending categories within the State's Financial Plan.

Growth In State-Supported and State-Funded Debt Service
SFY 1997-98 through SFY 2012-13
(in millions of dollars)



Financing Sources

The percentage of State cash used to finance non-federal capital needs increases over the course of the proposed Five-Year Capital Program and Financing Plan from 24.5 percent to 28.9 percent on an annual basis. General Obligation financing increases from 4.9 percent to 7.3 percent in SFY 2010-11, but declines to 5.1 percent in SFY 2012-13. The use of public authority backdoor borrowing declines over the course of the Five-Year Plan, from 70.6 percent to 66 percent of State funding, primarily due to high levels of authority borrowing in the early years of the plan for initiatives like *EXpanding our Children's Education and Learning* (EXCEL) and SUNY/CUNY spending. The following table illustrates the various funding sources.

Capital Financing Sources SFY 2007-08 through SFY 2012-13
Proposed Capital Program and Financing Plan
(in millions of dollars)

		Enacted Capital Program and Financing Plan					Average SFY 2008-09 through SFY 2012-13
	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	SFY 2013	
State Pay-as-You-Go (PAYGO)	2,507	1,821	2,109	2,214	2,204	2,081	2,086
Federal Pay-as-You-Go (PAYGO)	1,755	1,971	1,978	1,906	1,873	1,871	1,920
GO Bonds	281	362	545	587	440	370	461
Authority Bonds	3,221	5,244	6,109	5,224	5,270	4,761	5,322
Total Capital Funding	**7,764**	**9,398**	**10,741**	**9,931**	**9,787**	**9,083**	**9,788**
Less Federal Funding	(1,755)	(1,971)	(1,978)	(1,906)	(1,873)	(1,871)	(1,920)
State Capital Funding	**6,009**	**7,427**	**8,763**	**8,025**	**7,914**	**7,212**	**7,868**
State PAYGO as Percentage of State-Funding	**41.7%**	**24.5%**	**24.1%**	**27.6%**	**27.8%**	**28.9%**	**26.6%**
GO as Percentage of State Funding	**4.7%**	**4.9%**	**6.2%**	**7.3%**	**5.6%**	**5.1%**	**8.6%**
Authority Bonds as Percentage of State Funding	**53.6%**	**70.6%**	**69.7%**	**65.1%**	**66.6%**	**66.0%**	**67.6%**

Source: New York State Division of the Budget. Does not include timing adjustments.

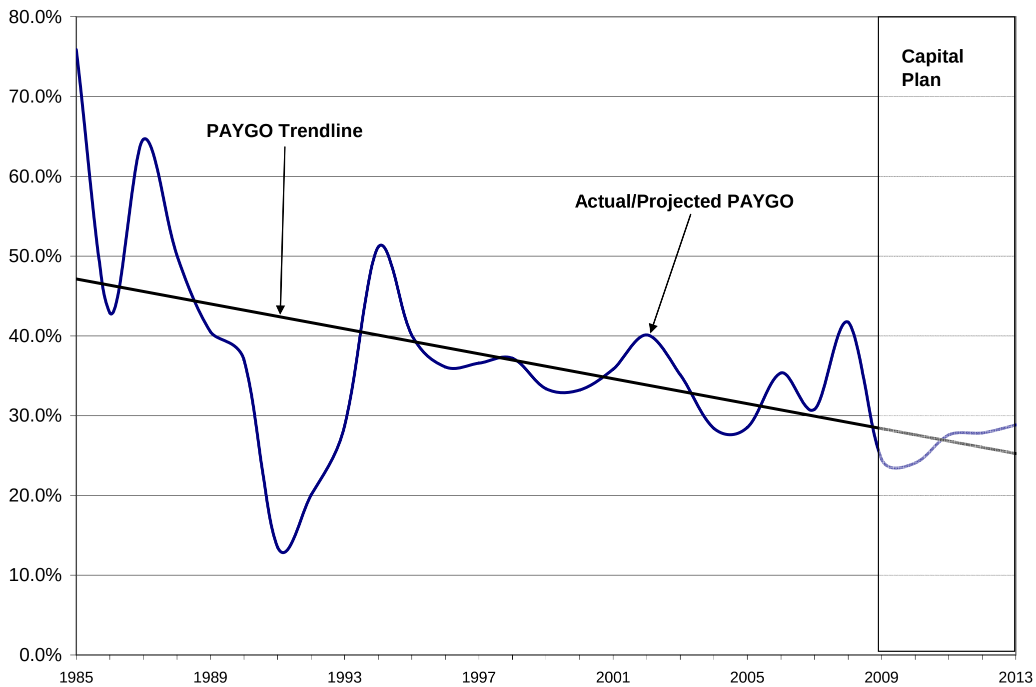
The amount of cash used to finance capital needs can be indicative of fiscal health. When a state or municipality is financially healthy or has accumulated a surplus, it can be inferred that it has an increased ability to finance with cash, instead of issuing additional debt for capital purposes. Rating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

New York's use of cash has varied greatly throughout its recent history. In 1985, the State financed approximately 75 percent of its non-federal capital program with cash, instead of incurring additional debt. In 1991, only 13.5 percent of the non-federal share was financed with cash. Since 1997-98, the State has enjoyed a number of surplus years and has utilized surplus funds totaling approximately $1.5 billion to pay down outstanding debt with the Debt Reduction Reserve Fund. However, although SFY 2007-08 was unusually high at 41.7 percent, the annual use of State cash resources as a percentage of State capital spending has generally declined. Between SFY 1997-98 and SFY 2007-08, the State utilized State cash resources for an average of 34.5 percent of State capital spending needs. State PAYGO resources throughout the next five years are forecast to average 26.6 percent with an increase to 28.9 percent in SFY 2012-13.

As a result of the practice of increasing debt during its years of surplus, the State is now burdened with higher debt service costs.

The following chart illustrates the history and projected use of State PAYGO as a percentage of total State funding for capital projects.

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



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

Debt Management and Related Issues

The Executive proposed a number of administrative and legislative initiatives related to debt management, none of which were included in the SFY 2008-09 Enacted Budget.

Consolidation of Personal Income Tax Revenue Bond Issuance

The Executive proposed to authorize each of the five issuers of the Personal Income Tax (PIT) Revenue Bonds to issue such bonds for any capital program financed with PIT bonds.[8] The proposal was intended to streamline the issuance process by authorizing the five authorities to issue PIT bonds for any authorized capital purpose. This initiative has been proposed in the past and was again not included in the SFY 2008-09 Enacted Budget.

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

Consolidated Bond Caps

The Executive proposed an initiative to consolidate all State-Supported bond caps into one section of law, while also standardizing the language to require the caps to be "net" caps (project cost only—not including costs of issuance, thereby potentially increasing the amount of debt issued). This proposal was not included in the SFY 2008-09 Enacted Budget.

Prohibition Against Local Assistance Debt

The SFY 2008-09 Executive Budget again included a provision that would have banned any future issuance of debt supported solely with State local assistance payments, although the TFA's $9.4 billion authorization for debt exclusively supported with State Building Aid (deemed Building Aid Revenue Bonds – BARBs) would have been excluded from the ban.[9] The SFY 2008-09 Enacted Budget did not include this proposal. The Office of the State Comptroller reports this type of debt as State-Funded and counts it as part of the overall State debt burden. Although the Executive does not count this debt as part of the State's debt burden, the proposal would have limited the future issuance of such debt.

Debt Reduction Reserve Fund

The SFY 2008-09 Enacted Budget included the Executive's proposal to move $122 million of the remaining SFY 2007-08 $250 million authorization into the Debt Reduction Reserve Fund (DRRF) in SFY 2008-09. The Fund's general purpose was to "retire or defease bonds and to fund capital projects, equipment acquisitions, or similar expenses which are authorized to be financed by bonds, notes, or other obligations."[10] The Fund was used in SFY 2007-08 to retire $127 million in high cost debt and the remaining $122 million may be used in SFY 2008-09.

Capital Program

Capital spending over the life of the SFY 2008-09 Enacted Budget Capital Program and Financing Plan is estimated at approximately $48.9 billion, or $248 million below the Executive's proposed Capital Program and Financing Plan. Over three-quarters of spending in the SFY 2008-09 Capital Program and Financing Plan is attributed to transportation, education or economic development/government oversight purposes. Transportation continues to comprise the largest amount of capital spending, increasing throughout the life of the Plan from 45.5 percent in SFY 2008-09 to 52.4 percent in SFY 2012-13. Education makes up the second largest area of capital

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

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

spending in the proposed Capital Program and Financing Plan. Approximately 20 percent of the spending in the first two years of the Plan is attributed to education spending, primarily for *EXpanding our Children's Education and Learning* (EXCEL) purposes.

Capital Spending by Function
SFY 2008-09 Enacted Capital Program and Financing Plan
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	Average SFY 2008-09 through SFY 2012-13	Total Dollar SFY 2008-09 through SFY 2012-13	Total Percent SFY 2008-09 through SFY 2012-13
Transportation	3,867	4,277	4,620	4,762	4,734	4,756	4,630	23,149	47.3%
Parks and Environment	625	664	626	584	581	584	608	3,039	6.2%
Econ. Dev/Gov Oversight	543	818	1,726	1,281	1,117	590	1,106	5,532	11.3%
Health/Social Welfare	217	242	295	324	347	76	257	1,284	2.6%
Education	1,570	2,109	1,936	1,455	1,547	1,692	1,748	8,739	17.9%
Public Protection	323	393	384	406	399	399	396	1,981	4.0%
Mental Hygiene	442	516	690	653	674	672	641	3,205	6.5%
General Government	92	153	200	259	233	194	208	1,039	2.1%
Other	85	226	263	205	155	120	194	969	2.0%
Total	**7,764**	**9,398**	**10,740**	**9,929**	**9,787**	**9,083**	**9,787**	**48,936**	**100.0%**

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

Capital Spending by Function
SFY 2008-09 Enacted Capital Program and Financing Plan
(percent of total)

	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	Average SFY 2008-09 through SFY 2012-13
Transportation	49.8%	45.5%	43.0%	48.0%	48.4%	52.4%	47.4%
Parks and Environment	8.0%	7.1%	5.8%	5.9%	5.9%	6.4%	6.2%
Econ. Dev/Gov Oversight	7.0%	8.7%	16.1%	12.9%	11.4%	6.5%	11.1%
Health/Social Welfare	2.8%	2.6%	2.7%	3.3%	3.5%	0.8%	2.6%
Education	20.2%	22.4%	18.0%	14.7%	15.8%	18.6%	17.9%
Public Protection	4.2%	4.2%	3.6%	4.1%	4.1%	4.4%	4.1%
Mental Hygiene	5.7%	5.5%	6.4%	6.6%	6.9%	7.4%	6.6%
General Government	1.2%	1.6%	1.9%	2.6%	2.4%	2.1%	2.1%
Other	1.1%	2.4%	2.4%	2.1%	1.6%	1.3%	2.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Off-Budget Spending

Disbursements contained within the SFY 2008-09 Enacted Budget Capital Program and Financing Plan include off-budget spending. The SFY 2008-09 Capital Program and Financing Plan includes off-budget spending. However, such spending is not recognized in the SFY 2008-09 Financial Plan so totals for capital spending will not align. Off-budget spending makes up approximately 22.6 percent of all capital spending in SFY 2008-09 and averages approximately 18 percent annually over the life of the Plan.

Off-Budget Capital Spending
SFY 2007-08 through SFY 2012-13
(in millions of dollars)

		Enacted Capital Program and Financing Plan					Average
	SFY 2007-08 Actual	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2008-09 through SFY 2012-13
Capital Funding Before Off-Budget Spending	**6,146**	**7,080**	**8,548**	**8,285**	**7,983**	**7,236**	**7,826**
Plus Off-Budget Not Recognized in the Financial Plan	1,619	2,068	1,943	1,395	1,555	1,597	1,712
Total State Capital Funding	**7,765**	**9,148**	**10,491**	**9,680**	**9,538**	**8,833**	**9,538**
Total On-Budget Capital % Total	79.2%	77.4%	81.5%	85.6%	83.7%	81.9%	82.0%
Total Off-Budget Capital % Total	20.8%	22.6%	18.5%	14.4%	16.3%	18.1%	18.0%

Crosswalk of Spending
Financial Plan to Capital Program and Financing Plan
for SFY 2008-09
(in thousands of dollars)

	Financial Plan Projected Capital Disbursements	Off Budget Disbursements Reflected in the Capital Plan	Capital Plan Total Projected Capital Disbursements
Economic Development and Government Oversight			
Economic Development	114,800	93,790	208,590
Empire State Development Corporation	444,850	13,590	458,440
Other Economic Development and Government Oversight	150,798	-	150,798
Total Economic Development and Government Oversight	**710,448**	**107,380**	**817,828**
Transportation			
Transportation, Department of	3,497,757	398,000	3,895,757
Other Transportation	381,230	-	381,230
Total Transportation	**3,878,987**	**398,000**	**4,276,987**
Health and Social Welfare			
Health, All Other	186,977	2,100	189,077
Other Health and Social Welfare	53,160	-	53,160
Total Health and Social Welfare	**240,137**	**2,100**	**242,237**
Mental Health			
Mental Health, Office of	158,007	150,866	308,873
Mental Retardation and Developmental Disabilities, Office of	62,435	68,100	130,535
Alcohol and Substance Abuse, Office of	71,264	5,090	76,354
Other Mental Hygiene	-	-	-
Total Mental Hygiene	**291,706**	**224,056**	**515,762**
Education			
EXCEL	-	750,000	750,000
All Other Education	56,439	4,000	60,439
City University of New York	8,945	440,971	449,916
State University of New York	658,000	141,000	799,000
Other Education (Higher Education Capital Matching Program)	50,000	-	50,000
Total Education	**773,384**	**1,335,971**	**2,109,355**
Parks and Environment	**663,865**	**-**	**663,865**
Public Protection	**392,924**	**-**	**392,924**
General Government	**152,723**	**-**	**152,723**
All Other	**(24,000)**	**-**	**(24,000)**
Totals	**7,080,174**	**2,067,507**	**9,147,681**
Percent of Capital Spending Including ALL Off-Budget Spending	**77.40%**	**22.60%**	**100.00%**

Transportation

As part of the Department of Transportation's $19.2 billion capital plan, capital spending for transportation is projected to increase from $4.3 billion to a high of nearly $4.8 billion in SFY 2010-11 through SFY 2012-13. The Five-Year Plan includes $10.5

billion for highway and bridge construction/maintenance and $1.8 billion for local transportation projects throughout the State, including funding for the Marchiselli and Consolidated Highway Improvement (CHIPs) programs.

Financing for the transportation plan includes federal funding of approximately $1.7 billion annually. Federal funding is the largest share of total financing for transportation, averaging slightly over 37 percent of annual funding.

The SFY 2008-09 Enacted Capital Program and Financing Plan includes spending financed with General Obligation bonds authorized in November 2005 by the Rebuild and Renew New York Transportation Bond Act. Annual spending financed with Rebuild and Renew General Obligation bonds is projected to increase to a peak of $579 million in SFY 2009-10, then decline to $386 million by SFY 2011-12 for a total of $2.4 billion over the life of the Plan.

Higher Education

The SFY 2008-09 Enacted Budget includes an additional $6.3 billion in capital spending for SUNY and $2.9 billion for CUNY, reflecting new five-year capital plans for each. Included in SUNY's appropriations is funding for State operated campuses ($4.4 billion), as well as community colleges ($360 million) and other initiatives for hospitals, residence halls and other facilities ($1.5 billion). Funding for CUNY includes $2.7 billion for senior colleges and $260 million for community colleges.

Environment

Capital spending for parks and the environment will average approximately $607 million per year over the life of the Plan, with annual average spending for the Environmental Protection Fund (EPF) of $180 million (appropriations average $290 million annually over the life of the Plan). To support additional spending from the Fund, Real Estate transfer taxes are projected to increase from $212 million in SFY 2007-08 to $237 million in SFY 2008-09 and $287 million for each of the remaining years of the five-year period. The SFY 2008-09 Enacted Budget utilizes $200 million from the EPF for budget relief. Of this amount, $75 million will be swept from the EPF and be replaced to the Fund with bond proceeds.

The SFY 2008-09 Capital Program and Financing Plan includes annual capital spending of $50 million from the balance of the Clean Water/Clean Air Bond Act. Total spending from other previous General Obligation bond acts is projected at $12.1 million annually over the life of the Plan. The Capital Plan also includes $136 million annually, on average, for the refinanced State Superfund Program and Brownfields Cleanup, in addition to $16 million in PAYGO resources.

Economic Development and Housing

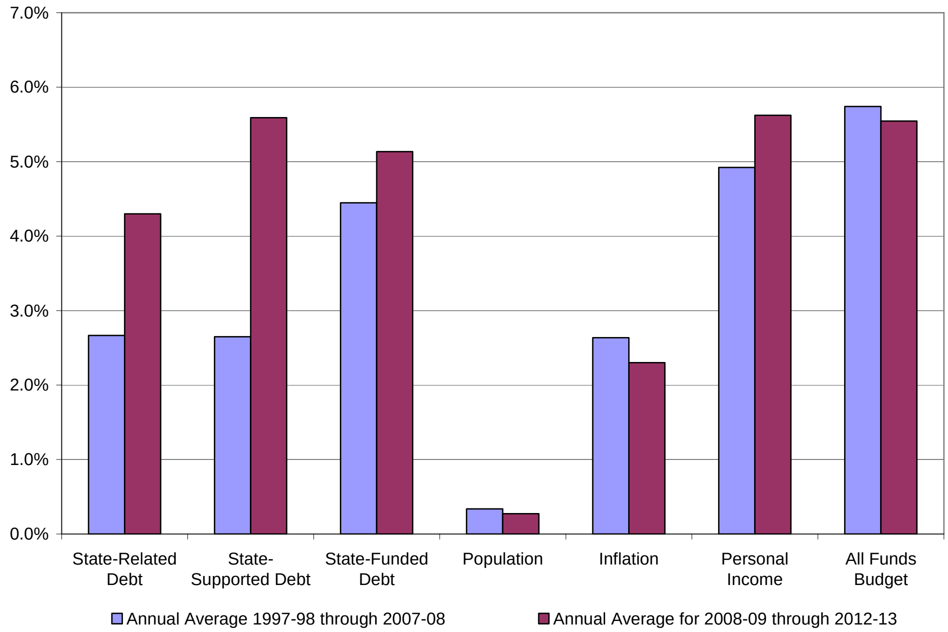
The Executive's proposed Capital Program and Financing Plan included approximately $2.3 billion in new economic development spending that was to be financed from a number of sources including $900 million in new debt and $1.1 billion in off-budget financing. The SFY 2008-09 Enacted Budget did not include the proposed off-budget spending, although it did separately provide $100 million for various new non-capital to finance housing programs and lowered the spending authority for a number of Executive proposals. The SFY 2008-09 Enacted Budget also provides a number of new housing proposals and two new economic development programs at $700 million ($350 million each) in which funds are to be allocated by each house of the Legislature.

Total spending for economic development increases to a maximum of $1.7 billion in SFY 2009-10 and declines to $590 million by the end of the Plan. Economic development spending is financed almost entirely with debt issued by public authorities.

Debt Affordability

The different methodologies used to account for the State's debt outstanding can show very different pictures of the growth rate of State debt and, therefore, the perception of affordability. For example, between SFY 1997-98 and SFY 2007-08, State-Funded debt outstanding increased, on average, approximately 4.4 percent annually, approximately twice the rate of inflation and slightly lower than the average annual increase in personal income.

Average Annual Growth Rate Comparison
SFY 1997-98 through SFY 2007-08
State Debt vs. Population, Inflation, Personal Income and the All Funds Budget



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

State-Funded Debt as Percentage of Personal Income

The Debt Reform Act of 2000 limited outstanding State-Supported debt to 4 percent of personal income with caps that were phased in through 2011. The State is well within the caps statutorily established in the Debt Reform Act. However, the Office of the State Comptroller estimates, according to the SFY 2008-09 Capital Program and Financing Plan, that the State will end the 2008-09 fiscal year with $58.4 billion in State-Funded debt outstanding, equaling 6.4 percent of personal income.

By SFY 2012-13 State-Funded debt outstanding as a percentage of personal income will fall to 6.0 percent, but only after reaching 6.5 percent in SFY 2009-10. While debt outstanding continues to grow, debt as a percentage of personal income declines primarily due to the faster rate of growth in personal income.

State-Funded Debt Per Capita

Over the life of the SFY 2008-09 Plan, State-Funded debt per capita is expected to increase from $3,016 at the end of SFY 2008-09 to $3,433 at the end of SFY 2012-13, representing an average annual increase of 4.8 percent. Unlike predicted growth in personal income, the State's population is expected to grow more slowly than outstanding State-Funded debt is projected to grow over the next five years.

State-Funded Debt Service as a Percentage of the All Funds Budget

State-Funded debt service as a percentage of All Funds spending was 4.2 percent at the end of SFY 2007-08. The Debt Reform Act of 2000 limited debt service on State-Supported debt to 4 percent of All Funds receipts as phased in over 13 years. By the close of SFY 2008-09, State-Funded debt service will be just under 4.6 percent of All Funds receipts, but will rise to nearly 5.4 percent by the last year of the Capital Plan.

Section

4

Revenue and Economic Outlook

Economic Outlook

Since the release of the SFY 2008-09 Executive Budget in January, the forecast for the national economy has continued to weaken. In January, the Blue Chip consensus forecast for 2008 was for real gross domestic product (GDP) to increase by 2.2 percent over 2007. The latest consensus forecast, published on May 10, 2008, is for real GDP to increase by only 1.4 percent. While GDP grew by 0.6 percent in the first quarter of 2008, more than half of the members of the Blue Chip panel believe that the economy will enter a recession in 2008.

The weakness in the economy has spread well beyond the housing sector as consumer spending growth has slowed sharply, the unemployment rate has increased and nonresidential construction is expected to decline. Congress passed a stimulus package intended to increase consumer spending as a way to bolster the economy.

The Federal Reserve has attempted to stimulate the economy by continuing to reduce the federal funds rate. After reducing the rate by 125 basis points in January to 3.0 percent, the Federal Reserve reduced the rate an additional 75 basis points in March to 2.25 percent. In April, the Federal Reserve continued the strategy by reducing the rate an additional 25 basis points to 2.0 percent.

The weaker national economy and the financial market volatility are likely to negatively impact the New York State economy. New York Stock Exchange member firms recently released their full year 2007 profit results; their losses were $1.3 billion. However, for the second half of 2007 these firms reported losses of $20.2 billion. This was nearly as much as they made in all of 2006—$20.9 billion. The job losses coupled with the poor profitability are likely to result in significantly lower bonuses in the financial sector this year.

Receipts

All Funds receipts for SFY 2007-08 increased $3 billion to $115.4 billion, or 2.7 percent, over SFY 2006-07. This increase was due mainly to increases in the personal income tax, which grew 5.7 percent, and miscellaneous receipts, which grew by 8.6 percent. The SFY 2008-09 Enacted Budget Financial Plan projects All Funds revenues to increase $4.5 billion in SFY 2008-09, a 3.9 percent increase over SFY 2007-08.

All Funds Tax Receipts
SFY 2006-07 to SFY 2008-09
(in millions of dollars)

	Actual SFY 2006-07	Actual SFY 2007-08	Dollar Change	Percent Change	Enacted SFY 2008-09	Dollar Change	Percent Change
Personal Income Tax	34,580	36,564	1,984	5.7%	38,150	1,586	4.3%
User Taxes	13,456	13,992	536	4.0%	14,821	829	5.9%
Business Taxes	8,606	8,232	(374)	-4.3%	8,782	550	6.7%
Other Taxes	2,097	2,083	(14)	-0.7%	2,151	68	3.3%
Total Taxes	**58,739**	**60,871**	**2,132**	**3.6%**	**63,904**	**3,033**	**5.0%**
Miscellaneous Receipts	18,078	19,640	1,562	8.6%	20,084	444	2.3%
Federal Grants	35,579	34,909	(670)	-1.9%	35,956	1,047	3.0%
Total	**112,396**	**115,420**	**3,024**	**2.7%**	**119,944**	**4,524**	**3.9%**

Executive estimates of All Funds revenues, including tax receipts, fee revenue, bond funds, federal funds and miscellaneous payments for SFY 2007-08 declined $4.1 billion between the initial estimates made in April 2007 and the actual revenues collected for the fiscal year. The decline began with the SFY 2007-08 Financial Plan First Quarterly Update, released in July 2007, with a $324 million revenue decrease. This was followed by a $1.9 billion decline in the SFY 2007-08 Mid-Year Financial Plan Update, published in October 2007, a $393 million decline in February 2008 and a fiscal year ending $1.5 billion below the February forecast. The decline in the revenue forecast during the year follows the forecasts of the State and national economies. The large change raises concerns about the accuracy of the revenue projections for SFY 2008-09 and whether they may also be lowered significantly during the current fiscal year.

SFY 2007-08

As seen from the following table, estimates of tax revenues for SFY 2007-08 declined by $1.1 billion between April 2007 and April 2008. More than half of the decline was due to business taxes, which came in $688 million less than was projected in April 2007. Federal grants came in $2.2 billion lower than projected in April 2007 and miscellaneous receipts were $761 million lower.

SFY 2007-08 All Funds Receipts
Change in Executive Estimates of Receipts
April 2007 – April 2008
(in millions of dollars)

	April 2007 - October 2007	October 2007 - April 2008	Net Change
Tax Receipts	(756)	(333)	(1,089)
Federal Funds	(1,112)	(1,107)	(2,219)
Miscellaneous Receipts	(344)	(417)	(761)

SFY 2008-09

Between February 2008 and May 2008 with the release of the SFY 2008-09 Enacted Budget Report, the All Funds revenue forecast was lowered by almost $3.1 billion. The majority of the decline is due to lower miscellaneous receipts ($1.6 billion) and federal grants ($927 million). All Funds tax revenues are projected to decline by ($590 million). This can be attributed to lower personal income tax ($380 million), business tax ($800 million) and other tax ($18 million) projections offset by an increase in user taxes and fees ($608 million).

Personal Income Tax

All Funds personal income tax (PIT) receipts increased $2.0 billion, or 5.7 percent, in SFY 2007-08, reaching $36.6 billion. PIT receipts are projected at approximately $38.2 billion in SFY 2008-09, an increase of $1.5 billion, or 4.3 percent. Projected PIT growth in SFY 2008-09 is attributed to the strong growth in the settlement of 2007 tax returns—final payments and extensions to file. Final payments are projected to grow by 17.1 percent and estimated taxes by 10.4 percent. While withholding tax receipts are expected to grow in SFY 2008-09, the projected growth rate is only 2.9 percent. This is the slowest rate of growth since the recession years of SFY 2001-02 when withholding tax receipts declined by 1.5 percent.

Consumption/User Taxes and Fees

All Funds user taxes and fees increased $536 million, or 4.0 percent, in SFY 2007-08, reaching $14 billion. The SFY 2008-09 Enacted Budget Financial Plan report forecasts receipts for the fiscal year to be $14.8 billion, an increase of $829 million, or 5.9 percent. The projected growth in receipts is mainly attributed to:

- Sales and use tax, $359 million, or 3.2 percent—because of tax law changes and the continued growth in collections expected to be 2.9 percent,

- Cigarette and tobacco taxes, $346 million, or 35.5 percent—due to the $1.25 increase per pack of the cigarette tax, and

- Motor vehicle fees of $100 million, or 13.4 percent—because of the implementation of the Western Hemisphere Travel initiative, which will upgrade residents' automobile licenses, allowing travel to Canada and Mexico without a passport.

Business Taxes

All Funds Business tax receipts declined $374 million, or 4.3 percent, in SFY 2007-08, with collections totaling $8.2 billion. Business tax receipts are expected to be almost $8.8 billion in SFY 2008-09, an increase of $550 million, or 6.7 percent. The projected growth is due to SFY 2008-09 Enacted Budget revenue actions ($664 million) offset by the continued weakness in the economy ($112 million).

Other Taxes

All Funds other taxes declined $14 million, or 0.7 percent, in SFY 2007-08, with collections at almost $2.1 billion. For SFY 2008-09, receipts are expected to reach almost $2.2 billion, a $68 million increase, or 3.3 percent. This increase can be attributed to an expected increase in the estate tax of $133 million offset by a decline in the real estate transfer tax.

New Tax and Fee Action

The SFY 2008-09 Enacted Budget includes $1.3 billion in net fee and revenue increases for SFY 2008-09 (see table below). Of this amount, $498 million is in compliance and enforcement initiatives, $445 million in business tax increases, $57 million in sales taxes increases and $347 million in miscellaneous provisions, including a $1.25 cigarette tax increase per pack. These revenue increases are offset by $44 million in new or extended tax credits.

Enacted Budget Revenue Actions
Impact on SFY 2008-09
(in millions of dollars)

Compliance and Enforcement Actions	**498**
Increase Voluntary Disclosure and Compliance Efforts	142
Improve Audit and Compliance Efforts	345
Require Taxpayers to Pay the Refund Offset Fee Charged by the Federal Government and Other States for New York State Income Tax Debts Owed	1
Sales Tax Vendor Registration Fee (all Current Vendors Have to Reregister)	10
Business Taxes	**445**
Classify Credit Card Companies Doing a Specified Level of Business in the State as Taxpayers Under the Bank Tax	57
Require All Captive Real Estate Investment Trust and Captive Regulated Investment Companies to File a Combined Return	50
Increase LLC Minimum Partner Fees	85
Eliminate the Maximum Amount of Tax Calculated Under the Corporate Franchise Tax Capital Base	102
Decouple from the Federal Qualified Production Activities Income Deduction	56
Increase Percentage to Compute First Installment of Business Tax Payment from 25 Percent to 30 Percent	95
Sales Taxes	**57**
Require Certain Internet Retailers to Collect Sales Tax	50
Limit Sales Tax Exemptions for Sales Made by Non-Profit Companies	7
Miscellaneous Provisions	**347**
Provide a Hemisphere Travel Initiative Compliant License to All New York Residents	69
Increase Cigarette Tax Rate by $1.25 per Pack	265
Classify Little Cigars as Cigarettes	4
Allow Snuff to be Catagorized Separately From Other Tobacco Products and Increase the Tax Rate	2
Vehicle License Reader Enforcement	8
Tax Credits	**(44)**
Empire State Film Production Credit	(5)
Increase the Amount of Low-Income Housing Tax Credits Available	(4)
Extend the Financial Services Investment Tax Credit for Three Years	(35)
Net Fee and Revenue Increases	**1,303**

Note: Totals may not add due to rounding.

Section

5

Structural Imbalance – Out-Years

The Division of the Budget (DOB) projects that the SFY 2008-09 Enacted Budget will increase General Fund spending by 7.6 percent annually on average through SFY 2011-12. In contrast, General Fund receipts are projected to increase only 4.3 percent annually on average for the same period, thus reflecting a trend of General Fund spending growth nearly double the growth in receipts. For State Operating Funds, which are intended to include operating spending from State sources, without capital or federal funds, spending is projected to increase 6.3 percent annually, compared to an increase in receipts of only 4.2 percent, also for the same period. Finally, All Funds spending is projected to increase 5.6 percent annually, as compared to only 4.0 percent annually for receipts. However, approximately $1.6 billion in risks to this Financial Plan exist that could put the current fiscal year in jeopardy of needing additional funds or spending reductions. Future years could be similarly impacted.

Projected Spending and Receipts Growth through SFY 2011-12

Percent Growth	SFY 2008-09 Enacted	SFY 2009-10 Projected	SFY 2010-11 Projected	SFY 2011-12 Projected	Total Growth 2008-09 through 2011-12	Average Annual Growth 2008-09 through 2011-12
General Fund Receipts	4.8%	2.7%	4.6%	5.0%	18.2%	4.3%
General Fund Disbursements	5.6%	10.2%	8.7%	6.0%	34.1%	7.6%
State Operating Funds Receipts	4.0%	3.7%	4.8%	4.5%	18.0%	4.2%
State Operating Funds Disbursements	5.0%	7.8%	7.1%	5.4%	27.9%	6.3%
All Funds Receipts	3.9%	4.3%	3.7%	4.1%	17.0%	4.0%
All Funds Disbursements	4.8%	7.6%	5.5%	4.7%	24.5%	5.6%

Structural Balance in SFY 2008-09

The Executive proposed a SFY 2008-09 General Fund budget of $56.4 billion in disbursements and $56.0 billion in receipts, reflecting increases of 5.2 percent and 5.3 percent, respectively from SFY 2007-08.[11]

The SFY 2008-09 Enacted Budget provides for General Fund disbursements totaling $56.4 billion and receipts of $55.6 billion, representing disbursements growth from SFY 2007-08 of 5.6 percent and receipts growth of 4.8 percent. The State is projected to end SFY 2008-09 with a General Fund closing balance of more than $2.0 billion, of which $445 million is unused surplus from prior years (after $620 million is used in SFY 2008-09) and $237 million is in the Community Projects fund, of which a net of $54 million will be used in future years to finance member items.

Structural Balance SFY 2009-10 through SFY 2011-12

Reflecting the fact that spending is increasing faster than revenues, the SFY 2008-09 Executive Budget projected a cumulative three-year current services General Fund gap of $23.3 billion. The SFY 2008-09 Executive Budget proposed a number of solutions, including new savings opportunities, new revenue opportunities and non-recurring resources to close the gap in SFY 2008-09 and lower subsequent gaps. The Executive's proposal, assuming said actions, did not close out-year gaps because of projected annual growth in receipts of 4.7 percent as compared to average annual spending growth of 7.4 percent.

According to DOB, the SFY 2008-09 Enacted Budget adds additional spending of $873 million in SFY 2008-09 (increasing to a high of $1.8 billion in SFY 2010-11) and addresses the new spending and current services gap with a series of recurring revenue actions ($1.3 billion in SFY 2008-09), non-recurring revenue actions (nearly $2 billion in SFY 2008-09), and savings actions projected to equal $2.8 billion in SFY 2008-09 and increase to $3.1 billion in SFY 2011-12. These actions are projected to reduce the gap caused by current services needs and new spending by a cumulative $7 billion through SFY 2011-12. However, the cumulative three-year gap according to DOB totals $21.5 billion, reflecting an unsustainable trend where spending outpaces revenue.

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[11] Division of the Budget. *New York State Financial Plan Projections.* Updated February 12, 2008; note that projected results from SFY 2007-08 were significantly higher than actual results. As a result, projected spending for SFY 2008-09 was lowered.

Gap Closing Plan SFY 2008-09 Enacted Budget as Per the Division of the Budget

(in millions of dollars)

	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12
Initial Current Services Gap Estimates	**(4,422)**	**(6,154)**	**(7,697)**	**(9,454)**
21-Day Revenue Re-estimates	(304)	(481)	(485)	(489)
21-Day Spending Re-estimates	147	100	(58)	39
21-Day Current Services Gap Estimates	**(4,579)**	**(6,535)**	**(8,240)**	**(9,904)**
Consensus Revenue Reduction	(300)	(300)	(300)	(300)
Post Consensus Revenue Re-estimates	(532)	(712)	(691)	(645)
Labor Settlement	(254)	(265)	(399)	(399)
Post 21-Day Spending Re-estimates	442	127	12	60
Revised Current Services Gap	**(5,223)**	**(7,685)**	**(9,618)**	**(11,188)**
New Initiatives	**(873)**	**(1,219)**	**(1,797)**	**(1,541)**
Education (School Aid)	(447)	(391)	(633)	(294)
Health Care	(156)	(289)	(381)	(451)
Human Services	-	(88)	(180)	(278)
Community Projects Fund Deposit	-	(111)	(129)	-
Other	(270)	(340)	(474)	(518)
New Recurring Revenue	**1,264**	**1,075**	**1,069**	**836**
Improve Audit and Compliance	487	239	322	357
Abandoned Property *	150	100	100	100
Capital Base Rate Reduction	89	71	71	(76)
LLC Min Partner Fees	85	85	85	85
Authority Resources	60	35	35	-
Sales Tax Nexus	50	73	85	98
Federal QPAI Decoupling	50	50	50	50
Credit Card Nexus	49	39	39	39
REIT Loophole Correction	42	64	64	(106)
All Other	202	319	218	289
Non-Recurring Actions	**1,997**	**29**	**29**	**29**
Aqueduct Franchise Fee	250	-	-	-
Bond Financing over PAYGO	173	(21)	(21)	(21)
Blanket Fund Sweep *	150	50	50	50
SONYMA Sweep	100	-	-	-
Mental Hygiene Property Sale	100	-	-	-
Business Tax Prepayment	95	-	-	-
AIM Restoration	82	-	-	-
EPF Sweep	80	-	-	-
EPIC Sweep	70	-	-	-
Mental Hygiene/Patient Income Account revenue	66	-	-	-
Recover Early Intervention Costs from NYC	60	-	-	-
Student Loan Default Fee	27	-	-	-
District Attorney Settlement Revenue	25	-	-	-
Pension Prepayment Savings	24	-	-	-
Motor Vehicle Sweep	16	-	-	-
Reserves	620	-	-	-
Other	59	-	-	-
Savings	**2,835**	**2,784**	**2,586**	**3,102**
Across the Board Reductions (General Fund)	485	486	488	488
Health Care	763	928	846	1,372
STAR	354	400	185	195
Cigarette Tax Financing	265	296	292	291
General State Charges	202	79	84	85
Mental Hygiene	199	220	254	257
Welfare/TANF	151	163	163	162
Judicial Pay Exclusion	143	37	37	37
Criminal Justice	20	12	16	18
Other	253	163	221	197
New Gap Projection	**-**	**(5,016)**	**(7,731)**	**(8,762)**

Note: Negative numbers increase the gap whereas positive numbers decrease the gap.

* These resources have historically been counted as non-recurring or one-shots.

General Fund Budget Growth
SFY 2008-09 through SFY 2011-12
(in million of dollars)

	SFY 2008-09 Enacted	SFY 2009-10 Projected	SFY 2010-11 Projected	SFY 2011-12 Projected
Revenues				
Executive	55,984	58,185	60,801	63,981
Enacted	55,638	57,145	59,774	62,744
Disbursements				
Executive	56,384	61,823	67,091	71,240
Enacted	56,361	62,113	67,527	71,586
Structural Gap (before reserve actions)				
Executive	(400)	(3,638)	(6,290)	(7,259)
Enacted	(723)	(4,968)	(7,753)	(8,842)
Reserve Actions				
Executive	400	62	151	79
Enacted	723	(48)	22	80
Projected Gap (after reserve actions)				
Executive	-	(3,576)	(6,139)	(7,180)
Enacted	-	(5,016)	(7,731)	(8,762)

These gaps are driven by spending that is outpacing receipts and significant use of non-recurring resources for recurring operational needs. In addition, DOB's estimate of projected future gaps assumes a number of revenue actions that are currently not authorized totaling at least $195 million, including $100 million annually from Abandoned Property receipts, $45 million annually from the Environmental Protection Fund and an additional $50 million annually from transfers from unidentified funds.

All these non-recurring resources were used in the SFY 2008-09 Financial Plan to offset spending that grows faster than recurring revenues and have been used in the past for the same purpose. The actions have historically been authorized on an annual basis and are not yet authorized for subsequent years.

The following table illustrates the projected rate of growth of General Fund receipts and disbursements with and without the currently unauthorized actions. Spending is projected to outpace revenue, and to a greater degree than indicated in the Financial Plan, especially once non-recurring actions are taken into account.

Reserves

The SFY 2008-09 Enacted Financial Plan requires $620 million in unrestricted surplus from prior years and an additional $103 million from the Community Projects Fund. The Community Projects Fund was exempted from the Executive's proposal to reduce spending in both State Operations and Local Assistance, and from the $150 million blanket sweep authorization included in the SFY 2008-09 Enacted Budget. This authorization directs DOB to transfer monies from various special revenue funds to the General Fund in cases where funding for a specific program is considered by DOB to be sufficient.

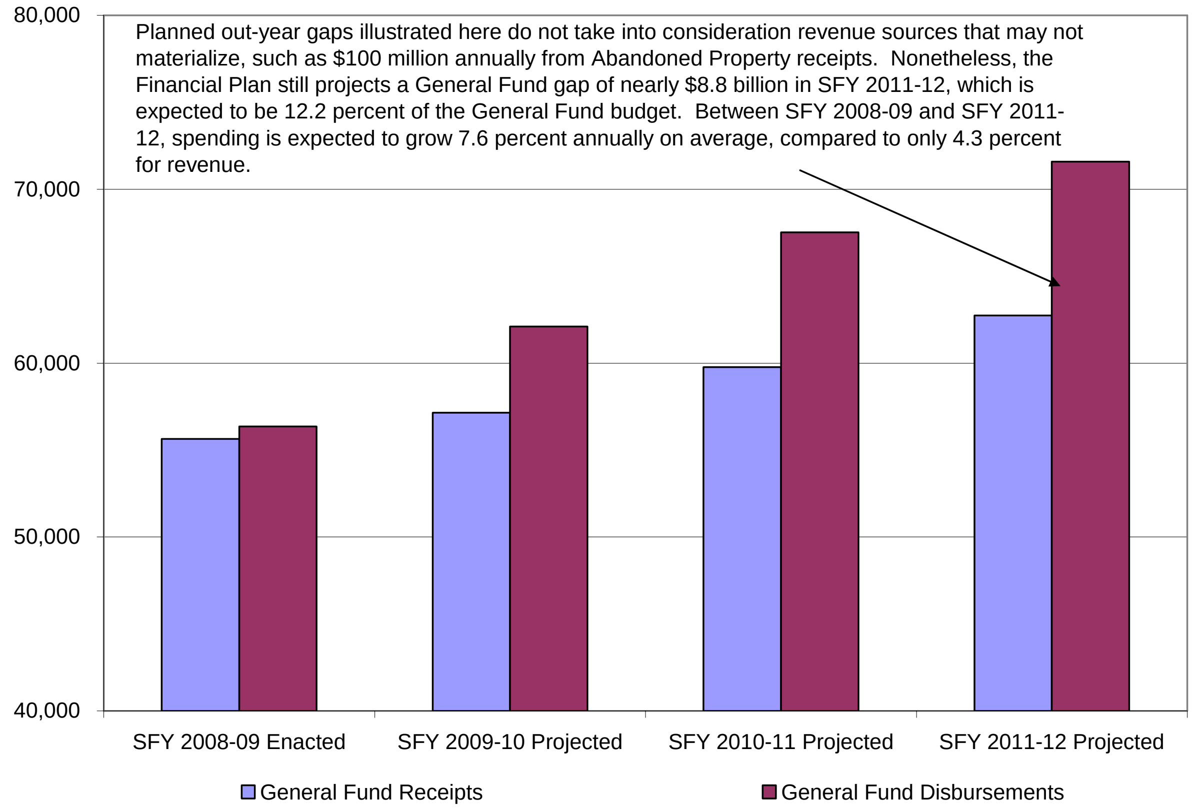
Closing General Fund Balance and Use of Reserves
SFY 2007-08 through SFY 2011-12
(in millions of dollars)

	SFY 2007-08 Actual	SFY 2008-09 Projected	SFY 2009-10 Projected	SFY 2010-11 Projected	SFY 2011-12 Projected
Statutory Reserves					
Tax Stabilization Reserve Fund	1,031	1,031	1,031	1,031	1,031
Rainy Day Fund	175	175	175	175	175
Contingency Reserve Fund	21	21	21	21	21
Community Projects Fund	340	237	285	263	183
Debt Reduction Reserve Fund	-	122	-	-	-
Refund Reserve					
Prior Year Surplus	1,187	445	445	445	445
Projected General Fund Closing Balance	**2,754**	**2,031**	**1,957**	**1,935**	**1,855**

Creation of a Structural Deficit

In the SFY 2008-09 Enacted Financial Plan, DOB projects General Fund spending will increase by 34.1 percent over SFY 2007-08, while receipts are expected to increase by just 18.2 percent. General Fund disbursements are expected to grow 7.6 percent annually on average, compared to only 4.3 percent for receipts through SFY 2011-12. In fact, in SFY 2009-10 alone, disbursements in the General Fund are expected to grow almost four times faster than revenue. Furthermore, the gaps presented in the Financial Plan assume at least $195 million annually that have traditionally been counted as non-recurring resources, or one-shots. These include funds from Abandoned Property ($100 million), annual sweeps from the Environmental Protection Fund ($45 million) and additional undefined fund sweeps ($50 million).

General Fund Receipts vs. Disbursements
SFY 2008-09 through SFY 2011-12
(in millions of dollars)



The imbalance results from prior year spending decisions combined with new spending for SFY 2008-09, all of which outpaces projected revenues. For example, the Financial Plan assumes that Health Care Reform Act (HCRA) funds will require $466 million from the General Fund in SFY 2011-12, the first year a General Fund subsidy is required. In addition, the SFY 2008-09 Enacted Financial Plan depends on $284 million in new insurance conversion proceeds in SFY 2008-09 and $534 million in SFY 2009-10, even though the conversion has not yet occurred and may face roadblocks similar to the Empire conversion in 2002. This is in addition to potential HCRA proceed shortfalls with existing stock from Wellpoint that is slated for sale in SFY 2008-09. It appears HCRA will be solvent through SFY 2008-09 without these new proceeds, but additional General Fund monies may be required as early as SFY 2009-10, depending on progress of the conversions.

Dedicated Highway and Bridge Trust Fund

By SFY 2011-12, the SFY 2008-09 Enacted Budget projects that the Dedicated Highway and Bridge Trust Fund (DHBTF) will require $792 million in General Fund resources to achieve balance, compared to only $12.7 million in SFY 2007-08 (6,129 percent growth). The DHBTF was created as a self-sufficient, pay-as-you-go transportation fund in 1992. However, in 1993, bonds were authorized to meet the DHBTF program needs and have since been used to meet existing commitments, as well as new spending that has been added since its creation (such as snow and ice removal). The increasing debt service has forced such actions as moving revenue and spending from the Department of Motor Vehicles into the DHBTF in order to keep up with required debt service coverage ratios. The SFY 2008-09 Enacted Budget provides $192.1 million in General Fund subsidies for the DHBTF.

Other Spending Practices

As noted above, the solutions the State has relied on to meet immediate spending needs have long-term, expensive consequences. The State's practice of issuing debt to solve its structural problems is unsustainable, as the resulting debt service consumes an ever greater share of annual resources. The SFY 2008-09 Enacted Budget accepted many Executive proposals that provide short-term relief, but have long-term implications. For example, the SFY 2008-09 Enacted Budget utilizes a sweep of $200 million from the Environmental Protection Fund (EPF) in order to balance the General Fund. Of this amount, $125 million is a straight sweep of the Fund, while the remaining $75 million will be replaced with bond proceeds, thus creating additional debt costs in out-years for budget relief today. Not only does this practice provide short-term relief for the General Fund without providing any sort of permanent structural solution, but it also takes necessary funding away from vital environmental needs.

The SFY 2008-09 Enacted Budget also authorizes the issuance of nearly $200 million in bonds for spending that would normally be covered with current cash resources, including the $75 million from EPF. While debt is an essential tool for financing capital needs, the annual out-year impact of additional debt service may be significant, particularly when used for purposes intended to be paid with cash. In this case, out-year debt service costs will increase over $20 million as a result of the additional bonding in SFY 2008-09.

History of Non-Recurring Resources

Since the beginning of SFY 2002-03, New York State has used $21.5 billion in one-time revenues to finance the ongoing operations of the General Fund. The use of non-recurring resources to finance recurring expenses worsens the ongoing structural deficit: non-recurring resources should only be used for non-recurring expenses, such as paying down debt or pay-as-you-go (PAYGO) capital spending.

The SFY 2007-08 Enacted Budget provided an additional $250 million for deposit to the Debt Reduction Reserve Fund, of which $122 million is planned for use in SFY 2008-09, and $175 million was deposited in the State's Rainy Day Fund, which was created in 2007. Nonetheless, the SFY 2008-09 Enacted Budget uses an additional $2.8 billion in non-recurring resources to balance the SFY 2008-09 Budget, equaling 4.9 percent of General Fund spending. Of this amount, $620 million is surplus from prior years.

Non-Recurring Resources
SFY 2002-03 through SFY 2008-09
(in millions of dollars)

2002-03	3,704
2003-04	5,881
2004-05	2,580
2005-06	3,573
2006-07	1,158
2007-08	1,856
2008-09 Enacted	2,750
Total	**21,502**

The Changing Structure of the Financial Plan

Debt service is one of the fastest growing major categories of spending in the SFY 2008-09 Enacted Budget, averaging projected growth of approximately 10.7 percent annually over the next four years.[12] The other high growth area is capital projects.

According to the SFY 2008-09 Enacted Capital Program and Financing Plan, approximately 60 percent of the Enacted Capital Plan is financed with debt. Debt service is the one area of spending that cannot statutorily be changed. Once the State has committed to a new debt issuance, it must make the payments. The following table illustrates the growth in debt service under the proposed Financial Plan as compared with changes in other spending categories.

[12] Represents State-Supported debt as defined by Section 67-A of the State Finance Law.

Comparison of
All Government Funds Receipts and Disbursements
(annual percent growth)

	Average Growth SFY 2002-03 through SFY 2007-08	SFY 2008-09 Proposed	SFY 2009-10 Proposed	SFY 2010-11 Proposed	SFY 2011-12 Proposed	Average Growth SFY 2008-09 through SFY 2011-12
Receipts:						
Taxes	5.7%	5.0%	5.0%	5.1%	5.3%	5.1%
Miscellaneous Receipts	12.1%	2.3%	4.4%	0.5%	-0.2%	1.7%
Federal Grants	4.0%	3.0%	3.0%	2.8%	4.4%	3.3%
Total Receipts	**5.7%**	**3.9%**	**4.3%**	**3.7%**	**4.1%**	**4.0%**
Disbursements:						
Grants to Local Governments	5.7%	3.7%	7.1%	6.0%	5.9%	5.7%
State Operations	4.0%	2.8%	3.5%	4.9%	1.5%	3.2%
General State Charges	10.3%	-0.9%	9.4%	5.7%	6.3%	5.1%
Debt Service	1.1%	13.4%	10.9%	12.5%	5.9%	10.7%
Capital Projects	5.6%	28.7%	21.7%	-3.4%	-4.0%	10.8%
Total Disbursements	**5.3%**	**4.8%**	**7.6%**	**5.5%**	**4.7%**	**5.6%**

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

Growth Compared with Economic Indicators

The Executive uses comparisons with various economic indicators to illustrate growth in spending. The following table shows five years of spending data, as well as spending projections (not including off-budget spending) for the life of the Enacted Financial Plan. As illustrated below, average annual spending growth in all three categories exceeds average growth in personal income.

Spending Growth Over the Life of the Plan
as Compared to Personal Income

	General Fund (including transfers)	State Operating Funds (1)	All Funds	Personal Income Growth
2008	3.5%	4.8%	2.9%	7.7%
2009	5.6%	5.0%	4.8%	3.4%
2010	10.2%	7.8%	7.6%	2.7%
2011	8.7%	7.2%	5.5%	4.8%
2012	6.0%	5.4%	4.7%	5.1%
Average 1998-2008	4.6%	NA	5.7%	5.1%
Average 2009-2012	7.6%	6.3%	5.6%	4.0%

(1) Growth history prior to SFY 2007-08 is not available.

Risks to the Out-Year Financial Plan

The Office of the State Comptroller has identified nearly $4.4 billion in additional risks over the three out-years of the Financial Plan, any one of which could create pressure on the State's fiscal health.

Abandoned Property

The State Finance Law provides that all monies in the Abandoned Property Fund in excess of $750,000 be transferred to the General Fund by the end of each fiscal year. The amount included by DOB in the Financial Plan is an estimate of what is expected to be available for transfer at the end of the fiscal year.

In SFY 2008-09, the Financial Plan is depending on a total transfer of $750 million in abandoned property revenue, representing an increase of nearly $200 million over the $568.8 million in normal collections in SFY 2007-08.

The levels projected in the SFY 2008-09 Financial Plan are likely not sustainable in the future. Cash receipts to the Fund have been declining at the same time claims paid are rising significantly. Claim requests have increased nearly 40 percent since SFY 2005-06, and payments are nearly 28 percent for the same period. It is the goal of the Office of the State Comptroller to return funds to rightful owners and not balance the State's Budget with them.

- There are no increases projected in regular Abandoned Property receipts. The amount received in SFY 2007-08 is in line with historic receipts.
- Declines in regular receipts are possible due to banks and corporations moving out of state and legislation that exempts certain types of accounts from the Abandoned Property Law.
- There are no new large sources of abandoned property revenue anticipated.
- Enhanced efforts to return unclaimed funds to their rightful owners have increased significantly and are expected to continue.
- The securities inventory cannot sustain the sales volume required to meet a recurring target of this magnitude, and further reduction of the securities inventory reduces a source of revenue for the General Fund.

Insurance Conversion Proceeds

According to the SFY 2008-09 Enacted Financial Plan, proceeds from the sale of stock are projected to provide $834 million to Health Care Reform Act (HCRA) receipts in

SFY 2008-09. Of this amount, $550 million is expected from the sale of the remaining 7.3 million shares of Wellpoint stock, from the conversion of Empire Blue Cross from not-for-profit to for profit status in 2006, and the remaining $284 million is from the sale of stock associated with the conversion of HIP/GHI in New York City.

DOB projects $534 million in SFY 2009-10, $584 million in SFY 2010-11 and $398 million in SFY 2011-12 from the sale of HIP/GHI shares. However, as with the Empire conversion in which proceeds from the sale were held for over two years in trust pending litigation, actual receipt of the proceeds from the conversion could be delayed. Furthermore, the current value of the remaining Wellpoint stock has declined from a high of over $90 per share to just over $50 per share, resulting in a potential shortfall of approximately $185 million.

Largely as a result of lower than anticipated spending in SFY 2007-08, DOB projects a closing HCRA fund balance of $471 million at the end of SFY 2008-09, approximately $77 million higher than anticipated in February 2008. However, HCRA fund balances may be significantly diminished, largely due to the potential lack of $469 million in conversion proceeds. While the language authorizing the sale of future tobacco settlement revenues authorized a General Fund guarantee that would provide funds to HCRA in case of a shortfall in revenue, under the SFY 2007-08 Enacted Budget that guarantee is “notwithstood” through 2011. Nonetheless, if there are insufficient HCRA funds, either in SFY 2008-09 or subsequent years, the General Fund may be called on to supplement spending.

Video Lottery Terminals

Although DOB lowered its projections for SFY 2008-09 by $33 million, bringing the estimate more in line with collections from the previous year (not including the $250 million in non-recurring development fees expected from development at Aqueduct Racetrack), out-year projections remain uncertain. Historically, DOB’s VLT projections have been nearly 25 percent over actual collections. The SFY 2008-09 projections do not include new gaming revenue from the Aqueduct facility. However, projections from January indicated an expectation of over $1.1 billion in SFY 2011-12, almost 2.3 times more than the $490 million received in SFY 2007-08. As no other facilities are planned for the future (outside of Aqueduct), such an increase is unlikely and additional General Fund support for schools may be necessary.

Statewide Wireless Network

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

Economic Projections

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

Section
6

Local Governments

The SFY 2008-09 Enacted State Budget provides additional local aid through the Aid and Incentives for Municipalities (AIM) program, makes new investments in economic development that could benefit municipalities, increases funding for the Consolidated Highway Improvement Program (CHIPs), advances a number of initiatives related to promoting local government efficiency, and reforms the Wicks Law to expand minimum thresholds requiring separate bids for capital projects.

Overall, the SFY 2008-09 Enacted Budget provides a *net* $2.2 billion in additional funds to local governments for the fiscal year ending in 2009. Of the total $2.3 billion increase, $1.75 billion is attributable to increased school aid, $312 million from increases in revenue sharing, $111 million from new legislation enhancing sales tax collections, and $73 million in new transportation aid. The additional sales tax estimate includes $71.4 million relating to a new law requiring out-of-state companies to collect tax on internet sales to New York residents. There is a risk, however, that this revenue may not materialize as *Amazon.com* has filed a lawsuit challenging the constitutionality of the new legislation.

The increase in funding for local governments for SFY 2008-09 is offset by decreases in funding totaling $117.3 million, of which $56.6 million is associated with a 2 percent reduction in many local assistance programs. Since tax levies for counties were established prior to enactment of the SFY 2008-09 Enacted Budget, these reductions will likely result in cost shifts that may require commensurate spending cuts at the local level. In most cases, counties cannot reduce service levels in these programs since the State is simply reducing reimbursement claims, not reducing program levels.

Aid and Incentives for Municipalities

The SFY 2009-09 Enacted Budget provides $1.01 billion for AIM, representing an increase of $293 million, or 40.8 percent, over the amount provided in SFY 2007-08 and about $92 million more than the SFY 2008-09 Executive Budget. Most of this increase ($225.9 million) will benefit New York City and represents a restoration of aid. Excluding New York City, municipalities will receive an increase of $67.5 million, or 9.7 percent, in AIM in SFY 2008-09, with cities, towns and villages receiving average increases of 10.3 percent, 3.7 percent and 4.5 percent, respectively.

The SFY 2008-09 Enacted Budget maintains the formula to distribute the additional aid enacted in SFY 2007-08, whereby AIM increases are based on municipalities' level of fiscal stress. Most municipalities will receive either a 3 percent or 5 percent increase in aid. Those municipalities receiving markedly less aid than their peers on a per capita basis will receive an additional 4.5 percent increase in aid. There are 28 cities that will receive aid as originally proposed in the SFY 2008-09 Executive Budget and 33 cities that will receive a portion of $11.6 million in Special Aid added to the SFY 2008-09 Enacted Budget.

However, this additional aid will not be distributed via the AIM formula. Of the 33 cities receiving this extra allocation, the Big Four cities will receive between $1.2 million and $3.2 million in additional aid.[13]

SFY 2008-09 Enacted Budget
Aid and Incentives for Municipalities (AIM)
(in millions of dollars)

	SFY 2007-08 Enacted AIM	Annual Increase	4.5% Per Capita Increase	Special Aid	SFY 2008-09 Enacted AIM	Dollar Change Over SFY 2007-08	Percent Change Over SFY 2007-08
Cities	628.4	47.4	5.76	11.6	693.1	64.7	10.3%
Towns	50.0	1.8	0.03	--	51.8	1.8	3.7%
Villages	20.7	0.9	0.04	--	21.7	0.9	4.5%
New York City	20.0	225.9	--	--	245.9	225.9	1129.7%
Total	**719.1**	**276.0**	**5.83**	**11.6**	**1,012.5**	**293.4**	**40.8%**
Total Excluding New York City	**699.1**	**50.1**	**5.83**	**11.6**	**766.6**	**67.5**	**9.7%**

[13] The Big Four cities are Buffalo, Rochester, Syracuse and Yonkers.

Economic Development

Under the SFY 2008-09 Enacted Budget, the Upstate Revitalization Plan, originally proposed at $1 billion, is reduced to $700 million. A significant portion of this new program will go to upstate cities for strategic investments unique to each city.

Consolidated Highway Improvement Program

The Consolidated Highway Improvement Program (CHIPs) was developed to assist localities in financing the construction, reconstruction or improvement of local highways, bridges, highway-railroad crossing and/or other local facilities. The aid is distributed to counties, cities, towns and villages based on local highway mileage, and to counties and New York City based on motor vehicle registrations. The SFY 2008-09 Enacted Budget provides CHIPs with an additional $50.6 million, or 16.2 percent, for total funding of $363.1 million.

Local Government Efficiency Grants

The Shared Municipal Services Incentives (SMSI) program is restructured into the Local Government Efficiency Grants (LGEG) program to promote consolidations and major service sharing arrangements. Under the SFY 2008-09 Enacted Budget, the LGEG program is funded at $29.4 million, a $4.4 million, or 17.6 percent, increase over SFY 2007-08.

Wicks Law Reform

The SFY 2008-09 Enacted Budget raises the minimum thresholds for capital projects that require separate bids for electrical, plumbing, and heating and air conditioning contracts from $50,000 to $3 million in New York City, $1.5 million in Nassau, Suffolk and Westchester counties and $500,000 in all other counties. The reform measures include a provision that allows contracting entities to avoid Wicks Law requirements through the use of project labor agreements.

Cost-Shifting Proposals

The SFY 2008-09 Enacted Budget does not include proposed cost shifts to counties and New York City for public assistance programs and youth detention programs. However, the 2 percent local assistance reductions are essentially cost shifts that may require commensurate spending cuts at the local level.

Other Revenue Proposals

The SFY 2008-09 Enacted Budget does not include proposed revenue enhancers, such as a county option to raise mortgage recording fees, a village/city option to collect gross receipt taxes on cellular telephone services, and authorization for certain cities and counties to implement red light camera programs.

Public Information

The SFY 2008-09 Enacted Budget does not include proposals that the State Comptroller be required to collect and report new fiscal performance data for all local governments and that all municipalities meeting the AIM program's criteria for fiscal distress obtain an annual independent audit and prepare a plan of corrective action.

However, the SFY 2008-09 Enacted Budget does require municipalities to publish the following documents to their official Internet website: annual financial reports, current year budget, most recent independent audit report and either a fiscal performance plan or multi-year financial plan, depending on filing requirements.

Section

7

New York City

The SFY 2008-09 Enacted Budget increases education aid to New York City (City) by $644 million for the 2008-2009 school year, which is the third largest increase in history and is consistent with the increase promised last year as part of the resolution of the Campaign for Fiscal Equity litigation. Other initiatives taken by the SFY 2008-09 Enacted Budget will increase New York City's costs, however, by a net of $124 million over the course of City fiscal year (CFY) 2008 and CFY 2009.

Most of the adverse impact ($85 million) comes from only a partial restoration in funding to the City under the Aid and Incentives to Municipalities (AIM) program. New York City's Financial Plan had assumed a full restoration as promised by the previous Governor last year. In addition, the City remains concerned that a higher State fee charged to health insurance carriers will be passed along to consumers in the form of higher health insurance premiums, including those paid by the City of New York.

Other notable actions in the SFY 2008-09 Enacted Budget include making permanent, the 1 percent sales tax that was set to expire on July 1, 2008, which is expected to generate approximately $1.2 billion annually for the City. The SFY 2008-09 Enacted Budget also raised the minimum threshold for capital projects that require separate bids for electrical, plumbing, and heating and air conditioning work (the Wicks Law) from $50,000 to $3 million.

The City continues to benefit from State initiatives implemented in prior years. These include the State cap that limits the annual growth in the local share of Medicaid to 3 percent, and the State takeover of the local share of the Family Health Plus program. The SFY 2008-09 Enacted Budget estimates that these together will benefit the City by $522 million in CFY 2009 alone. The State has not yet acted on the City's proposal to raise the borrowing authority of the Transitional Finance Authority.

Metropolitan Transportation Authority

The SFY 2008-09 Enacted Budget increases State aid to the Metropolitan Transportation Authority (MTA) for SFY 2008-09 by $105 million, which is $53 million less than assumed in the MTA's financial plan. (The reduction reflects the MTA's share of statewide administrative cost savings.) The funding shortfall will increase the size of the MTA's projected budget gap for calendar year 2009 to $269 million. While the MTA has not indicated how it intends to close the 2009 budget gap, it has delayed planned service enhancements in light of lower than expected collections from real estate transaction taxes. The MTA still projects budget gaps of $1.4 billion in 2010 and $1.7 billion in 2011. In addition, the current capital program is experiencing significant cost overruns and the Governor has appointed a commission to identify sources of funding for the next five-year capital program.

Section

8

Public Authorities

While several public authorities receive operating and/or capital appropriations in the State Budget, the budgets of public authorities are not presented for legislative review and adoption. Public authorities operate as separate corporations governed by appointed boards of directors, and each authority adopts its own budget. With increasing regularity, State resources are being directed to public authorities and spent off-budget, consequently reducing public accountability and oversight.

Off-Budget Spending

The SFY 2008-09 Enacted Budget includes $100 million of the Executive's proposed $1.1 billion in off-budget spending.[14] These funds would come from the release of resources held by the State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund and would be spent directly from non-State accounts for various housing programs. These funds will be used to support various housing programs to be administered by the New York State Housing Finance Agency, the Long Island Housing Partnership and the New York State Housing Trust Fund Corporation. This spending will occur directly from non-State accounts and consequently will not be reflected in the spending estimates contained in the Capital Plan.

Bonding Limits

As public authorities reach their statutory limit on the amount of bonds that can be issued for a specific capital program, legislation is needed to increase the limit or cap. The Executive Budget annually proposes increases in these authorizations in order to finance capital programs. The SFY 2008-09 Enacted Budget increased bonding

[14] For information on enacted economic development initiatives, see the Economic Development section of this report.

authorizations for 17 programs supported through public authority debt by $6.1 billion, or 15.3 percent, over SFY 2007-08.

SFY 2008-09 Change in Public Authority Bond Authorizations
(in millions of dollars)

Program	Current Cap	SFY 2008-09 Proposed	SFY 2008-09 Enacted	Enacted Dollar Change from Current Cap	Enacted Percent Change from Current Cap
SUNY Educational Facilities	7,461.0	8,411.8	8,583.0	1,122.0	15.0%
SUNY Dormitory Facilities	800.0	1,150.0	1,150.0	350.0	43.8%
SUNY Upstate Community Colleges	301.0	466.0	466.0	165.0	54.8%
CUNY Education Facilities	5,904.0	5,995.9	6,118.2	214.2	3.6%
Library Facilities	28.0	42.0	42.0	14.0	50.0%
Cultural Education Storage Facilities	60.0	87.6	87.6	27.6	46.0%
Environmental Infrastructure Projects	492.5	713.0	698.0	205.5	41.7%
Water Pollution Control	541.0	570.6	570.6	29.6	5.5%
Division of State Police Facilities	102.1	108.1	108.1	6.0	5.9%
State Buildings and Other Facilities	83.3	125.3	128.8	45.5	54.6%
Equipment Acquisitions (COPs)	293.0	434.0	434.0	141.0	48.1%
OFT Facilities	99.5	120.5	120.5	21.0	21.1%
Prison Facilities	5,185.0	5,505.0	5,511.4	326.4	6.3%
NYRA Real Property and Video Lottery Terminals	0.0	355.0	355.0	355.0	-
Housing Capital Programs	2,042.0	2,146.2	2,291.9	249.9	12.2%
2008 Economic Development Initiatives	0.0	900.0	1,285.0	1,285.0	-
Mental Health Facilities	5,857.0	7,209.9	7,356.4	1,499.4	25.6%
Consolidated Highway Improvement Program (CHIPs)	5,745.0	5,630.1	5,806.2	61.2	1.1%
Total	**34,994.4**	**39,971.0**	**41,112.7**	**6,118.3**	**15.3%**

Source: New York State Division of the Budget

The SFY 2008-09 Enacted Budget provides for the creation of a $50 million Investment Opportunity Fund as part of the package of SFY 2008-09 economic development initiatives. The Executive proposed $150 million for this purpose. Additionally, the SFY 2008-09 Enacted Budget provides for the creation of an Investment Opportunity Fund Capital Approval Board to consider and review each project receiving material financial assistance from the Investment Opportunity Fund. However, the projects and the bonds issued to support the projects are expressly excluded from approval by the Public Authorities Control Board (PACB), thus eliminating the Comptroller’s review and comment role and reducing oversight and accountability in the process.[15]

Between SFY 2003-04 and SFY 2008-09, bond caps for all State programs financed by public authority bonds have been statutorily increased by $29 billion, representing a 61 percent increase in total bond authorization over the five-year period.

[15] For information on enacted economic development initiatives, see the Economic Development section of this report.

Change in Public Authority Bond Authorizations
SFY 2003-04 through SFY 2008-09
(in millions of dollars)

SFY	Dollar Amount	Dollar Change from SFY 2003-04	Percent Change from SFY 2003-04
2003-04	47,714.8	-	-
2004-05	52,444.1	4,729.3	9.9%
2005-06	62,955.8	15,241.0	31.9%
2006-07	68,914.1	21,199.3	44.4%
2007-08	70,714.3	22,999.5	48.2%
2008-09	76,784.6	29,069.8	60.9%

Budget Relief

The SFY 2008-09 Enacted Budget includes several actions to shift $248.9 million from public authorities to provide budget relief:

- SONYMA Mortgage Insurance Fund – An additional $100 million to the General Fund for budget relief. Though the amounts vary, this sweep is an annual occurrence.

- New York Power Authority (NYPA) – $93 million in transfers during SFY 2008-09, including:
  - $60 million for General Fund relief. The Legislature also authorized transfers of $35 million from NYPA in both SFY 2009-10 and SFY 2010-11.
  - $25 million to support the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) programs, which are extended for one year, to June 30, 2009.[16] The Enacted Budget does not include the creation of the Executive proposed long-term Electricity Cost Discount program, which would have replaced the PFJ and ECSB programs had they expired.
  - $8 million to be transferred to the Office of Parks, Recreation and Historic Preservation for the operation and maintenance of certain State parks in the vicinity of the Niagara and Saint Lawrence-FDR hydroelectric projects.

- State Cost Recovery Fees – $55 million, which reflects a $15 million increase in the maximum amount of annual State cost recovery fees that can be assessed on public authorities for centralized State services provided on their behalf. The

[16] The Power for Jobs program authorizes the New York Power Authority (NYPA) to provide discounted power to participating businesses. The low-cost power is delivered by utility companies, which tally up the discounts they provide each year and subtract the amount from their taxes owed to the State (gross receipts tax credit). NYPA then reimburses the State for the reduced tax revenue.

SFY 2008-09 Enacted Budget did not include expansion of the collection of State cost recovery fees to local industrial development agencies.

- New York State Energy Research and Development Authority – $913,000 transfer to the General Fund.

Section

9

Education

The SFY 2008-09 Enacted Budget increases education funding by nearly $1.8 billion, an increase of 8.9 percent from approximately $19.7 billion in school year 2007-08 to $21.4 billion in school year 2008-09. On a SFY basis, school aid totals $23.3 billion, an increase of nearly $1.8 billion, or 8.4 percent, more than in SFY 2007-08. New York City, which educates about 40 percent of the State's public school children, will receive $8.3 billion in total school aid, $644 million, or 8.4 percent, more than in school year 2007-08. This increase reflects formula-based aid totaling $586 million, as well as *Expanding Our Children's Education and Learning* (EXCEL) aid totaling $57.5 million.

Foundation Aid

The SFY 2008-09 Enacted Budget increases Foundation Aid funding by $1.2 billion (8.8 percent) to $14.9 billion. Total Foundation Aid funding will be allocated across all school districts with districts receiving between a 3 percent and 15 percent increase.

In SFY 2007-08, the Enacted Budget combined approximately 30 traditional school aid formulas into "Foundation Aid," which was associated with a four year phase-in plan to improve funding for schools in response to the Campaign for Fiscal Equity agreement. The SFY 2008-09 Enacted Budget, however, includes a reduction in the phase-in amount from 42.5 percent to 37.5 percent and in the maximum annual Foundation Aid increase, from 25 percent to 15 percent, as proposed by the SFY 2008-09 Executive Budget. However, the Executive's proposals to move the base year to one year earlier and reduce the minimum annual increase from 3 percent to 2 percent were not enacted.

New York City's $586 million net increase in education aid reflects a number of increases, including $622 million, or 11.2 percent, in Foundation Aid over last year to

$6.2 billion. The increases are offset by various reductions, including $87 million in education grants.

The SFY 2008-09 Enacted Budget includes additional school year formula funding for the following aid categories.

School Year Appropriations
2007-08 and 2008-09
(in millions of dollars)

Aid Category	SFY 2007-08	SFY 2008-09	Dollar Change
Transportation	1,431.8	1,537.8	106.0
High Tax Aid	100.0	202.3	102.3
Universal Pre-Kindergarten	354.4	450.8	96.4
Special Services	140.6	178.9	38.3
BOCES	623.6	672.2	48.6
Full-Day Kindergarten	1.7	3.8	2.1

Source: New York State Education Department and Senate Finance Committee

School Tax Property Relief Program (STAR)

STAR benefits for SFY 2008-09 total $4.7 billion, a net increase of $35 million from SFY 2007-08. The SFY 2008-09 Enacted Budget includes $639 million in additional spending comprised of the Middle Class Property Tax Rebate ($312 million), New York City Personal Income Tax Relief ($181 million) and Basic Enhanced Property Tax Exemption ($146 million). These increases are offset by a one-time cost shift of $250 million in New York City Personal Income Tax Reimbursement into SFY 2009-10 and the inclusion of Executive proposals to reduce anticipated SFY 2008-09 STAR benefits by $354 million as follows:

- Postpone the planned phase-in of Basic Middle Class Rebates for one year, fully phasing in the program during SFY 2010-11 ($169 million),

- Limit the reduction in homeowners’ exemption to no more than 10 percent from the prior year ($110 million) associated with changes in property assessment or age eligibility,

- Eliminate STAR income credits for New York City residents who earn more than $250,000 ($60 million), and

- Expand allowable offsets to tax liabilities to include child support payment defaults and other debts ($15 million).

Special Education – Local Costs

The SFY 2008-09 Enacted Budget did not include the SFY 2008-09 Executive Budget proposals to limit the growth in expenses for the Preschool Special Education Program to 4 percent for counties outside of New York City and to shift an estimated $46 million in SFY 2008-09 special education evaluation costs to the school districts.

Video Lottery Terminal Revenues

The SFY 2008-09 Enacted Budget includes $731 million in anticipated revenue from video lottery facilities, including $481 million in anticipated Video Lottery Terminal (VLT) revenues and a one-time $250 million from the sale of racino development rights at the Aqueduct racetrack. The SFY 2008-2009 Enacted Budget does not include the Executive's proposal to modify VLT host community aid.

Building Aid

Under the SFY 2008-09 Enacted Budget, Building and Reorganization Aid funding for the 2008-09 school year increased by $170 million, or 9.3 percent. The SFY 2008-09 Enacted Budget includes statutory provisions that would align building aid payments to the New York City School District with the rest of the school districts in the State. The amendment requires that Building Aid claims submitted by the New York City school district after November 15 be paid in the following year.

The SFY 2008-09 Enacted Budget does not include Executive proposals to require school districts to: use the current year Building Aid ratio beginning in SFY 2008-09, offset New York City academic achievement grants with future Building Aid claims and discontinue Reorganization Building Aid.

The SFY 2008-09 Enacted Budget increases *Expanding Our Children's Education and Learning* (EXCEL) aid by $135 million over SFY 2007-08. The total is comprised of $109 million in formula based aid for the New York City School District and $26 million in formula based aid for the school districts in the rest of the State. Unlike Building Aid, expenses associated with issuing EXCEL bonds are incurred by the Dormitory Authority of the State of New York (DASNY), not school districts. The $135 million will be paid directly to the Dormitory Authority for debt service payments, resulting in an over-estimate of total aid paid directly to school districts.

Other Initiatives and Article VII Amendments

The SFY 2008-09 Enacted Budget includes the Executive's proposed $21 million in Charter School Transitional Aid and updates the Wicks Law by raising the minimum thresholds for capital projects that require separate bids for electrical, plumbing, and heating and air conditioning contracts from $50,000 to $3 million in New York City, $1.5 million in Nassau, Suffolk and Westchester counties, and $500,000 in all other counties, but excludes proposals to modify the Building Aid formula, implement a new $9 million Healthy Schools Initiative and expand Quick Draw.

The SFY 2008-09 Enacted Budget modifies the Executive's Contract for Excellence proposal by expanding qualifying criteria and spending limitations.

Section

10

Higher Education

The SFY 2008-09 Enacted Budget increases appropriations for SUNY and CUNY by $5.8 billion, or 54.8 percent, over SFY 2007-08, largely as a result of new capital spending initiatives. State Operations/Aid to Localities funding for SUNY and CUNY increases $168.3 million, or 4.3 percent, from SFY 2007-08. General Fund support for SUNY increases $79.6 million, or 3.4 percent, to $3.5 billion and Community College operating assistance increases by $16.2 million, or 3.7 percent, over SFY 2007-08 to $459.4 million. These increases were offset by a $1.7 million, or .07 percent, reduction in campus operating aid to $2.4 billion. Total Aid to Localities appropriations for CUNY increase $73.6 million, or 6.5 percent, to $1.2 billion from SFY 2007-08 with Community College aid increasing $6.6 million, or 3.4 percent, and Senior College aid increasing $67 million, or 7.1 percent, to $1.0 billion.

The SFY 2008-09 Enacted Budget includes restorations of the Executive's proposed higher education reductions, including $15.4 million for the Tuition Assistance Program, $38.4 million for SUNY operating assistance and $19.6 million for CUNY operating assistance. Restorations are also provided for higher education opportunity programs. SUNY and CUNY tuition is expected to remain at current levels.

Several higher education benefit programs are added or expanded for SFY 2008-09, including:

- Nursing Programs – Funding increase of $4 million to expand nursing education programs for SUNY ($2 million) and CUNY ($2 million).

- Veteran's Benefit – Funding totaling $2 million, raising the veteran's tuition award from $1,000 to the level of the full-time tuition rate at SUNY, a 335 percent increase, with coverage extended to veterans who served in hostilities since 1961.

- Stony Brook Collaborative Research Alliance – New funding of $250,000 to support initial planning for a strategic research partnership involving Stony Brook University, Cold Spring Harbor Laboratory and Brookhaven National Laboratory to create a life sciences and biomedical research cluster.

- Office of Diversity and Educational Equity – Funding increase of $200,000, or 67 percent, to $500,000 for the development and dissemination of demonstrably effective model programs for English language learners.

The SFY 2008-09 Enacted Budget also includes $5.8 billion for SUNY and CUNY capital programs, including more than $4.1 billion for SUNY and $1.6 billion for CUNY. This does not include out-year maintenance. Of these amounts, $1.7 billion of the SUNY allocation and over $1.1 billion of the CUNY allocation is provided for strategic capital projects at senior colleges. A proposed University Capital Projects Review Board was not enacted.

The Executive proposal to fund an endowment for public and private higher education, as well as primary education, through monetization of the State Lottery was not enacted. However, the SFY 2008-09 Enacted Budget does establish an endowment for SUNY and CUNY without a specific source of revenue.

The SFY 2008-09 Enacted Budget does not include an Executive proposal to eliminate existing SUNY and CUNY contracting requirements, which would have allowed these institutions to bypass Office of the State Comptroller review and self-regulate their procurement practices.

Section

11

Health Care

The SFY 2008-09 Enacted Budget projects State financed health care spending of $16.3 billion, which reflects a nearly $629 million, or 4 percent, increase over SFY 2007-08. This spending increase results from a $455 million, or 3.7 percent, year-to-year increase in Department of Health (DOH) Medicaid spending, as well as $160 million, or 4.9 percent, and $14 million, or 68.5 percent, year-to-year increases in spending for DOH public health programs and the Office of the Medicaid Inspector General, respectively.

For DOH Medicaid, the SFY 2008-09 Enacted Budget projects State financed spending of $12.8 billion, compared to $12.4 billion in SFY 2007-08. Taking into account Medicaid spending in other State agencies—the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), the Office of Alcohol and Substance Abuse Services (OASAS), the Office of Children and Family Services (OCFS) and the State Education Department (SED)—State financed Medicaid spending is expected to increase by $465 million, or 3.1 percent, to over $15.6 billion in SFY 2008-09, compared to nearly $15.2 billion in SFY 2007-08.

Much of the year-to-year increase in State financed Medicaid spending results from restorations of certain savings measures proposed in the SFY 2008-09 Executive Budget, offset in part by reductions in projected program growth based mainly on slowing utilization of Medicaid services. The SFY 2008-09 Enacted Budget also delays the process to begin rebasing inpatient hospital costs until the adoption of new legislation in 2010 at the earliest, but reduces State share inpatient hospital rates by $25.8 million and uses the savings to help pay for ambulatory care initiatives proposed in the SFY 2008-09 Executive Budget. The SFY 2008-09 Executive Budget had proposed to begin rebasing in July 2008, completing the process by April 2011.

The following table provides a list of proposed and enacted Medicaid savings and spending actions for SFY 2008-09. The list includes actions taken during negotiations to restore proposed spending reductions, identify new savings and provide new spending. The SFY 2008-09 Enacted Budget adopted $553 million of $663 million net savings and spending actions proposed by the SFY 2008-09 Executive Budget.

SFY 2008-09 Medicaid State Operating Funds Savings/(Costs)
(in millions of dollars)

Provider Type and Proposal	SFY 2008-09 Executive	SFY 2008-09 Enacted
Pharmacy/Medicare Part D Federal Maximization		
Maximize Medicare Part D savings	57.0	57.0
Reduce reimbursement from average wholesale price (AWP) minus 14 percent to AWP minus 17 percent for brand name drugs	33.0	24.7
Remove Family Health Plus pharmacy from managed care	27.0	27.0
Expand clinical drug review program (administrative)	14.0	14.0
Expand preferred drug list (administrative)	13.0	13.0
Control early refills of drugs	6.0	6.0
Expand preferred drug list to include anti-depressants	5.0	0.0
Include preferred drug list drugs in clinical drug review program	4.0	4.0
Explore 340B pricing opportunities	4.0	4.0
Enhance drug utilization review programs	4.0	4.0
Implement specialty pharmacy program for high cost drugs	4.0	4.0
Medication therapy management	1.0	1.0
Academic detailing/physician education	1.0	1.0
Sub-Total	**173.0**	**159.7**
Hospitals/Ambulatory Care		
Implement recommendations of Berger Commission	53.0	53.0
Rebase inpatient hospital rates	41.0	17.9
Reimburse hospitals for detox services on per-diem costs	35.0	2.9
Reduce trend factor by 35 percent	28.0	28.0
Shift Graduate Medical Education (GME) payments from inpatient to outpatient	11.0	11.0
Eliminate payment of “never” events, i.e., serious and costly errors that should never happen	10.0	10.0
Require diagnosis and procedure code on admission	7.0	7.0
Eliminate specialty rates for mental health clinic services	3.0	0.0
Shift services from inpatient to outpatient setting	2.0	2.0
Implement selective contracting for certain services	1.0	1.0
Sub-Total	**191.0**	**132.8**

Provider Type and Proposal	SFY 2008-09 Executive	SFY 2008-09 Enacted
Managed Care		
Reduce Medicaid managed care and Family Health Plus (FHP) premiums by 0.5 percent	15.0	15.0
Reduce Medicaid managed care and FHP premiums for enrollment portal	8.0	8.0
Reduce managed long-term care premium increases by 50 percent	8.0	8.0
Expand mandatory SSI enrollment	2.0	2.0
Expand enrollment of severely and persistently mentally ill individuals into Medicaid managed care	1.0	1.0
Sub-Total	**34.0**	**34.0**
Increase Anti-Fraud Audit Target	**160.0**	**235.0**
Nursing Homes		
Eliminate rebasing transition payments for SFY 2006-07 and SFY 2007-08	85.0	0.0
Reduce trend factor by 35 percent	22.0	22.0
Implement Berger Commission recommendations	10.0	10.0
Sub-Total	**117.0**	**32.0**
Other Long-Term Care		
Certified home health agency efficiencies (e.g., reduce administrative and general costs, freeze base year at 2005 cost level)	20.0	0.0
Reduce personal care services trend factor by 35 percent	8.0	8.0
Implement personal care services utilization demonstration program for New York City	6.0	0.0
Reduce home care trend factor by 35 percent	6.0	6.0
Reduce administrative and general costs for long-term care home health care program	5.0	0.0
Sub-Total	**45.0**	**14.0**
Other Medicaid Proposals		
Enhance provider enforcement actions in OASAS and OMRDD	14.0	14.0
Implement transportation broker contracts for non-emergency transportation services	10.0	0.0
Eliminate payment for COLA for early intervention providers	8.0	8.0
Improve case management for diabetes and asthma patients	7.0	7.0
Improve Medicaid utilization review system	5.0	5.0
Improve prenatal registration and care coordination	1.0	1.0
Sub-Total	**45.0**	**35.0**
Total Savings	**765.0**	**642.5**

Provider Type and Proposal	SFY 2008-09 Executive	SFY 2008-09 Enacted
New Spending		
Increase outpatient hospital care	(31.0)	(13.0)
Increase reimbursement for ambulatory surgery	(26.0)	(10.9)
Increase nursing home rates for worker recruitment and retention	0.0	(15.0)
Increase by $1 dispensing fee for use of generic and brand name drugs on preferred drug list	(9.0)	0.0
Additional funding for rural home care services	0.0	(8.0)
Increase primary care enhancements	(7.0)	(7.0)
Increase reimbursement for physician services in inpatient settings	(5.0)	(5.0)
Increase reimbursement for physician services in clinic settings	(5.0)	(5.0)
Increase reimbursement for office-based physician services	(5.0)	(5.0)
Community health centers information technology and transition funding	0.0	(4.9)
Decrease from $3 to $1 co-payments for use of brand name drugs on preferred drug list	(4.0)	(4.0)
Increase reimbursement for hospital emergency room visits	(3.0)	(3.0)
Additional funding for emergency transportation services	0.0	(3.0)
Ensure coverage for medically needy enrollees	(2.6)	(2.6)
Increase reimbursement for non-hospital clinic services	(2.0)	(0.5)
Remove asset test for Medicare savings program	(2.0)	(2.0)
Diagnostic and treatment center rate increases for recruitment / retention of health care workers	0.0	(0.4)
Extend coverage to foster care children from age 18 to age 21	(0.3)	(0.3)
Sub-Total	**(101.9)**	**(89.6)**
Total Net Savings	**663.1**	**552.9**

The SFY 2008-09 Enacted Budget reflects adoption of the Executive's financially neutral initiative to provide increased budgetary transparency for Medicaid, the largest program in the State's All Funds Budget. Under this initiative, the State Financial Plan recognizes for the first time in DOH's appropriations the State share of Medicaid for OMH, OMRDD and OASAS in DOH's appropriations. The State Financial Plan also identifies the total amount of Medicaid spending (except the share provided by local governments) for every State agency participating in the program, including DOH, OMH, OMRDD, OASAS, OCFS and SED. Total Medicaid spending under the SFY 2008-09 Enacted Budget is projected to be more than $45.2 billion, of which $22.4 billion would be paid by the federal government, $15.6 billion by the State government and $7.2 billion by local governments. However, a series of Medicaid regulations issued or proposed by the federal government could pose significant risks to the State Financial Plan and result in hundreds of million of dollars in reduced federal funding in SFY 2008-09.

The SFY 2008-09 Enacted Budget also extends the Health Care Reform Act (HCRA) for three years, as proposed by the Executive, and projects related spending to increase by $423 million, or 8.7 percent, to nearly $5.3 billion, compared to approximately $4.9 billion in SFY 2007-08. Receipts are also expected to increase by $406 million, or 8.5 percent, to about $5.2 billion in SFY 2008-09, compared to $4.8 billion in SFY 2007-08. The Enacted HCRA Financial Plan projects a closing balance of $471 million by the end of March 2009, which is $126 million, or 21.1 percent, lower than the opening balance of $597 million for SFY 2008-09.

Much of the year-to-year increase in HCRA disbursements results from higher Medicaid spending that HCRA is expected to support in SFY 2008-09. The SFY 2008-09 Enacted Budget projects a $282 million, or 14.4 percent, increase in HCRA Medicaid spending to over $2.2 billion in SFY 2008-09, compared to just under $2 billion in SFY 2007-08. This increase largely depends on higher receipts expected to result from the $1.25 per pack increase in cigarette taxes authorized in the SFY 2008-09 Enacted Budget. Cigarette tax receipts are projected to increase by $321 million, or 56.5 percent, to $889 million in SFY 2008-09. The SFY 2008-09 Enacted Budget also reflects the costs of fully funding the expansion of the Child Health Plus program approved last year, but rejected for funding by the federal government.

The following table compares the Executive's proposed HCRA recommendations with actions contained within the SFY 2008-09 Enacted Budget. Compared to net savings actions of $77 million recommended in the SFY 2008-09 Executive Budget, the SFY 2008-09 Enacted Budget provides for net *additional* spending actions of $78 million in SFY 2008-09.

SFY 2008-09 HCRA Actions
(in millions of dollars - costs to HCRA are in parentheses)

Provider Type and Proposal	SFY 2008-09 Executive	SFY 2008-09 Enacted
Cost Containment		
Reduce existing local assistance programs by 2 percent	0	27
Finance childhood obesity, immunization and newborn programs from insurance assessment screening	22	22
Implement EPIC mandatory generic and prior authorization	19	16
Eliminate funding for nursing home quality improvement	18	18
Increase Child Health Plus family contribution levels	12	0
Delay Child Health Plus expansion from July to September 2008	0	12
Phase out public hospital workforce recruitment and retention grants	12	0
Reduce EPIC pharmacy reimbursement from AWP minus 14 percent to AWP minus 17 percent	7	5
Eliminate Medicare asset test EPIC enrollees	5	5
Enroll eligible EPIC enrollees in qualified individual Medicare savings program	2	2
Revise CHP expansion estimates	2	2
Reduce Family Health Plus premium increase by 0.5 percent	2	2
Re-estimate SFY 2007-08 year-end CHP spending	0	26
Sub-Total	**101**	**137**
New Resources		
Increase tax on cigarettes	0	265
Increase covered lives assessment	190	70
Increase payer/provider compliance audit target	30	30
Conform tax treatment of “little cigars”	2	2
Re-estimate SFY 2007-08 year-end surcharge revenue	0	30
Re-estimate SFY 2007-08 WellPoint conversion proceeds	0	12
Sub-Total	**222**	**409**
New Spending		
Offload related to cigarette tax increase	0	(265)
Offload HCRA savings to General Fund	(185)	(233)
Continue Health Facility Restructuring program	(20)	(20)
Expand eligibility for CHP with State-only funding	(19)	(19)
Impact of for-profit HMO tax reclassification on Family Health Plus, Child Health Plus and Healthy New York programs	(16)	0
Contracts for higher payer/provider compliance audit target	(3)	(3)
Increase EPIC dispensing fee for generic drugs	(2)	0
Administrative costs for EPIC drug discount card	(1)	(1)
Re-estimate SFY 2007-08 year-end spending for Indigent Care, Healthy NY and other HCRA programs	0	(83)
Sub-Total	**(246)**	**(624)**
Total Actions	**77**	**(78)**

State financed public health programs, including about 60 percent of all HCRA spending, increased by almost $160 million, or 4.9 percent, to $3.4 billion in the SFY 2008-09 Enacted Budget, compared to SFY 2007-08. Much of this growth results from higher spending for existing programs like the Elderly Pharmaceutical Insurance Coverage (EPIC) program and various other HCRA-related activities, as well as the cost of several new initiatives, offset by savings actions related to EPIC, the Early Intervention program and across-the board reductions in State Operations and non-entitlement local assistance programs.

Section

12

Mental Hygiene

The SFY 2008-09 Enacted Budget increases State financed mental hygiene spending by $157 million, or 3.9 percent, to nearly $4.2 billion, compared to just over $4 billion in SFY 2007-08. Much of this increase occurs in the three major mental hygiene agencies: Office of Mental Health (OMH), which is expected to see a year-to-year increase in spending of $97 million, or 5.7 percent, to $1.8 billion; Office of Mental Retardation and Developmental Disabilities (OMRDD), increasing by $40 million, or 2.1 percent, to nearly $2 billion in SFY 2008-09; and Office of Alcoholism and Substance Abuse Services (OASAS), by $10 million, or 2.7 percent, to $397 million in SFY 2008-09. For all three agencies, higher spending is related to local program growth, primarily for residential services and community bed expansion, a cost-of-living increase for mental hygiene service programs and State Operations program growth.

The SFY 2008-09 Enacted Budget reflects adoption of many SFY 2008-09 Executive Budget recommendations, but a reduction in projected spending for the Sex Offender Management and Treatment Act (SOMTA). SOMTA provides for the civil confinement of dangerous offenders to either secure hospital care in specialized OMH facilities or supervision and treatment under the authority of the Division of Parole. Excluding fringe benefit costs, the SFY 2008-09 Enacted Budget projects $33 million in SOMTA spending in SFY 2008-09, which is $10 million higher than SFY 2007-08, but $7 million lower than the SFY 2008-09 Executive Budget recommendation, due to re-estimates of lower than expected civil commitments and staffing expenditures.

The SFY 2008-09 Enacted Budget also expands community residential opportunities for OMH and OMRDD consumers, begins to rationalize funding for OMH clinic providers, and expands compulsive gambling prevention programs within OASAS. To offset the costs of these initiatives, the SFY 2008-09 Enacted Budget achieves State Operations efficiencies through vacancy and staffing controls, slows the pace of community program expansion and prevents or recoups overpayments through increased audit activity.

The SFY 2008-09 Enacted Budget Financial Plan also reflects additional savings of $37 million related to 3.35 percent and 2 percent reductions in spending for State Operations and non-Medicaid local assistance programs, respectively, across all three major mental hygiene agencies. In addition, the SFY 2008-09 Enacted Budget reflects a $150 million increase in the State account that is used to pay for fringe benefit expenses of employees in State mental hygiene facilities. Much of the increase in this account is related to proceeds expected to accrue from the sale of two State mental hygiene properties in New York City. Paying for fringe benefit costs with these proceeds reduces General Fund spending by the same amount.

Section

13

Human Services

The SFY 2008-09 Enacted Budget includes language and funding to keep open two of the seven youth detention facilities proposed for closure by the Executive. Great Valley Residential Center in Cattaraugus County and the Pyramid Reception Center in the Bronx will continue to operate.

Child welfare services are provided through the Office of Children and Family Services (OCFS); public assistance is provided through the Office of Temporary and Disability Assistance (OTDA), in large part with an annual $2.4 billion federal block grant in Temporary Assistance for Needy Families (TANF). Of this amount, the SFY 2008-09 Enacted Budget maintains funding for the Flexible Fund for Family Services (FFFS) at $654 million. Each locality must prioritize its needs in determining which support services to fund, as well as the funding levels for these services from its FFFS allocation.

Several sources of funding for the Child Care Block Grant (CCBG) are available in the Enacted Budget, including the General Fund, allocations from localities and federal TANF and child care development fund monies. The SFY 2008-09 Enacted Budget includes a separate TANF allocation for the CCBG of $356 million, bringing the total CCBG to nearly $911 million, reflecting a $5.0 million, or 0.6 percent, increase from SFY 2007-08.

Under the SFY 2008-09 Enacted Budget, several non-OTDA programs formerly funded by TANF are shifted to the appropriate administering agency with General Fund appropriations that maintain funding for these programs at $112 million. This savings, generated by shifting the cost of these programs from TANF to the General Fund, is used to provide an approximate $100 million, or 16.5 percent, increase in the TANF allocation for the Earned Income Tax Credit to $702.5 million.

A number of measures proposed to either shift social services costs from the State to localities or retain savings for the State that have traditionally been realized by localities were not enacted. As a result, the local share of public assistance and for the cost of operating youth detention facilities remains unchanged.

Section

14

Economic Development

The economic development functional area includes the Department of Economic Development (DED), the Empire State Development Corporation (ESDC), which is legally known as the Urban Development Corporation (UDC), and the New York State Foundation for Science, Technology and Innovation. ESDC is integrated for administrative purposes with DED.

Department of Economic Development

The SFY 2008-09 Enacted Budget provides All Funds appropriations of $64.0 million for DED, an increase of $9.1 million, or 16.8 percent, from SFY 2007-2008. The DED Budget includes funding for economic development programs and the tourism and marketing program, as well as other programs.

Appropriations for DED's economic development program increase by a net $2.8 million, or 13.4 percent, over SFY 2007-08 to $23.5 million. All Funds appropriations for the tourism and marketing program increase $4.9 million, or 17.7 percent, above SFY 2007-08 to $33.0 million. The SFY 2008-09 Enacted Budget includes new reporting requirements under which DED must identify activities related to the "I Love NY" brand, including the current marketing plan, target regions, performance and related receipt information, as well as recommendations for improved brand utilization.

Empire State Development Corporation

Under the SFY 2008-09 Enacted Budget, All Funds appropriations for ESDC increase $1.2 billion to $1.3 billion and General Fund appropriations decrease $31.8 million, or 36.9 percent, to $54.2 million from SFY 2007-2008. The All Funds increase reflects new capital spending.

The SFY 2008-09 Enacted Budget mandates a new detailed financial report from ESDC for this fiscal year. The SFY 2008-09 Enacted Budget does not include the Executive's proposal to make ESDC loan authority permanent and instead extends this authority for one year.

Foundation for Science, Technology and Innovation

All Funds appropriations for the Foundation for Science, Technology and Innovation decrease $10.6 million, or 17.5 percent, to $50.1 million from SFY 2007-2008. A large portion of this reduction is attributable to the elimination of $6.5 million in federal appropriations from the Training and Business Assistance Program. The federal contribution will continue directly to the Foundation at the same level as SFY 2007-2008, instead of through the State budget process. Spending for the High Technology program was increased $300,000, or 1.1 percent, over SFY 2007-08, while Research and Development Programs were reduced by $1.2 million, or 12.5 percent, over the prior fiscal year.

The SFY 2008-09 Enacted Budget provides new funding for economic development initiatives totaling nearly $1.3 billion, to be financed through bonds issued by UDC and the Dormitory Authority of the State of New York. Funding is allocated as follows:

Downstate
$ 35 million – Downstate Revitalization Fund
$ 35 million – Downstate Regional Projects
$ 30 million – New York City Waterfront Development
$100 million Subtotal

Upstate
$145 million – Upstate City-by-City
$120 million – Upstate Regional Blueprint Fund
$ 45 million – Luther Forest Infrastructure
$ 40 million – Upstate Agricultural Economic Development Fund
$350 million Subtotal

Statewide
$350 million – Economic Development Assistance Program (Senate)
$350 million – Capital Assistance Program (Assembly)
$ 50 million – Investment Opportunity Fund
$ 35 million – Economic & Community Development
$ 30 million – Arts & Cultural Projects
$ 20 million – Empire State Economic Development Fund
$835 million Subtotal

$1.29 billion Total

Investment Opportunity Fund projects and financing are specifically excluded from review by the Public Authorities Control Board, eliminating the Comptroller's review and comment role. Instead, the SFY 2008-09 Enacted Budget includes the Executive's proposed creation of a new Investment Opportunity Fund Capital Approval Board, comprised of five members, including the Director of the Division of the Budget, the Temporary President of the Senate and the Speaker of the Assembly or their designees as voting members, and one non-voting member each appointed by the minority leaders of the Legislature. Projects must be approved unanimously by the three voting members.

Funding for projects through the Economic Development Assistance Program and the Capital Assistance Program will be made based on an itemized list submitted to the Director of the Budget by the Leaders of the Senate and Assembly, respectively. The funding is considered approved within ten business days unless there is a determination that a project does not demonstrate reasonable economic and social benefit. The approved project list is then subject to approval in the respective house of the Legislature.

Section

15

Transportation

All Funds appropriations for transportation-related initiatives under the SFY 2008-09 Enacted Budget total over $9 billion for SFY 2008-09, an increase of $344.6 million, or nearly 4 percent, over SFY 2007-08. Of this, over $5.2 billion is associated with capital projects, over $3.6 billion with Aid to Localities and $176 million with State Operations costs.

Transportation
Enacted All Funds Appropriations
SFY 2008-09
(in millions of dollars)

Agency	State Operations	Aid to Localities	Capital Projects	Total	Change from 2007-08
DOT	53.1	2,991.8	4,502.1	7,547.0	210.8
DMV	123.2	17.3	221.4	361.9	22.9
Thruway	0.0	0.0	2.0	2.0	0.0
MTA	0.0	636.0	487.0	1,123.0	110.9
Total	**176.3**	**3,645.1**	**5,212.5**	**9,033.9**	**344.6**

Source: New York State Division of the Budget

Capital Plan

The Department of Transportation's (DOT's) Five-Year Capital Plan, originally adopted in 2005, provides $19.2 billion for capital transportation needs through SFY 2009-10. The SFY 2008-09 Enacted Budget increases spending by $300 million in additional federal support, which had been anticipated in the SFY 2008-09 Executive Budget, and provides an increase of approximately $60 million in Consolidated Highway Improvement Program (CHIPs) aid. However, an Executive proposal to add $287 million to support the first two years of a new State and Local Bridge Maintenance Program was not enacted.

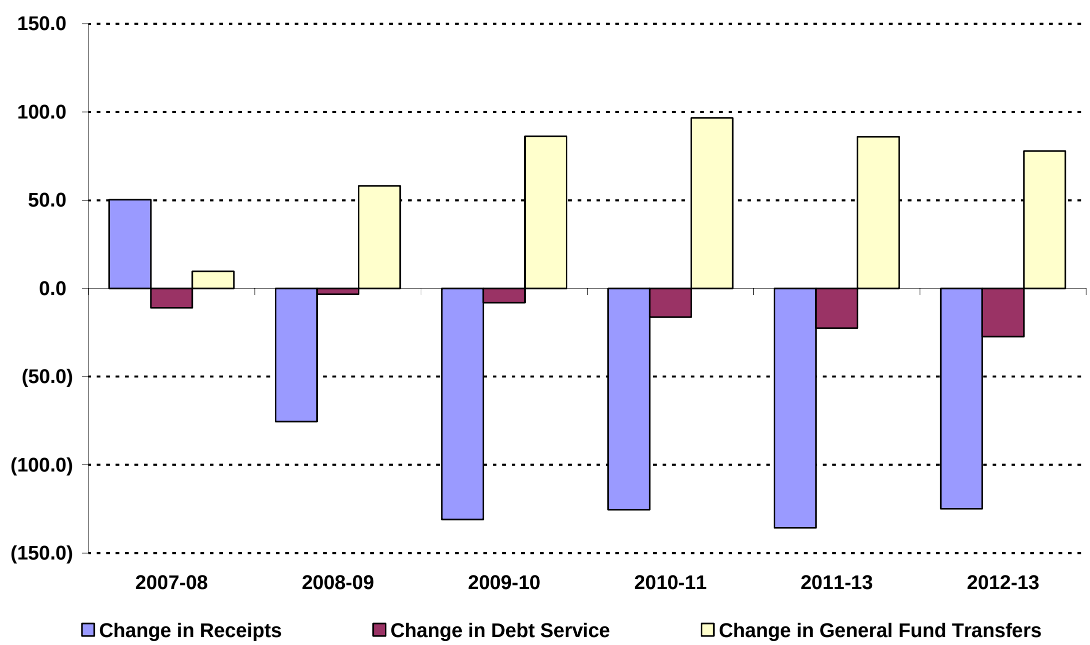
In March, DOT presented a new Five-Year Capital Plan that projects capital spending of $25.7 billion for SFY 2009-10 through SFY 2013-14.[17] The plan acknowledges that the State will need to identify new funding sources in order to pay for this $6.5 billion increase over current capital funding levels.

Dedicated Highway and Bridge Trust Fund

Under the SFY 2008-09 Enacted Budget, disbursements for capital projects and State operations from the Dedicated Highway and Bridge Trust Fund (Fund) are projected to total $2.1 billion in SFY 2008-09. The Fund receives support from six different transportation related taxes and fees and also acts as a conduit for federal funds, General Obligation Bonds, miscellaneous receipts and proceeds from the sale of bonds issued by the Thruway Authority for the State's bridge and highway programs.

As a result of changes contained in the SFY 2008-09 Enacted Budget, including inaction on the Executive's proposed consolidation of petroleum business taxes and

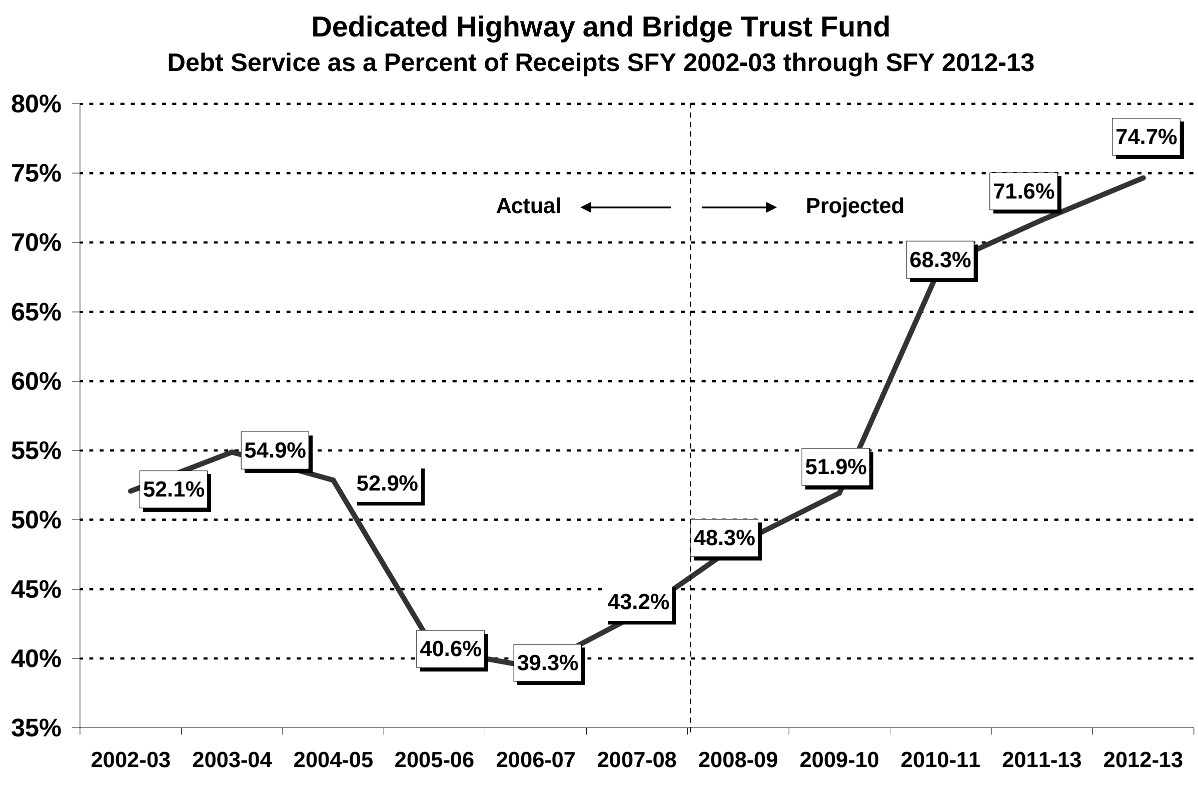
Dedicated Highway and Bridge Trust Fund
Change from Executive to Enacted Budget SFY 2008-09
(in millions of dollars)



[17] The new Department of Transportation capital plan was required by Chapter 384 of the Laws of 2007 but it does not contain the year-by-year detail that is customarily provided in the Division of the Budget's Capital Program and Financing Plans.

the local bridge maintenance program, the Fund will receive $75.5 million less in combined tax and miscellaneous receipts in SFY 2008-09 when compared with the SFY 2008-09 Executive Budget estimate. This loss will total $542.3 million by the end of SFY 2012-13. The Division of the Budget estimates that, as a result of actions taken in the SFY 2008-09 Enacted Budget, the Fund's debt service costs will also fall by $88.4 million during this period. Nevertheless, the Fund will still need an infusion of nearly $2.9 billion from the General Fund through SFY 2012-13, including $192.1 million in SFY 2008-09.

This growing imbalance is closely related to the growing debt burden of the Fund. The New York State Thruway Authority issues two types of bonds in support of Fund activities: one for DOT capital projects and the second for local capital projects funded through CHIPs and Marchiselli aid. The State must pay principal and interest on these bonds using the Fund's dedicated revenues although these revenues are no longer sufficient. As the chart below shows, the amount of Fund revenues that will be obligated to pay the debt service for these two types of bonds is projected to consume nearly three-quarters of all revenues to the Fund by SFY 2012-13.[18]



[18] Actual debt service levels are taken from reports prepared by the Office of the State Comptroller. Projected debt service levels are estimates included in the Division of the Budget's Enacted Capital Plan report.

Section

16

Agriculture/Environment/Housing

The SFY 2008-09 Enacted Budget increases All Funds appropriations for the Office of Parks and Recreation (OPRHP), the Division of Housing and Community Renewal (DHCR), the Department of Agriculture and Markets and the New York State Energy Research Development Authority (NYSERDA), but decreases All Funds appropriations for the Department of Environmental Conservation (DEC). Significant new capital appropriations are included to upgrade State Parks, along with new capital appropriations to increase support for both affordable housing and agriculture. The SFY 2008-09 Enacted Budget also includes a $200 million sweep from the Environmental Protection Fund (EPF) to the General Fund, of which $75 million will be replaced in the EPF with bond proceeds.

Office of Parks Recreation and Historic Preservation

The SFY 2008-09 Enacted Budget includes an All Funds appropriation of $381.6 million for OPRHP, an increase of $82.8 million, or 27.7 percent, over SFY 2007-08. The increase is attributed to $95 million in new bonded funds from the Empire State Development Corporation (ESDC) to the State Parks Infrastructure Fund (SPIF) for new or expanded park facilities and programs. Of this amount, $75.5 million is allocated for capital improvements at State Parks, while the remaining funds are for State Fairground and campground improvements, as well as The Walkway Over the Hudson Project.

Additionally, the SFY 2008-09 Enacted Budget provides $20 million in bonded funds for the Hudson River Park and $10 million in bonded funds for development of park facilities on Governor's Island. The SFY 2008-09 Enacted Budget also authorizes a $5 million sweep from the SPIF to the General Fund.

Department of Environmental Conservation

The SFY 2008-09 Enacted Budget includes $1.1 billion in All Funds appropriations for DEC, a decrease of $40.2 million, or 3.4 percent, from SFY 2007-08. A portion of this decrease is attributed to one-time settlements appropriated in SFY 2007-08, including $26 million in natural resource damage settlements and a $5.4 million settlement with employees involved in law enforcement.

Environmental Protection Fund

The SFY 2008-09 Enacted Budget provides an appropriation of $255 million for the EPF, an increase of $5 million, or 2 percent, over SFY 2007-08. The SFY 2008-09 Enacted Budget creates four new EPF funding categories: solar initiatives, planning the Hudson-Fulton-Champlain Quadricentennial, Catskill Interpretive Center and Agricultural Waste Management.

The SFY 2008-09 Enacted Budget includes a $200 million sweep from the EPF to the General Fund and replaces $75 million with bond proceeds from new Environmental Facilities Corporation (EFC) debt for projects determined to be bondable. The Division of the Budget's SFY 2008-09 Enacted Budget Financial Plan projects the continuation of such sweeps from the EPF in subsequent years, although there is currently no legislation to support these future actions.

Environmental Infrastructure

The SFY 2008-09 Enacted Budget increases the EFC bond cap for funding environmental infrastructure projects by $205 million, or 29 percent, to $698 million over SFY 2007-08.

Division of Housing and Community Renewal

The SFY 2008-09 Enacted Budget provides an All Funds appropriation of $437 million for the Division of Housing and Community Renewal (DHCR), a net increase of $97.5 million, or 28.7 percent, over SFY 2007-08. This reflects an increase of $100 million in DHCR's capital program funding, offset by a $2.5 million decrease in DHCR funding for State Operations and Aid to Localities. The increased capital funds are allocated as follows:

- $31.0 million – Low Income Housing Trust Fund,
- $20.0 million – Affordable Housing Corporation,
- $10.0 million – Homes for Working Families Program,
- $6.5 million – Homeless Housing Grants Program,
- $6.0 million – Rural Area Revitalization Program,

- $5.0 million – Public Housing Modernization Program,
- $5.0 million – Main Street Revitalization Program,
- $5.0 million – Infrastructure Development Demonstration Program,
- $4.0 million – Opportunities for the Elderly Program,
- $4.0 million – Access to Home Program, and
- $3.5 million – Urban Initiatives Program.

Off-Budget Housing Capital Funds

The SFY 2008-09 Enacted Budget transfers $100 million from the State of New York Mortgage Authority (SONYMA) Project Pool Insurance Account to fund the following programs:

- $54 million – New York State Housing Finance Agency Mitchell Lama Rehabilitation and Preservation Program and All Affordable Program,

- $25 million – New York State Housing Trust Fund Corporation (SHTFC) to provide subprime mortgage foreclosure prevention services,

- $15 million – SHTFC-operated Greater Catskills Floor Remediation Program providing grants to Catskill region counties for purchase of homes in flood prone areas, and

- $6 million – Long Island Housing Partnership's Home Ownership and Economic Stabilization for Long Island Program.

Department of Agriculture and Markets

The SFY 2008-09 Enacted Budget includes $201.6 million in All Funds appropriations for the Department of Agriculture and Markets, an increase of $8.4 million or 4.6 percent from SFY 2007-08. This increase is associated with support for local agricultural initiatives.

Agricultural Economic Development Fund

The SFY 2008-09 Enacted Budget appropriates $40 million in the New York State Urban Development Corporation budget to support agricultural economic development projects.

New York State Energy Research and Development Authority

The SFY 2008-09 Enacted Budget includes $31.8 million in All Funds appropriations for NYSERDA, an increase of $2.2 million or 7.6 percent from SFY 2007-08.

Off-Budget NYSERDA Spending

Although NYSERDA receives appropriations from the New York State Budget, as an authority it primarily operates outside of the State Budget process. For SFY 2008-09, the NYSERDA budget includes several sources of off-budget revenues. Orders issued by the New York State Public Service Commission for the System Benefit Charge and the Renewable Portfolio Standard require New York State electric utilities to collect a surcharge on customers' electric bills. Funds collected are transferred to NYSERDA to spend primarily on energy efficiency programs, development of renewable electric generation and research. NYSERDA projects revenues of $239.3 million from these surcharges.

The NYSERDA budget also projects $35 million in revenue from auction of pollution allowances authorized under the federal Clean Air Interstate Rule and the Regional Green House Gas Initiative (RGGI). Collections related to RGGI would be spent on programs to promote energy efficiency technologies and electric generation technologies that either do not emit greenhouse gases or significantly reduce emissions of greenhouse gases.[19]

Article VII Amendments

The SFY 2008-09 Enacted Budget includes amendments to State law as follows:

- State Education Law - to require State University of New York Trustees to give due consideration to projects that improve environmental protection and conservation in the capital planning process.

- State Environmental Conservation Law - to include a 90-day moratorium on acceptance of new applications to the New York State Brownfields Program.

- State Tax Law - to create a tax credit for use of biodiesel for heating. The tax credit is $.01 per percent of biodiesel in heating oil up to $.20 per gallon and applies to taxable years beginning after December 31, 2005 and before January 1, 2012.

- State Environmental Conservation Law - to extend current pesticide registration fees to July 1, 2011.

[19] As authorized by draft regulations (21 NYCRR Part 507).

Section

17

Public Protection

The SFY 2008-09 Enacted Budget provides All Funds appropriations of $5.1 billion for public protection agencies, a reduction of $375.9 million, or 6.9 percent, below SFY 2007-08 levels. Modest increases due to fuel, food and health care costs within the Department of Correctional Services are offset by the loss of $394 million in nonrecurring Federal Disaster funds and associated General Fund program support within the Division of Military and Naval Affairs. The SFY 2008-09 Enacted Budget also includes All Funds appropriations of $2.4 billion for the Judiciary, an increase of $21 million, or 0.9 percent, above SFY 2007-08 levels.

The Executive proposal to close four correctional facilities was not included. The SFY 2008-09 Enacted Budget instead provides $10.7 million for operation of these facilities. In addition, the Executive's proposal to redeploy 92 school resource officers to high crime Operation IMPACT communities was also not enacted.

Article VII Amendments

The current $5 motor vehicle insurance fee was extended through 2009 without the increase of $15 proposed in the SFY 2008-09 Executive Budget. The SFY 2008-09 Enacted Budget provides $48.4 million in additional General Fund support for the State Police to replace the portion of the proposed fee increase that would have supported State Police activities.

While the SFY 2008-09 Enacted Budget does not include authorization for retroactive judicial salary increases, it does provide appropriation authority with language authorizing adjustments to compensation pursuant to a subsequent chapter of the law specifying salary adjustments.

Statewide Wireless Network

The Statewide Wireless Network (SWN) is intended to replace the obsolete communications infrastructure for New York by implementing a statewide radio network for State public safety and public service agencies. SWN is intended to provide interagency and intergovernmental communications—or interoperability, to allow emergency personnel to communicate with one another. Local governments may opt into the system, but will need to purchase and finance their own equipment. The Office for Technology (OFT) awarded a $2.0 billion contract in September 2005 to M/A-COM to design and build the SWN, with completion scheduled for 2010.

In 2005 and in 2007, the Office of the State Comptroller sent letters to the Executive recommending actions to mitigate risks to the SWN contract, which included establishing strong leadership over the entire project and appointing a Quality Assurance Group. Furthermore, the Office of the State Comptroller is committed to a rigorous series of audits and scrutiny of payments associated with SWN.

In addition to the not-to-exceed $2.0 billion price for the SWN infrastructure, other costs will also be incurred:

- SWN Systems Operations Centers (SOCs) estimated at $40 million,
- Land acquisition for SWN of approximately $1 million,
- Radio equipment estimated at $260 million for State agencies ($100 million in equipment acquisition and $160 million in financing costs), and
- Radio equipment estimated at $530 million for local governments to access SWN at their option ($200 million in equipment costs and $330 million in financing costs).[20]

Furthermore, State agencies and SWN authorized users who choose to purchase Computer Aided Dispatch systems (CADs) and pagers will be individually responsible for those costs, as well as for the cost to extend SWN to achieve in-building and/or in-tunnel coverage should this enhanced coverage be desired. While estimates are not available, these extra costs could be substantial, particularly the costs to achieve in-building and/or tunnel coverage. Thus far, SWN has been funded with a portion of the enhanced wireless 911 emergency services (E911) surcharge monies deposited into the Public Safety Communications Account (PSCA). However, OFT and the Division of the Budget (DOB) have acknowledged that the E911 surcharge revenue may not cover all of the annual SWN lease payments.[21]

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[20] Office of the State Comptroller. “Additional Costs.” *Statewide Wireless Network*. December 21, 2006:42-44.

[21] Receipts for the E911 surcharge totaled $152.1 million for SFY 2005-06, $149.3 million for SFY 2006-07 and $186.1 million for SFY 2007-08.

In March 2008, the Office of the State Comptroller issued the first annual report compiling all SWN costs incurred or anticipated by State agencies, public authorities and localities. State and local expenditures totaled $29.8 million in calendar year 2007. Expenditures for SFY 2008-09 are estimated at $64.0 million by these reporting entities.

The Office of the State Comptroller approved a contract OFT awarded for independent verification and validation of the SWN test results on May 7, 2008. Testing on the Primary Region Build-out (PRB) in Chautauqua and Erie counties is scheduled to continue through mid-June, and the State expects to make a decision regarding PERB acceptance in August.

The SFY 2008-09 Enacted Budget appropriates E911 surcharge revenues as follows: $20.6 million for SWN operating costs, representing approximately an $11 million decrease (nearly 35 percent) from SFY 2007-08, and a new capital appropriation of $40 million for State agency subscriber equipment, SOC development and land acquisition. The SFY 2008-09 Enacted Budget does not include a proposal to extend the cell phone surcharge to pre-paid wireless cards.

Section

18

General Government

The General Government functional area includes the budget activities for 19 agencies, including the Department of Audit and Control (Office of the State Comptroller), Office of General Services, State Insurance Department (SID), Office for Technology and the Department of State. The SFY 2008-09 Enacted Budget increases All Funds appropriations for General Government agencies by $143.4 million to nearly $3.0 billion, a 5.1 percent increase from SFY 2007-08.

Department of Audit and Control (Office of the State Comptroller)

Under the SFY 2008-09 Enacted Budget, All Funds appropriations for the Department of Audit and Control total $368.9 million, reflecting an increase of $11 million, or 4.3 percent, from SFY 2007-08. Of this increase, $6 million is for the Indigent Services Fund and $5 million is a Special Revenue appropriation for auditing activities associated with the Abandoned Property Fund, intended to enhance efforts to recover New Yorkers' abandoned property, such as old bank accounts, lost checks and other such monies.

Office for Technology

The SFY 2008-09 Enacted Budget increases appropriations for the Office for Technology by $103 million, or 31.9 percent, over SFY 2007-08 to $426.4 million. Additional funds are for development of the Statewide Wireless Network. The SFY 2008-09 Enacted Budget allows up to $20 million in contractual services funding from the Procurement Program to be transferred to OFT to supplement contractual services in the Centralized Technology Service Account.

The following table summarizes All Funds appropriations for General Government agencies under the SFY 2008-09 Enacted Budget

SFY 2008-09 Enacted Budget
All Funds Appropriations for General Government
(in millions of dollars)

Agency	SFY 2007-08	SFY 2008-09	Dollar Change	Percent Change
Alcoholic Beverage Control	17,038	17,556	518	3.0%
Audit and Control*	353,577	368,934	15,357	4.3%
Banking Department	98,142	99,583.0	1,441	1.5%
Division of Budget	109,261	99,261	(10,000)	-9.2%
Consumer Protection Board	4,438	5,098	660	14.9%
State Board of Elections	39,330	22,326	(17,004)	-43.2%
Executive Chamber	20,700	20,700	0	0.0%
Office of General Services	487,902	499,684	11,782	2.4%
Inspector General	7,015	7,225	210	3.0%
Insurance Department	300,182	340,558	40,376	13.5%
Department of Law	239,992	249,595	9,603	4.0%
Lieutenant Governor	1,378	1,378	0	0.0%
Lottery	132,357	120,314	(12,043)	-9.1%
Commission on Public Integrity	4,946	5,779	833	16.8%
Real Property Services	65,608	66,440	832	1.3%
Office of Regulatory Reform	3,751	3,605	(146)	-3.9%
Department of State	175,036	160,614	(14,422)	-8.2%
Div of Tax Appeals	3,228	3,273	45	1.4%
Taxation and Finance	435,856	450,341	14,485	3.3%
Office for Technology	323,363	426,384	103,021	31.9%
Total	**2,823,100**	**2,968,648**	**145,548**	**5.2%**
State Total	**116,056,415**	**121,606,311**	**5,549,896**	**5.0%**

* Appropriation includes $93.7 million in Fudciary Funds.

Article VII Amendments

The SFY 2008-09 Enacted Budget makes amendments to:

- Require that the Office of General Services (OGS) require contractors to add 0.5 percent to the price of centralized contracts,
- Extend the existing formula for the State's Community Services Block Grant (CSBG) program by one year, and
- Establish a program for the promotion, preservation and enhancement of the State's art collection by the Empire State Plaza Arts Commission.

The following Article VII amendments proposed by the Executive were not included in the SFY 2008-09 Enacted Budget:

- Make permanent the Procurement Stewardship Act (PSA), which expires in June 2008, and expand the roles and membership of the State Procurement Council,
- Create an Office of Indigent Services within the Department of State Local Government and Community Services Program,
- Increase various civil penalties placed on insurers, agents and brokers for violations of Insurance Law and regulations,
- Raise $21.5 million through targeted increases by the Office of Real Property's property transfer, and
- Modify the Executive Mansion Trust Board.

Help America Vote Act

Enacted by the United States Congress in 2002, the Help America Vote Act (HAVA) requires that all states establish a statewide voter registration database (SVRD), provide at least one voting machine accessible to persons with disabilities in each polling place and replace all lever or punch card voting machines.[22]

By accepting federal HAVA funds, New York agreed to replace all lever voting machines in the State by July 2006. New York not only delayed until June 2005 to enact implementing legislation, but it is also the last state in the country to procure new voting machines.

On December 7, 2005, the Office of the State Comptroller sent a letter to the Division of the Budget (DOB), the Board of Elections (BOE) and the Office of General Services (OGS) expressing concern that the State take full advantage of available federal funding for HAVA, as well as protect its citizens' votes. The Comptroller's Office stated its intention to work cooperatively with all parties to execute the necessary contracts in a timely manner in conformance with HAVA.

On January 7, 2006, the Office of the State Comptroller sent a follow-up letter, again offering to assist both BOE and OGS in conducting fair procurements, after an announcement that the United States Department of Justice (DOJ) intended to sue New York State. Subsequently, DOJ did sue the State, but on April 28, 2006 accepted

[22] See Public Law 107-252, October 29, 2002, 107th Congress. Help America Vote Act.

BOE's plan to achieve full compliance with HAVA requirements for the SVRD by Spring 2007 and for voting machines by the 2007 elections.
The SVRD was implemented, but BOE was forced to return to court in late 2007 after failing to procure new voting machines by the deadline and failing to put forth an acceptable revised plan to meet HAVA requirements. After the federal judge threatened to appoint a special master to implement HAVA in New York, BOE submitted a new timeline to the Court, which was accepted and requires at least one machine accessible to voters with disabilities in every polling site for the Fall 2008 elections and the replacement of all lever machines by Fall 2009.

The Office of the State Comptroller expedited its review of the procurements, as requested by BOE, but ensured that both the procurement process and the resultant contract awards were in accordance with Section 163 of the State Finance Law. Under the revised timetable accepted by the Court and ordered on January 16, 2008, the Office of the State Comptroller was required to act on the contracts by February 25, 2008. On February 20, 2008, the Comptroller's Office approved all five contracts submitted for voting machines.

Due to New York's delays, the federal government may require New York to return approximately $50 million of $190 million in federal funding targeted for the purchase of new machines, which poses a risk to the Financial Plan. HAVA requires that interest accumulated on the federal funds be put back into the program; as of March 31, 2008, New York had accumulated nearly $31.6 million in interest on the unspent federal funds.

The SFY 2008-09 Enacted Budget includes a $190 million reappropriation of HAVA funds for the purchase of new voting machines and a $10 million appropriation from the accumulated interest on these funds for the purchase of voting machines that are accessible to voters with disabilities.

Section

19

State Workforce

The SFY 2008-09 Enacted Budget authorizes a total State workforce of 201,700 full-time equivalent (FTE) positions through SFY 2008-09. This represents an increase of 1,416 FTEs over the prior year's workforce total of 199,754. However, the Division of the Budget (DOB) instructed all agencies to prepare agency management plans, due May 16, to recommend funding reductions which may include changes to agency workforce levels.

A detailed examination of agency workforce levels of the SFY 2008-09 Enacted Budget provided in the accompanying table shows that if only on-budget and non-university agencies are included, the total year-to-year increase is expected to be 2,630. This reflects the fact that the actual end of year figure for the SFY 2007-08 for these agencies was 1,179 FTE *lower* than the SFY 2008-09 Executive Budget 21-day estimate. This lower actual level produces a larger year-to-year growth figure than the original SFY 2008-09 Executive Budget estimate and explains the emphasis that DOB places on using estimated workforce levels, rather than actual levels, to calculate year-to-year growth. Although DOB had anticipated that the actual end of year figure would be lower than the sum of individual agency estimates and had included a lump Statewide Estimating Adjustment reduction of 620 in the SFY 2008-09 Executive Budget estimates, this adjustment was actually 559 FTEs too low.

To calculate the adjusted grand total for SFY 2008-09, DOB first makes a lump Statewide Estimating Adjustment, subtracting 530 from the total as of March 31, 2009, bringing the year-to-year growth to 2,100 for on-budget and non-university agencies. A further reduction is achieved by subtracting the anticipated reduction of 684 positions in university and off-budget agencies, leaving the official adjusted grand total of 1,416.

State Workforce Estimates
Changes from SFY 2008-09 Executive Budget to SFY 2008-09 Enacted Budget

Agency	March 2008 (February 2008 Estimate)	March 2008 (Actual)	Difference Estimate to Actual	March 2009 (Executive Budget Estimate)	March 2009 (Enacted Budget Estimate)	Difference Executive to Enacted	Estimated Year-to-Year Growth
Major Agencies							
STATE COMPTROLLER	2,529	2,515	(14)	2,643	2,643	0	128
CHILDREN & FAMILY SERVICES	4,105	3,980	(125)	3,862	3,977	115	(3)
CORRECTIONAL SERVICES	31,756	32,179	423	31,603	31,973	370	(206)
EDUCATION DEPARTMENT	3,174	3,207	33	3,287	3,287	0	80
ENVIRONMENTAL CONSERVATION	3,748	3,779	31	3,752	3,747	(5)	(32)
GENERAL SERVICES	1,751	1,723	(28)	1,776	1,776	0	53
HEALTH	5,784	5,690	(94)	6,040	6,040	0	350
LABOR	3,547	3,393	(154)	3,543	3,497	(46)	104
LAW (ATTORNEY GENERAL)	1,971	1,891	(80)	2,032	2,032	0	141
MENTAL HEALTH	17,094	17,014	(80)	17,257	5,253	(12,004)	(11,761)
Mental Health Medicaid	0	0	0	0	11,914	11,914	11,914
MRDD	22,488	22,579	91	22,640	18	(22,622)	(22,561)
MRDD Medicaid	0	0	0	0	22,569	22,569	22,569
MOTOR VEHICLES	2,829	2,766	(63)	2,943	2,938	(5)	172
PARKS, RECREATION & HISTORIC PRESERVATION	2,244	2,217	(27)	2,276	2,271	(5)	54
PAROLE	2,154	2,151	(3)	2,273	2,205	(68)	54
STATE POLICE	5,989	5,870	(119)	5,989	5,989	0	119
TAXATION AND FINANCE	4,966	4,781	(185)	5,041	5,156	115	375
TEMPORARY & DISABILITY ASSISTANCE	2,305	2,244	(61)	2,305	2,295	(10)	51
TRANSPORTATION	10,271	10,245	(26)	10,593	10,249	(344)	4
WORKERS' COMPENSATION BOARD	1,539	1,504	(35)	1,539	1,539	0	35
SUBTOTAL - MAJOR AGENCIES	**130,244**	**129,728**	**(516)**	**131,394**	**131,368**	**(26)**	**1,640**
Minor Agencies							
ADIRONDACK PARK AGENCY	72	71	(1)	72	72	0	1
ADVOCATE FOR THE DISABLED	0	0	0	0	0	0	0
AGING, OFFICE FOR THE	147	128	(19)	141	141	0	13
AGRICULTURE AND MARKETS	581	619	38	566	582	16	(37)
ALCOHOLIC BEVERAGE CONTROL	165	151	(14)	165	165	0	14
ALCOHOLISM & SUBSTANCE ABUSE	990	957	(33)	1,010	622	(388)	(335)
Alcohol & Substance Abuse Medicaid	0	0	0	0	378	378	378
ARTS, COUNCIL ON THE	55	47	(8)	55	55	0	8
AUTHORITY BUDGET OFFICE	0	0	0	5	5	0	5
BANKING	550	535	(15)	550	545	(5)	10
BUDGET	365	349	(16)	385	365	(20)	16
CAPITAL DEFENDER	7	5	(2)	0	0	0	(5)
CIVIL SERVICE	573	552	(21)	584	584	0	32
CONSUMER PROTECTION	32	31	(1)	39	39	0	8
CORRECTION COMMISSION	35	33	(2)	35	35	0	2
CRIME VICTIMS	103	86	(17)	103	103	0	17
CRIMINAL JUSTICE SERVICES	738	700	(38)	738	738	0	38
DEFERRED COMPENSATION	4	4	0	4	4	0	0
ECONOMIC DEVELOPMENT	215	192	(23)	230	230	0	38
ELECTIONS, STATE BOARD OF	83	60	(23)	83	83	0	23
EMPLOYEE RELATIONS	70	65	(5)	70	70	0	5
ENVIRONMENTAL FACILITIES CORPORATION	100	98	(2)	100	100	0	2
EXECUTIVE CHAMBER	189	168	(21)	189	189	0	21
FINANCIAL CONTROL BOARD	17	16	(1)	17	17	0	1
HIGHER EDUCATION SERVICE	700	689	(11)	700	700	0	11
HOMELAND SECURITY	186	175	(11)	192	192	0	17
HOUSING & COMMUNITY RENEWAL	950	912	(38)	950	950	0	38
HUDSON RIVER PARK TRUST	3	3	0	3	3	0	0
HUMAN RIGHTS	206	197	(9)	208	208	0	11
INSPECTOR GENERAL	70	65	(5)	70	70	0	5
INSURANCE	944	962	18	968	963	(5)	1
INTEREST ON LAWYER ACCOUNT	9	8	(1)	13	13	0	5
JUDICIAL COMMISSIONS	55	37	(18)	55	55	0	18
LABOR MANAGEMENT COMMITTEES	65	60	(5)	65	65	0	5
LIEUTENANT GOVERNOR	15	11	(4)	15	0	(15)	(11)
LOTTERY, DIVISION OF	361	338	(23)	361	361	0	23

Agency	March 2008 (February 2008 Estimate)	March 2008 (Actual)	Difference Estimate to Actual	March 2009 (Executive Budget Estimate)	March 2009 (Enacted Budget Estimate)	Difference Executive to Enacted	Estimated Year-to-Year Growth
Minor Agencies (Continued)							
MEDICAL INSPECTOR GENERAL	526	462	(64)	753	753	0	291
MILITARY AND NAVAL AFFAIRS	652	606	(46)	654	654	0	48
NATIONAL COMMUNITY SERVICE	9	0	(9)	11	11	0	11
NE QUEENS	2	2	0	2	2	0	0
NYSTAR	0	0	0	0	0	0	0
PREVENTION DOMESTIC VIOLENCE	33	29	(4)	33	33	0	4
PROBATION AND CORRECTIONAL ALTERNATIVES	37	35	(2)	37	37	0	2
PUBLIC EMPLOYEE RELATIONS BOARD	37	34	(3)	37	37	0	3
PUBLIC INTEGRITY	57	0	(57)	62	62	0	62
PUBLIC SERVICE	540	539	(1)	540	535	(5)	(4)
QUALITY CARE & ADV. DISABLED	106	98	(8)	124	124	0	26
RACING AND WAGERING BOARD	136	127	(9)	136	136	0	9
REAL PROPERTY SERVICES	392	358	(34)	384	384	0	26
REGULATORY REFORM	36	36	0	36	36	0	0
STATE, DEPARTMENT OF	889	896	7	927	907	(20)	11
STATE LABOR RELATIONS BOARD	0	0	0	0	0	0	0
TAX APPEALS	31	32	1	31	31	0	(1)
TECHNOLOGY	682	594	(88)	702	702	0	108
TSC INVESTIGATION	32	30	(2)	32	32	0	2
TSC LOBBYING	0	0	0	0	0	0	0
VETERANS AFFAIRS	112	112	0	113	113	0	1
WELFARE INSPECTOR GENERAL	10	7	(3)	10	10	0	3
WIRELESS NETWORK	47	37	(10)	47	47	0	10
SUBTOTAL - MINOR AGENCIES	**13,021**	**12,358**	**(663)**	**13,412**	**13,348**	**(64)**	**990**
TOTAL - ALL AGENCIES	**143,265**	**142,086**	**(1,179)**	**144,806**	**144,716**	**(90)**	**2,630**
Estimate Adjustments							
DOB Statewide Estimate Adjustment	(620)	0	620	(620)	(530)	90	(530)
ADJUSTED TOTAL	**142,645**	**142,086**	**(559)**	**144,186**	**144,186**	**0**	**2,100**
Universities and Off-Budget Agencies							
CITY UNIVERSITY	11,315	12,032	717	11,455	11,455	0	(577)
INDUSTRIAL EXHIBIT AUTHORITY	49	0	(49)	49	49	0	49
ROSWELL PARK CANCER INST	1,872	1,872	0	1,947	1,947	0	75
STATE UNIVERSITY CONSTRUCTION FUND	125	112	(13)	135	135	0	23
STATE INSURANCE FUND	2,661	2,616	(45)	2,736	2,736	0	120
SCIENCE, TECHNOLOGY & INNOVATION	30	27	(3)	30	30	0	3
STATE UNIVERSITY	40,627	41,009	382	40,632	40,632	0	(377)
SUBTOTAL - Univ. & Off-Budget	**56,679**	**57,668**	**989**	**56,984**	**56,984**	**0**	**(684)**
ADJUSTED GRAND TOTAL	**199,324**	**199,754**	**430**	**201,170**	**201,170**	**0**	**1,416**
GRAND TOTAL w/o ADJUSTMENT	**199,944**	**199,754**	**(190)**	**201,790**	**201,700**	**(90)**	**1,946**

Appendices

Appendix A: SFY 2008-09 Budget Bills

		Governor's Executive Budget January 22, 2008		21-Day Amendments February 21, 2008		Governor's Resubmittal (See Note)		PASSED		Expected Chapter
Appropriation Bills		**Senate**	**Assem.**	**Senate**	**Assem.**	**Senate**	**Assem.**	**Senate**	**Assem.**	
Public Protection & General Government (PPGG)		6800	9800	6800-A	9800-A	6800-C	9800-C	6800-D 04/04/08	9800-D 04/04/08	**Ch 50**
Legislature and Judiciary		6801	9801	6801-A	9801-A			6801-B 04/09/08	9801-B 04/09/08	**Ch 51**
Debt Service		6802	9802	6802A	9802-A			6802-A 03/12/08	9802-A 03/12/08	**Ch 52**
Education, Labor and Family Assistance (ELFA) *		6803	9803	6803-A	9803-A	6803-C	9803-C	6803-D 04/09/08	9803-D 04/09/08	**Ch 53**
Health and Mental Hygiene (HMH)		6804	9804	6804-A	9804-A	6804-C	9804-C	6804-D 03/31/08	9804-D 03/31/08	**Ch 54**
Transportation, Economic Development & Environmental Conservation (TED)		6805	9805	6805-A	9805-A	6805-C	9805-C	6806-D 04/04/08	9805-D 04/04/08	**Ch 55**

* The ELFA appropriation bill includes amendments to previously enacted appropriation bills (PPG, HMH and TED).

Note: Governor's Resubmittal - Section 3 of Article VII of the State Constitution provides that the Governor may amend the Executive Budget within 30 days after it has been submitted to the Legislature <u>and, with the consent of the Legislature, at any time before the Houses adjourn</u>.

Appropriation Bills: Provide authorizations for State agencies and public authorities to spend.
Article VII/Language Bills: Govern how such appropriations will be administered and financed.

Language Bills **Article VII**		**Senate**	**Assem.**	**Senate**	**Assem.**	**Senate**	**Assem.**	**Senate**	**Assem.**	**Expected Chapter**
Public Protection and General Government (PPGG)		6806	9806	6806-A	9806-A			6806-C 04/04/08	9806-C 04/04/08	**Ch 56**
Education, Labor and Family Assistance (ELFA) **Temporary Loans, Sweeps & Transfers**		6807	9807	6807-A	9807-A			6807-C 04/09/08	9807-C 04/09/08	**Ch 57**
Health, Mental Hygiene (HMH)		6808	9808	6808-A	9808-A			6808-C 04/01/08	9808-C 04/01/08	**Ch 58**
Transportation, Economic Development and Environmental Conservation (TED)		6809	9809	6809-A	9809-A			6809-C 04/04/08	9809-C 04/04/08	**Ch 59**
Taxes/Revenue		6810	9810	6810-A	9810-A			Merged into ELFA language	Merged into ELFA language	**Ch 60**

Appendix B: Appropriation Summary

Appropriations reflect statutory authority to spend during a specific State Fiscal Year for the program or purpose designated. They provide an upper limit, or maximum, for spending for the program or purpose designated. Anticipated spending from the appropriations is provided in the Financial Plan, which provides a comprehensive estimate of the State's revenue and spending needs for the current State Fiscal Year and three subsequent fiscal years. For Local Assistance appropriations, spending typically is close to the amount of appropriations. For other categories of spending, including State Operations, Capital Projects and Debt Service, spending may be below the amounts appropriated.

The following summarizes new appropriations by spending category. The tables do not include contingency appropriations, reappropriations or member item appropriations.

Summary of New Appropriations SFY 2008-09 – By Spending Category
Enacted Compared to SFY 2007-08
(in millions of dollars)

	Enacted SFY 2007-08	Enacted SFY 2008-09	Dollar Change From SFY 2007-08	Percent Change From SFY 2007-08
State Operations	33,740	31,975	(1,765)	-5.23%
Local Assistance	91,457	98,946	7,489	8.19%
Capital Projects	8,431	15,288	6,858	81.34%
Debt Service	9,302	9,298	(4)	-0.04%
Total	**142,930**	**155,507**	**12,578**	**8.80%**

Note: Totals may not add due to rounding.

Summary of New Appropriations SFY 2008-09 – By Spending Category
Enacted Compared to Executive Proposal
(in millions of dollars)

	Executive Proposed (21-Day) SFY 2008-09	Enacted SFY 2008-09	Dollar Change From Executive	Percent Change From Executive
State Operations	31,734	31,975	241	0.76%
Local Assistance	98,342	98,946	604	0.61%
Capital Projects	15,333	15,288	(45)	-0.29%
Debt Service	9,298	9,298	-	0.00%
Total	**154,707**	**155,507**	**800**	**0.52%**

Note: Totals may not add due to rounding.

The following charts summarize new appropriations by Budget Bill.

Summary of New Appropriations SFY 2008-09 – By Appropriation Budget Bill
Enacted Compared to SFY 2007-08
(in millions of dollars)

	Enacted SFY 2007-08	Enacted SFY 2008-09	Dollar Change From SFY 2007-08	Percent Change From SFY 2007-08
Public Protection	11,536	10,413	(1,123)	-9.73%
Health and Mental Hygiene	54,835	59,347	4,512	8.23%
Education, Labor & Family Assistance	53,064	60,362	7,298	13.75%
Transportation, Economic Development and Environment	11,566	13,433	1,867	16.14%
Legislature*	221	228	7	3.17%
Judiciary*	2,405	2,426	21	0.87%
Debt Service	9,302	9,298	(4)	-0.04%
Total	**142,930**	**155,507**	**12,578**	**8.80%**

* The appropriations for the Legislature and Judiciary are contained within a single Budget Bill.
Note: Totals may not add due to rounding.

Summary of New Appropriations SFY 2008-09 – By Appropriation Budget Bill
Enacted Compared to Executive Proposal
(in millions of dollars)

	Executive Proposed (21 Day) SFY 2008-09	Enacted SFY 2008-09	Dollar Change From Executive	Percent Change From Executive
Public Protection	10,190	10,413	223	2.19%
Health and Mental Hygiene	59,081	59,347	266	0.45%
Education, Labor & Family Assistance	59,885	60,362	477	0.80%
Transportation, Economic Development and Environment	13,504	13,433	(71)	-0.52%
Legislature*	228	228	-	0.00%
Judiciary*	2,521	2,426	(95)	-3.77%
Debt Service	9,298	9,298	-	0.00%
Total	**154,707**	**155,507**	**800**	**0.52%**

*The appropriations for the Legislature and Judiciary are contained within a single Budget Bill.
Note: Totals may not add due to rounding.

Appendix C: Summary of Article VII Bill Sections SFY 2008-09

Public Protection and General Government (PPGG) Article VII (S.6806-C A.9806-C)

Subject	Executive Budget	Enacted C Print	Comments
Empire Plaza Arts Commission powers	A	A	Adopted as proposed
Executive Mansion Trust Board composition	B	Omitted	
Create Office of Indigent Defense Services	C	Omitted	
Witness Protection Program	D	D	Local match eliminated
Judicial salary increases	E	Omitted	
Procurement provisions	F	F	Centralized contract fee adopted; amendment to make PSA permanent eliminated; change in Procurement Council membership eliminated
State Commission on Investigation extender	G	G	Amended by Legislature; one year extender
Extend wireless phone surcharge to prepaid cell phones	H	Omitted	
Civil Service cost recovery for supervision of local provisional employee reductions	I	I	Amended by Legislature to remove proposed $600,000 cap
Expand Criminal Justice Improvement Acct	J	Omitted	
Nuclear power plant security reimbursement	K	Omitted	
Medical parole statute	L	Omitted	
Vehicle insurance fee increase	M	M	$15 increase rejected; existing $5 fee extended to July 1, 2009
Modify IOLA board member responsibilities	N	Omitted	
AIM program reforms	O	O	Eliminates consolidation incentive aid; includes Office of the State Comptroller data reporting requirements and independent audit/corrective action plan requirements; spinups added
Local government revenue options	P	Omitted	
"Wicks Law" Reform - Public works procurement practices	Q	ELFA - MM	Moved to ELFA Article VII bill, raises threshold from $50k to: $3m New York City; $1.5m LI and Westchester; $500k elsewhere. PLA triggers Wicks exemption.
State aid to muncipalities where video lottery facilities are located	R	Omitted	
New York City Financial Control Board extender and changes to its authority	S	Omitted	
Reform local property tax admin	T	Omitted	
Enact Local Govt Efficiency Commission recs	U	Omitted	
Loans, transfers, bond caps	V	ELFA - RR	Moved to ELFA Art VII bill
NYSHIP amnesty program	W	W	Adopted as proposed
District Attorney loan forgiveness program		X	New to Enacted Budget
Fees imposed for youthful offender finding		Y	New to Enacted Budget
Assembly member in-lieu-of payments		Z	Extended through 2010
Legislative payments provisions		AA	Extended through June 2009
Suballocation of legislative funds		BB	New to Enacted Budget
OCA criminal record search fees		CC	New to Enacted Budget
Criminal conviction fee surcharges		DD	New to Enacted Budget
Motor vehicle violation fee surcharges		EE	New to Enacted Budget

Education, Labor and Family Assistance (ELFA) Article VII (S.6807-C A.9807-C)

Subject	Executive Budget	Enacted C Print	Comments
Contracts for Excellence accountability	A	A	Amended by Legislature
Foundation Aid phase-in	B	B	Adopted as proposed
Healthy Schools Act	C	Omitted	
SUNY and CUNY regulatory flexibility	D	Omitted	
Monetize Lottery	E	Omitted	
Modify TAP eligibility criteria	F	Omitted	
Recoup physicians license renewal costs	G	G	Adopted as proposed
SLATE Act enforcement	H	Omitted	
Extend Regents Professional Opportunity and Health Care Professional Opportunity scholarships through SFY 2008-09 school year	I	I	Adopted with minor scholarship eligibility change.
SERB member pay to be per diem	J	Omitted	
Extend UI surcharge through 2009	K	K	Adopted as proposed
Create Univ Capital Projects Review Board	L	Omitted	
HESC access to T&F info	M	M	Adopted as proposed
Tuition assistance for veterans	N	N	Amended to expand Vietnam Vets aid
Optional Retirement Program Investment options	O	Omitted	
Clarify 2007 provision relating to SUNY/CUNY/CC optional retirement program	P	P	Adopted as proposed
Permit middle class STAR rebate offsets	Q	Q	Adopted as proposed
Eliminate New York City STAR for high income	R	R	Adopted as proposed
Delay middle class STAR increase	S	S	Adopted as proposed
Create SERB arbitration fee	T	Omitted	
Eliminate State reimbursement for local detention facilities	U	Omitted	
OTDA access to T&F data	V	Omitted	
STAR floor adjustment from 5 percent to 10 percent	W	W	Adopted as proposed
SSI COLA pass-through	X	X	Adopted as proposed
Modify State and local welfare cost shares	Y	Omitted	
Child support service fees	Z	Z	Adopted with slight modifications
OCFS and OTDA reporting requirements	AA	AA	Adopted as proposed
OCFS demo project		BB	New to Enacted Budget
Family Court Act alternatives to detention		DD	New to Enacted Budget
OCFS caseworker ratio reports		EE	New to Enacted Budget
OCFS juvenile justice youth services reports		FF	New to Enacted Budget
Environmental projects improvements		GG	New to Enacted Budget; SUNY/CUNY to identify capital projects that improve the environment
Higher ed high need nursing aid		HH	New to Enacted Budget
Prohibit OCFS from closing Great Valley and Pyramid centers		II	New to Enacted Budget
Municipal special aid and incentives		KK	New to Enacted Budget - New York City: $81.9m before 6/13/2009 and $245.8m before 12/15/2009; $328m before 12/15 every year thereafter
New York State higher education endowment		LL	New to Enacted Budget

Education, Labor and Family Assistance Article VII (S.6807-C A.9807-C) Continued

Subject	Executive Budget	Enacted C Print	Comments
"Wicks Law" Reform - Public works procurement practices	PPGG - Q	MM	Moved from PPGG Art VII bill, raises threshold from $50k to: $3m New York City; $1.5m LI and Westchester; $500k elsewhere. PLA triggers Wicks exemption.
New York State Mortgage Agency (SONYMA) transfers		NN	New to Enacted Budget; $100 million added for housing projects
Technical amendments to Health/Mental Hygiene Article VII bill		OO	New to Enacted Budget; also establishes medical home demo program in Nassau and Onondaga; repeals cap on State payments for local Medicaid administration
UDC investment opportunity fund	TEDE - V	PP	Moved from TEDE Art VII bill
Upstate Regional Blueprint Fund	TEDE - CC	QQ	Creates two new funds controlled by Legislative Leaders
Loans, transfers, bond caps	PPGG - V	RR	Moved from PPGG Art VII bill
Restructure LLC joint venture fees and taxes	Rev - S	AA-1	Amended by Legislature
Require New York State taxpayers to pay fees charged by Fed and other states for offsetting tax refunds	Rev - N	BB-1	Adopted as proposed
Tax shelter voluntary compliance initiative	Rev - Z (Subpart A)	CC-1	Amended by Legislature
Tax penalty extender	Rev - Z (Subpart D)	DD-1	Extended to July 1, 2011
Certain banks to be subject to Article 32 tax	Rev - Y	EE-1	Amended by Legislature
Captive REIT taxation	Rev - U	FF-1	Amended by Legislature
Capital base cap tax rate	Rev - J	GG-1	Amended by Legislature
Federal adjusted gross income addition	Rev - I	HH-1	Adopted as proposed
Extend MTA business tax surcharge	Rev - R	II-1	Adopted as proposed
Increase first estimated business tax payment from 25 percent to 30 percent	Rev - V	JJ-1	Adopted as proposed
Non-profits required to collect sales tax on on-line and mail orders	Rev - L	KK-1	Adopted as proposed
T&F reregistration program	Rev - Z (Subpart E)	LL-1	Amended by Legislature
Classify little cigars as cigarettes	Rev - CC	MM-1	Amended by Legislature
Off-premises alcoholic beverage consumption		NN-1	New to Enacted Budget
"Amazon tax" - sales tax presumption	Rev - X	OO-1	Adopted as proposed
Multiple dwelling owner obligations; STAR	Rev - A	PP-1	Amended by Legislature
Tobacco snuff taxation		QQ-1	New to Enacted Budget
Cigarette tax increase		RR-1	New to Enacted Budget
New York City sales taxes	Rev - BB	SS-1	Amended by Legislature
ABC tax enforcement	Rev - Z (Subpart C)	TT-1	Amended by Legislature
Electronic filing of certain tax documents		UU-1	New to Enacted Budget
Brownfields Cleanup Program		VV-1	New to Enacted Budget; proposed reform (Rev - Parts D & E) rejected; 90-day moratorium imposed
Increase film production tax credits	Rev - W	WW-1	Amended by Legislature; credit increased to 30 percent; aggregate amounts increased in out-years
Low-income housing credit increase	Rev - M	XX-1	Adopted as proposed
Investment tax credits		YY-1	New to Enacted Budget
Extend taxi and limo disability access credit	Rev - Q	ZZ-1	Adopted as proposed
Bioheat tax credits	Rev - AA	AAA-1	Adopted as proposed; heating fuel tax credit of up to $0.20 per gallon
Real estate finance bureau fund		BBB-1	New to Enacted Budget
DED responsibilities regarding Empire Zone wage tax credit		CCC-1	New to Enacted Budget

Health and Mental Health (HMH) Article VII (S.6808-C A.9808-C)

Subject	Executive Budget	Enacted C Print	Comments
Public Health cost savings measures	A	A	Restorations to the EPIC program and various other modifications and deletions
Extend HCRA for three years	B	B	Reduces increase in covered lives assessment; various restorations and other modifications
Medicaid - health insurance access & cost containment	C	C	Various restorations, modifications, deletions and additions.
Make permanent OASAS responsibility for gambling programs	D	D	Adopted as proposed
Permit higher reimbursement for Medicare/Medicaid dual eligibles	E	E	Adopted as proposed
Extend Comprehensive Psychiatric Emergency Program to July 2012	F	F	Adopted as proposed
Limit Medicaid reimbursement for hospital outpatient mental health services to $67.50 per visit	G	Omitted	
Authorize OASAS, OMH, OMRDD to participate in financing integrated housing by volunary agencies	H	H	Adopted as proposed
Extend human services COLA eligibility updates for three years	I	I	Changes method for determining or calculating the COLA for periods from April 2008 through March 2012

Transportation, Economic Development and Environment (TEDE) Article VII (S.6809-C A.9809-C)

Subject	Executive Budget	Enacted C Print	Comments
CHIPS and Marchiselli	A	A	Amended by Legislature; $60 million CHIPS add
EPF uses	B	B	Amended by Legislature; $125 million transfer; Exec Budget langauge removed
Bus consortium	C	Omitted	
Extend DOT single audit prog	D	D	Amended by Legislature; one-year extender
DHBTF reporting language	E	Omitted	
Commercial license disqualifications	F	Omitted	
WHTI license & ID card fees	G	G	Adopted as proposed
DMV violations bureau Buffalo	H	Omitted	
DOT plans deposit return	I	Omitted	
Local Bridge Program	J	Omitted	
Highway Law disincentive	K	Omitted	
Traffic congestion mitigation fund	L	Omitted	
Ag & Markets violations	M	Omitted	
Ag & Markets food-based inspec	N	Omitted	
PA centralized services assessment	O	O	Amended by Legislature to raise tax assessment $15 million to $55 million, $5 million over Executive Budget
Recovery of IDA costs	P	Omitted	
Sec State expedited handling fees	Q	Q	Amended by Legislature; one-year extender
CSBG conformity	R	R	Amended by Legislature; one-year extender
utility and cable assessments	S	S	Adopted as proposed
NYSERDA transfer $913,000 to GF	T	T	Adopted as proposed
NYSERDA assessments	U	U	Adopted as proposed
Create Investment Opportunity Fund	V	ELFA - PP	Moved to ELFA Art VII bill
UDC loan powers	W	W	Amended by Legislature; one-year extender
Insurance Law violations	X	Omitted	
Power for Jobs extension	Y	Y	Amended by Legislature; one-year extender; electricity discount program rejected
Create Housing Opportunity Fund	Z	Omitted	
Seneca Casino local share	AA	Omitted	
Javits Center amendments	BB	Omitted	
Omnibus Econ Dev Invest Act	CC	ELFA - PP	Moved to ELFA Art VII bill
PASNY deposit $8 million to OPRHP	DD	DD	Adopted as proposed
Clean Air Act fees	EE	Omitted	
Pesticide registration fees	FF	FF	Amended by Legislature; three-year extender
Bottle Bill expansion	GG	Omitted	
Require comprehensive ESDC fin plan		HH	New to Enacted Budget
Neighborhood preservation contracts		II	New to Enacted Budget; contract limit increased to $104,500
Business Marketing Program		JJ	New to Enacted Budget
ESDC sunset extender		KK	New to Enacted Budget
Power Authority restitutionary programs		LL	New to Enacted Budget
Extend Community Projects Fund		MM	New to Enacted Budget
I Love NY report		NN	New to Enacted Budget
Municipal landfill gas management program		OO	New to Enacted Budget; colleges to be considered municipalities

Revenue Article VII (original S.6810 A.9810), merged into ELFA)

Subject	Executive Budget	Enacted Budget	Comments
Multiple dwelling owner obligations, STAR	A	ELFA PP-1	Moved to ELFA Art VII Bill
Make seven-day alcohol license law permanent	B	Omitted	
Tax malt beverages at low-liquor rate	C	Omitted	
Brownfields Cleanup Program tax credit reform	D	ELFA VV-1	Executive proposal rejected; Legislature imposes 90-day moratorium
Reform Brownfields Cleanup Program	E		
Repeal private label credit card law	F	Omitted	
Require tax stamp on illegal drugs	G	Omitted	
Petroleum/motor fuel tax consolidation	H	Omitted	
Decouple from Fed QPAI deduction	I	ELFA HH-1	Moved to ELFA Art VII Bill
Reduce corp franchise tax capital base rate	J	ELFA GG-1	Moved to ELFA Art VII Bill
Include for-profit HMOs as insurance corps subject to Art 33 premiums tax	K	Omitted	
Require non-profit organizations to collect sales tax on on-line and mail orders	L	ELFA KK-1	Moved to ELFA Art VII Bill
Additional $4 million low-income housing credits	M	ELFA XX-1	Moved to ELFA Art VII Bill
Require New York State taxpayers to pay fees charged by Fed and other states for offsetting tax refunds	N	ELFA BB-1	Moved to ELFA Art VII Bill
Clarify T&F Commissioner powers under Highway Use Tax law	O	Omitted	
Amend determination of residency status in Tax Law and New York City Admin. Code	P	Omitted	
Extend taxi and limo disability access credit	Q	ELFA ZZ-1	Moved to ELFA Art VII Bill
Extend MTA business tax surcharge	R	ELFA II-1	Moved to ELFA Art VII Bill
Restructure LLC joint venture fees and taxes	S	ELFA AA-1	Moved to ELFA Art VII Bill
Include NY real property gains as NY income	T		
Eliminate remaining REIT loopholes	U	ELFA FF-1	Moved to ELFA Art VII Bill
Increase first estimated business tax payment from 25 to 30 percent	V	ELFA JJ-1	Moved to ELFA Art VII Bill
Increase film production tax credits	W	ELFA WW-1	Moved to ELFA Art VII Bill
"Amazon tax" - sales tax presumption	X	ELFA OO-1	Moved to ELFA Art VII Bill
Classify certain credit card companies as taxpayers under Art 32	Y	ELFA EE-1	Moved to ELFA Art VII Bill
Comprehensive program to encourage voluntary disclosure and to increase compliance	Z	Subparts B, F, G Omitted	Part Z Subpart A became ELFA Part CC-1 Part Z Subpart C became ELFA Part TT-1 Part Z Subpart D became ELFA Part DD-1 Part Z Subpart E became ELFA Part LL-1
Bioheat tax credits	AA	ELFA AAA-1	Moved to ELFA Art VII Bill
Continues New York City sales tax to 8/1/2008	BB	ELFA SS-1	Moved to ELFA Art VII Bill
Classify little cigars as cigarettes	CC	ELFA MM-1	Moved to ELFA Art VII Bill
Belmont Park video lottery authorization	DD	Omitted	
Narrow the use tax exemption	EE	Omitted	

Appendix D: Timeline for the SFY 2008-09 Enacted Budget

- **October 30, 2007: Mid-Year Financial Plan Update released.** The Division of the Budget (DOB) revises the SFY 2007-08 tax revenue forecast downward by $500 million and revises the SFY 2008-09 General Fund budget gap upward by $651 million, to $4.3 billion from the $3.6 billion gap projected in July 2007. These adjustments reflect the impact of State and national economic weakness on the budget.

- **November 5, 2007: Quick Start budget process.** The Governor, Legislature and Comptroller meet to discuss receipts and disbursement estimates for the current and ensuing fiscal years. Consensus is that the State is facing a period of economic uncertainty with the potential to negatively impact State revenue.

- **January 22, 2008: Executive Budget released.** The Executive proposes a $124 billion budget, proposes actions to close a $4.6 billion budget gap for SFY 2008-09, and revises SFY 2007-08 revenue and spending estimates downward by over $2 billion each from the Enacted Financial Plan to reflect the continuing economic decline and a reduction in federal grants.

- **January 28 through February 13, 2008: Budget Hearings conducted.** The Joint Fiscal Committees of the Assembly and Senate hold public hearings on the Executive Budget.

- **February 21, 2008: Executive 21-Day Amendments released.** The Executive revises revenue estimates significantly downward. Projected SFY 2007-08 Personal Income Tax receipts are lowered by $150 million and overall SFY 2008-09 General Fund receipts are lowered by $350 million. Additional cost savings measures totaling over $235 million are proposed for SFY 2008-09.

- **February 26, 2008**: **Economic and Revenue Consensus Process begins.** The Assembly expresses belief that the country is in a recession and projects All Funds net revenue for SFY 2007-08 and SFY 2008-09 to be $615 million less than the Executive, reflecting weaker personal and corporate income tax collections. The Senate projects All Funds net revenue for SFY 2007-08 and SFY 2008-09 to be $133 million more than the Executive's estimates.

- **February 29, 2008: Revenue Consensus is reached.** The Legislature and the Governor agree that the weaker economic outlook reached in economic consensus should result in estimated General Fund receipts that are net $250 million lower for SFYs 2007-08 and 2008-09 than the amounts projected in the Executive Budget.

- **March 12, 2008**: **Governor Spitzer resigns effective March 17.**

- **March 14, 2008: Joint Budget Conference Committee members named.** Legislature releases list of members appointed to the General Conference Committee and each of the Joint Budget Subcommittees for SFY 2008-09.

- **March 17, 2008: Lieutenant Governor David A. Paterson sworn in as Governor.** Senate and Assembly complete passage of one house budget bills through the week.

- **March 18, 2008: Legislative Leaders sign joint certificate.** Certificate authorizes Joint Conference Committee on the Budget, effective until the earlier date of when final budget subcommittee reports are submitted or March 31, 2008.

- **March 18, 2008: Governor advances $800 million in across the board spending cuts at public five-way Leaders' Meeting.** The Governor proposes an across-the-board 2 percent reduction in State operating and Local Assistance spending, excluding education and certain other entitlement programs.

- **March 27, 2008: Governor and Legislative Leaders announce Budget framework.** After several days of closed door negotiations, Leaders announce agreement on a tentative framework for a $124 billion budget.

- **March 28, 2008: General Conference Committee meets.** Joint Budget Conference subcommittees are provided with table targets and begin meeting.

- **March 31, 2008: Joint certificate authorizing Joint Budget Conference Committee lapses. Legislature begins passage of major spending bills.** Health and Mental Hygiene passes first (March 31), followed by Public Protection and General Government (April 4), and Transportation, Economic Development and Environmental Conservation (April 4). Certain major actions proposed by Executive in these bills remain unaddressed.

- **April 9, 2008: Final 2008-09 budget bills pass both Houses.** The Education, Labor and Family Assistance budget bills are passed. The bills include chapter amendments and other provisions affecting each of the other budget bills passed earlier in the week. After a base adjustment to reflect lower than expected revenue and spending estimates for SFY 2007-08 and SFY 2008-09, All Funds spending is projected by DOB to total $121.7 billion for SFY 2008-09.

- **April 9, 2008: Preliminary SFY 2007-08 closeout figures released.** Comptroller DiNapoli releases preliminary year-end revenue and spending numbers that show General Fund receipts up $1.7 billion while spending was up $1.8 billion, or 3.5 percent, over SFY 2006-07.

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