City of New York
State Budget Initiatives and Analysis of Executive Budget

State Fiscal Year 2006-2007

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New York City Analysis of the SFY 2006-2007 Executive Budget

Impact of 2006-07 Executive Budget on NYC Financial Plan

($ in millions)

	2006	2007	2008
Revenue and Tax Administration			
$0.50 Increase in the NYC Cigarette Tax[1]	$ -	$ 36.0	$ 35.0
2 Weeks Sales Tax Exemption - Clothing/Footwear $250 and under	$ -	$ (12.0)	$ (12.0)
Standard Deduction Increase for Married Filers	$ -	$ (7.0)	$ (7.0)
Extension of REIT RPTT Reduced Tax Rate	$ (2.3)	$ (3.0)	$ (3.0)
Energy Star Two Sales Tax Free Weeks	$ -	$ (2.3)	$ (2.3)
Personal Income Tax and STAR Administration Costs	$ -	$ (1.4)	$ (1.4)
Revenue and Tax Admin. Subtotal	$ (2.3)	$ 10.3	$ 9.3
Health and Social Services			
NYC Allocation for the Flexible Fund for Family Services (TANF Surplus Block Grant)	TBD	TBD	TBD
Increase Article VI State Reimbursement Rate from 30% to 36% for Optional Services	$ -	$ 1.9	$ 4.0
Early Intervention Reform--Utilize 3rd Party Payors	$ -	$ 1.7	$ 1.7
Reduce Personal Needs Allowance for Safety Net Recipients in Drug or Alcohol Rehab	$ -	$ 1.5	$ 1.5
Increase in Article VI Per Capita Base Amount	$ -	$ 0.3	$ 0.5
COLA for Early Intervention Providers	$ -	$ (2.5)	$ (3.5)
Social Services Subtotal	$ -	$ 2.9	$ 4.2
Medicaid--Impact to HHC			
Inpatient Hospital Rate Freeze, Reduction of Inpatient Detox Rates to Out Patient Rate, Reduction in Graduate Medical Education Reimbursement Rate, Reduction in Rates for Large Skilled Nursing Home Facilities			
HHC Subtotal	$ -	($150.0)	($150.0)
Miscellaneous			
Collateral Source	$ -	$ 30.0	$ 30.0
Additional Transportation Aid for Buses	$ 1.7	$ 6.9	$ 6.9
Debt Service Savings Associated with Wick's Law Repeal	$ -	$ 5.8	$ 21.8
Increased Staten Island Ferry Subsidy	$ 1.0	$ 3.9	$ 3.9
Increased Reimbursement Rates from $34 to $40 a day for State Prisoners	$ 0.8	$ 3.3	$ 3.3
Additional DNA Processing Funds	$ -	$ 3.0	$ 3.0
Reduce the Interest on Judgments	$ -	$ 3.0	$ 3.0
Increase in Consolidated Local Street and Highway Improvement Program (CHIPS)	$ -	$ 1.4	$ 1.4
Wireless Surcharge on Prepaid Accounts	$ 0.2	$ 0.6	$ 0.6
Transfer Jurisdiction to Court of Claims	$ -	$ 0.2	$ 0.5
Rent Regulation Administration	$ (0.2)	$ (0.7)	$ (0.7)
Elimination of Local Administration Funding for Empire Zones	$ -	$ (0.3)	$ (0.3)
Miscellaneous Subtotal	$ 3.5	$ 57.1	$ 73.4
Impact to NYC Financial Plan	**$ 1.3**	**$ (79.8)**	**$ (63.1)**
Education (over current year)			
School Aid Formula	$ -	$ 103.9	$ 103.9
Less Bond Bank	$ -	$ (40.0)	$ (40.0)
Sound Basic Education Grant (40% share)	$ -	$ 150.0	$ 150.0
Education Sub-Total	**$ -**	**$ 213.9**	**$ 213.9**
Grand Total	**$ 1.3**	**$ 134.2**	**$ 150.9**

[1]The City maintains a revenue risk of approximately $20 million associated with the proposed change in the structure of the NYC Cigarette Tax.

EDUCATION

TRADITIONAL SCHOOL AID

The Executive Budget proposal includes a statewide increase of approximately $259 million in school aid for the 2006-2007 school year, an increase of 1.6% from the 2005-06 school aid level. State education aid to the City of New York is projected by the Executive to be $103.9 million, an increase of approximately 1.7% over last year.

State Education Aid for New York City
($ in Millions)

Aid Categories	2005-06	2006-07	$ Change	% Change
Flex Aid	$3,467.96	$3,467.96	$0.00	0.0%
Transportation Aid	351.57	401.70	50.13	14.3%
Building	492.98	495.74	2.76	0.6%
Fiscal Stabilization Grants	0.00	40.20	40.20	N/A
Other Formulas Based Aids	1,504.46	1,522.52	18.06	1.2%
Other Grant Programs	185.37	178.14	(7.23)	-3.9%
	$6,002.34	$6,106.26	103.92	1.7%
Less Bond Bank Payment	0.00	(40.20)	(40.20)	N/A
Total	$6,002.34	$6,066.06	$63.72	1.1%
New Sound Basic Education Aid Funds	$195.00	$150.00	n/a	n/a

Position: The Executive's school aid proposal is clearly inadequate and should be adjusted to provide New York City with the resources mandated by the Court in the Campaign for Fiscal Equity. The Court ordered that an additional $5.6 billion be provided to the City school district in order to provide a sound basic education. Increasing traditional school aid in the City of New York by only $104 million does not even begin to address the State's constitutional mandate. The traditional school aid formulas should be eliminated and a needs-based formula should be established to provide New York City with an equitable share of education dollars.

Notwithstanding the significant shortfall of new education dollars for the City of New York, the Executive's analysis of its own budget proposal is significantly flawed in that it includes over $40 million in so-called Fiscal Stabilization Grants. These funds provided through the Fiscal Stabilization Grants are already committed to paying off bonds issued by the Municipal Bond Bank Agency (MBBA) which issued debt to provide the City with an accelerated State payment of prior year claims. The State agreed to cover debt service for the bonds and to provide these grants to cover that debt service. These grants have not been previously appropriated within school aid, a fact that is even acknowledged in supporting budget documents submitted by the Governor. The City urges the State to honor its agreement and take the fiscal stabilization grants outside traditional school aid. The City cannot spend this money on new education expenses if it has already been committed to pay off previous state debt.

After deducting the $40.2 million in Fiscal Stabilization Grants, New York City's year-to-year school aid increase would only be approximately $64 million, or 29% of the total statewide increase. Not only does this amount not keep pace with the increase in fixed costs of the New York City Department of Education, but it does not even provide the City with, at a minimum, the historical statewide increase of 38%, which itself is clearly inadequate. The annual fixed expenses of the New York City Department of Education continue to increase far beyond the proposed state aid increase. Fixed costs such as salaries, pensions, debt service, student transportation and fringe benefits continue to increase by millions of dollars each year. Specifically, salaries are the single biggest fixed cost for the New York City Department of Education. In October 2005 the City reached a contract agreement with the New York City Teacher's Union that includes a 15% raise in exchange for various reforms. Beginning in the 2007 Budget and every year thereafter, the City needs at least $280 million in State Aid to cover 40% of this new teacher's settlement, as this represents the State's share of education funding in New York City.

It is clear that in order for the New York City Department of Education to maintain current programs and begin new initiatives, there must be sufficient resources made available to the City and a long term financial commitment on the part of the State.

STAR AID

The School Tax Relief Program (STAR), enacted in 1997, was created in order to provide a partial tax exemption from school property taxes for owner-occupied primary residences. The STAR program has been considered a form of education aid to localities since the State reimburses school districts dollar-for-dollar for property tax revenues levied for education funding which are foregone as a result of these tax exemptions. Since the STAR program is not adjusted for inflation, the Executive budget proposes to provide a cost of living adjustment for the Enhanced STAR program, which provides additional exemptions to qualified seniors. The Executive also proposes the STAR Plus Rebate Program that will provide taxpayers receiving a STAR Exemption in certain qualified school districts with an annual $400 rebate check. The Executive plans to spend a total of $530 million on this additional program in SFY 2006-07 with the tax expenditure growing to $580 million in SFY 2007-08.

Position: *Oppose*. Since the inception of the STAR program New York City taxpayers have not received a fair share of the statewide program. The original STAR proposal provided only 6% of the statewide benefit to the City, and after the PIT portion (rate cut and credit) was included, the City's share grew to its current 26% of the statewide total - significantly less than the City's 40% equitable per-capita share. This proposed expansion of the STAR program into the STAR Rebate Program is only available to homeowners in school districts that limit year-to-year budget increases to approximately 4%. This proposal, in essence, punishes those school districts that provide substantial increases in education spending each year and therefore, specifically excludes New York City from participating. Since the City is ineligible in participating in STAR Plus, the Executive's STAR expansion would reduce New York City's share of the program to 22% of the statewide total. New York City residents should be allowed to participate in any statewide rebate program given that 46% of the State taxes are generated in New York City. Furthermore, this proposed STAR program expansion further exacerbates the inequity in the proposed statewide education funding for SFY 2006-07. When combined with traditional school aid, New York City's share of increased education funding becomes merely 8%.

SOUND BASIC EDUCATION GRANT

The Executive Budget for SFY 2006-07 proposes the continuation of the Sound Basic Education (SBE) Grant and allocates an additional $375 million for the high need school districts throughout the State. The Executive proposes to fund this grant with revenues collected from Video Lottery Terminals (VLTs) throughout the State. The proposal authorizes the Division of the Lottery to award three licenses to operate a video lottery gaming facility and future revenues will fund the SBE Aid. While the proposal includes certain geographical restrictions where a gaming facility may be located, it does not include a limit on the number of facilities which may be located in the City or any other part of the State.

Position: The Executive Budget fails to address the financial needs of New York City's school system. This grant falls far short of meeting both the Campaign for Fiscal Equity Court of Appeals order that the City of New York receive increased State aid to provide its students with a sound basic education and the special panel which concluded that New York City public schools need an additional $5.6 billion in annual operating aid phased-in over a four-year period. Furthermore, while providing an SBE grant to high need school districts is clearly inadequate in addressing the CFE lawsuit, the Executive Budget proposal does not even include a distribution plan to guarantee New York City an adequate share of this funding. Last year the City received 60% of the SBE grant and the Governor has stated that he intends for 60% of the SBE be dedicated to the City this year as well. However, in order to guarantee this amount to the City, language providing a 60% share must be put into law in the SFY 2006-07 Adopted Budget.

Further, while the concept of creating a dedicated source of revenues to provide additional education funding is a step in the right direction, creating a stable revenue source for this program is the key to successfully meeting the needs of schools and their students. New York City's substantial education expenses such as contracts with suppliers, 130,000 Department of Education employees, and debt service are long-term and fixed. Therefore, these costs cannot be funded from inconsistent and unpredictable revenue sources. New York City needs a guaranteed funding source and a guaranteed funding allocation for its schools in order to make long-term construction and labor commitments. Therefore, the State needs to dedicate a revenue source that will be stable so that a portion of the State's share of the City's fixed education expenses will be funded with certainty.

VIDEO LOTTERY TERMINAL IMPACT AID

The Executive Budget proposal for SFY 2006-07 includes the creation of Video Lottery Terminal Impact Aid that will be provided to certain cities. The proposal provides that New York City and Yonkers would each receive $20 million or 3.5% of the estimated net

Video Lottery Terminal revenues generated by a video gaming facility locally, whichever is less. This Video Lottery Terminal Impact Aid would have to be dedicated to education and payment would not commence until April 1, 2007. There is no appropriation in the Executive's proposed SFY 06-07 Budget to accompany the language creating this program.

*Position***:** There is no guarantee that these funds will be appropriated in next year's budget. Fiscal prudence requires the City not use this uncertain and unpredictable revenue for long-term or recurring expenses such as debt service or salaries, two significant expenses of the New York City Department of Education.

CHARTER SCHOOLS

The Executive's Budget proposes raising the cap on the number of charter schools which may be created statewide to 250 and changes the manner in which the cap is calculated. The Budget proposal specifically authorizes the Chancellor of the New York City school system to independently create and approve up to 50 new charter schools.

Position: Support. Lifting the cap on the creation of charter schools in New York City will permit the City to increase the number of small, innovative schools that offer both greater choices for parents, as well as academically rigorous education for students. Also, giving the Mayor independent chartering authority would allow the City to provide these options to its students. Charter schools provide access to quality education and complement the reforms that have taken place in the New York City public school system. Last year, New York City charter school students performed 13 points above the citywide average on the State and City math tests and nine points above the citywide average on the State and City English Language Arts tests.

EDUCATION CAPITAL

STATE CONTRIBUTION TO THE CITY'S FIVE-YEAR CAPITAL PLAN

The City is nearing the end of the second year of its $13.1 billion five-year school capital plan that has assumed a 50-50 sharing of costs by the City and the State. So far, the State has not contributed the requisite funding which resulted in the City accelerating its own "out-year" funding of the capital plan and paying the State's share for the first year of the plan. As a result of inaction, the City was once again forced to amend the five year capital plan and reduced spending in 2006 by $1.8 billion. Twenty one capacity projects that were scheduled to have construction contracts awarded in Fiscal Year 2006 are now on hold. New schools, science labs, athletic facilities, arts facilities, and technology initiatives will not be able to move forward in the current year. The State's $6.5 billion contribution has now been re-allocated to Fiscal Years 2007, 2008 and 2009 with the full expectation that the State will join the City in providing the required funding to fully implement the adopted capital plan.

While there have been recent changes in order for the City to obtain additional Building Aid , this funding stream in its current form is clearly inadequate as a financing vehicle for the State's portion of the capital plan. Since Building Aid falls within education shares provided to school districts, it will be impossible, regardless of program amendments, for the State to pay its share of the City's capital plan through Building Aid. The current practice in Albany has been that State education aid funding has been purely based on share of enrollment.

Even if Building Aid were to be removed from state education "shares," the Building Aid formula is still inadequate to reimburse the City for the true costs of constructing schools. The Adopted SFY 2005-06 State Budget included amendments to the Building Aid formula which were intended to increase State reimbursements for the unique nature of school construction in New York City. While these amendments are a step in the right direction, the immediate impact of them has not been made clear by either the State Education Department or within statutory language. Given the manner in which Building Aid operates and the effective dates of these amendments, the City would not receive any additional Building Aid in a timely or sufficient manner to assist with the completion of the capital plan. And, these changes do not even begin to address the significant City capital spending on those items and projects which do not even qualify for Building Aid.

While the Executive's Budget did not include any additional capital funding for the City's school capital plan, a direct capital appropriation is required to fully fund the Capital plan.

BUILDING AID

CHANGES IN COST ALLOWANCES

The Executive Budget proposes amendments to the Building Aid formula to change the manner in which a school construction project cost allowances are calculated. The cost allowances would be based on building project enrollment, a basic per pupil space allotment and a basic per pupil cost allowance.

Position: Currently, the State Building Aid formula only effectively reimburses the City 25% of the construction costs for new capacity projects. This is in part due to the unique physical constraints created by the City of New York's density and limited structural capacity. This limited State reimbursement places a tremendous burden on the City. The Building Aid formula needs to provide real new dollars for the City's Capital Plan and needs accompanying changes that will achieve that goal. Therefore, any proposed change in building aid should be part of a comprehensive effort to reform the building aid formula. Furthermore, the State's reimbursements for school construction costs should be provided independent of Operating Aid and other State assistance.

TIMING OF BUILDING AID PAYMENTS

The Executive's Budget proposes changes the timing of Building Aid payments to New York City so that the payments would commence eighteen months after the Commissioner of the State Education Department receives certification that a school construction contract has been awarded. Currently, payments commence on the date the Commissioner of Education receives certification that a school construction contract has been awarded.

Position: Oppose. The need for this proposed change in timing has not been adequately demonstrated. Changing the commencement of Building Aid payments would only result in a revenue loss for the City and allows the State to delay paying for its share of school construction costs. New York City has made a historic commitment to improving its schools with its current Capital Plan and every effort should be made to reimburse the City for the State's share in a timely manner.

SCHOOL CONSTRUCTION AUTHORITY

The Executive Budget proposes to allow the School Construction Authority (SCA) to negotiate on all matters pertaining to contracts other than price with low bidders. The proposed amendments also would allow the SCA to issue requests for proposals and award contracts where competitive bidding is deemed by the Authority to be impractical or inappropriate.

Position: Support. The two provisions allow greater flexibility in the contracting process for construction work. They would also allow criteria other than price such as design, company experience and performance record, aesthetics, technological innovation such as environmental friendliness, life cycle costs, and others to be evaluated in selecting contractors for building projects. Having the ability to select contractors based on these criteria and not merely based on the lowest bid increases the options and overall benefit for construction of school buildings. Providing SCA the ability to negotiate on all matters other than price also expands options regarding potential benefits in construction time savings, infrastructure, and incidental costs.

HIGHER EDUCATION

CITY UNIVERSITY OF NEW YORK (CUNY)

The Executive Budget proposes that CUNY and other institutions be required to pre-fund the New York State Tuition Assistance Program (TAP) awards for first time students admitted without a high school diploma until the student completes 24 courses.

Position: Oppose. CUNY should not be required to pre-finance TAP awards for a selected group of students or any students. TAP is a State initiative and should continue to operate as one for all students. By requiring CUNY to provide pre-financing for these State awards, the City would have to increase the amount it advances CUNY annually. The City is currently required to advance funds for the operating expenses of CUNY's senior colleges. While there are promises that the State would provide reimbursements for the funds advanced, the existing pre-funding requirement demonstrates the problems of such a system. While the State is required by law to reimburse the City after CUNY claims for State Aid, the City was forced to pay over $48 million in outstanding balances just last year as a result of this bifurcated claiming process which is intended to have no impact on the finances of the City. Further, New York City loses approximately $2 million annually in interest revenue from this pre-funding arrangement. In addition to maintaining the current State financing of TAP awards, the City advocates for full reimbursement of this $48 million in 2007 and $2 million annually in interest revenue.

Revenue and Tax Administration

Cigarette Tax

The Executive Budget proposes an increase in the New York State Cigarette Tax to $2.50 outside New York City. In New York City, the Cigarette Tax will remain $3.00, however, the State will take $1.00 from the City's tax to make the State portion $2.50 in the City as well. The City's tax will fall to $0.50. There is language included, however, that allows New York City to increase the City's Cigarette Tax by $0.50 at local option. This local increase would bring the City's cigarette tax to $1.00 and the combined City/State Cigarette tax would become $3.50. The Executive also includes language that automatically increases the City's cigarette tax by an equal amount if the state tax is reduced in the future. However, this so called "pop up" language is capped at $1.00 and will not take affect unless the State is held harmless for their revenue loss as a result. Language is also included to hold the City harmless for the revenue loss as a result of the $1.00 reduction in the City's cigarette tax.

Position: Support with Recommendations. Any increase in the cigarette tax rate acts as a life saving measure. Studies have found a significant decline in smoking prevalence when New York City increased the cigarette tax in 2002. The Executive recommends lowering the City's cigarette tax rate by $1.00 and transferring that $1.00 to the State. The City finds this transfer completely unnecessary and recommends maintaining the $1.00 with the City and simply providing an additional $0.50 increase on top of the current City cigarette tax rate, bringing the total New York City cigarette tax to $2.00. If this structure proposed by the Executive stands, however, the City requests that the State work to honor the statutory commitment made in the Executive budget to hold the City harmless from the revenue loss. Furthermore, inclusion of language providing for a an automatic partial "pop up" of the City's cigarette tax to a maximum of $1.00 if the State tax goes down is a step in the right direction, however the City seeks a full "pop up" to any State cigarette tax decrease, without limitation.

Permanent Repeal of the State Sales Tax Exemption on Clothing and Footwear and Replace it with Two Weeks For Items $250 and Under

The Executive's Budget proposes repealing the state sales tax exemption on clothing and footwear on items under $110 that is scheduled to return and replaces it with two one-week periods for items costing $250 and under. The City's local sales tax exemption amount would be increased from under $110 to $250 to match the State exemption levels during these two one-week periods without requiring any local action.

Position: The City currently provides a permanent sales tax exemption for clothing and footwear purchases under $110 and supports the return of the State sales tax exemption on these items as soon as possible. The automatic applicability of this proposal to New York City's sales tax on items costing $250 and under for two one-week periods each year will cost the City an additional $12 million annually.

STANDARD DEDUCTION INCREASE FOR MARRIED FILER

As part of the effort to eliminate the marriage penalty, the Executive Budget proposes increasing the standard deduction used by married couples to compute their taxes. Under this proposal, the standard deduction would be set at twice the amount available to unmarried taxpayers who are not heads of households.

Position: The City's personal income tax revenue would be directly affected due to the City's use of the State standard deduction levels in calculating tax liability. It is estimated that the City would lose approximately $7 million annually from this proposed amendment.

EXTENSION OF REDUCED REAL PROPERTY TRANSFER TAX FOR REITS

The Executive's Budget proposes the continuation of the 50 percent transfer tax rate reduction for qualifying REIT transfers under the New York City Real Property Transfer Tax and the New York State Real Estate Transfer Tax which expired on August 31, 2005. This proposal would extend the reduced rate to September 1, 2008 and would be retroactive to September 1, 2005.

Position: Oppose. It's estimated that the extension of the reduced tax rate would cause the City lose approximately $3 million in tax revenue in FY 2007 and approximately $2.25 million during the current fiscal year. In addition to the revenue impact, the City would have to issue refunds for taxes paid during the effective period of the full transfer tax rate.

TWO SALES TAX FREE WEEKS FOR ENERGY STAR PRODUCTS

The Executive Budget proposes two one-week sales tax exemptions periods, at local option, on the purchase of certain new residential Energy Star appliances and residential weatherization products.

Position: It's projected that the City's sales tax revenue would decrease by approximately $2.3 million due to the proposed two week suspension of the sales tax for these products and appliances.

PUBLIC HEALTH

INCREASE ARTICLE VI REIMBURSEMENT RATE FROM 30% TO 36% FOR OPTIONAL SERVICES AND INCREASE THE BASE AMOUNT TO LOCALITIES

Article VI funding is used for general public health programs where the State currently provides either a 30% or 36% match, depending on the program, for county public health expenditures. Article VI funding supports vital programs that protect the public from disease outbreaks and health risks, and provides for education, outreach, and service programs related to disease prevention and health promotion. Such activities include environmental health programs, communicable disease prevention and treatment, day care and restaurant inspections and many others. In addition to the State match, each local public health department receives a minimum base from the State.

Effective January 1, 2007 the Executive budget proposes an increase in the State reimbursement to localities for optional services to 36% from 30%. This increased reimbursement rate is contingent upon the municipality demonstrating a new or increased allocation of resources in one or more areas designated by the State Health Commissioner. If the municipality can not prove this, optional services will be reimbursed at the current 30% level. The Executive Budget also eliminates the statutory State reimbursement ceiling of 50% and lowers it to 36%. Certain emergency services can be reimbursed at 50%. Finally, the Budget proposes an increase in the state aid base grant to municipalities by either $100,000 or from $0.45 to $0.55 per capita, whichever is greater.

Position: Support with recommendation. New York City supports the base amount increase and would receive the per capita increase of $256,000 in 2007 and approximately $512,000 in 2008. Furthermore, New York City expects to receive $1.9 million in 2007 and almost $4 million in 2008 from the proposed increase in the Article VI reimbursement rate. The City supports increasing the reimbursement rate since there is no rationale for providing a higher reimbursement rate for certain services when all services are vital in the effort to protect the public health of City residents. New York City, however, believes that the rate increase should be unconditional and should not be tied to demonstration of a new or increased allocation of resources. The City already spends a significant amount of money on public health programs and services. In 2005, the City spent $311 million on Article VI services and is projected to spend over $356 million in 2006. This large allocation of funds by the City for public health purposes should serve as an adequate local participation in funding public health initiatives. Therefore, any increase in Article VI reimbursement rates should not be contingent on the funding of additional public health initiatives.

Finally, the statutory reimbursement level of 50% should remain. New York City believes that protecting the public's health should be shared equally among the State and localities. Preventing and controlling communicable diseases and epidemiological dangers not only protects City residents but also helps to contain the spread of such disease and dangers throughout the State, and in some cases, the nation. Therefore, ultimately the City would like to be reimbursed at 50% for all Article VI services.

EARLY INTERVENTION PROGRAM

The Early Intervention Program (EI) is an entitlement program for infants and toddlers between the ages of 0 to 3 that are developmentally delayed. The costs of the program are split between the City and State, with a small portion 100% federally funded. New York City is expected to spend close to $500 million on EI services in 2006, and both enrollment and service costs are expected to grow in the coming years. As in past years, the Executive proposes maximizing third party insurance to cover Early Intervention services, when applicable. Specifically, the Budget requires that private health insurance plans reimburse the EI program for costs that are covered under such a plan's policy. Additionally, the Executive Budget gives the State Department of Health (SDOH) the option of implementing one state-wide fiscal agent for processing EI claims. If SDOH decides to utilize a fiscal agent, the counties are mandated to provide such agent with all necessary information and data. New York City does currently use a fiscal agent for the EI program.

In addition, the Executive Budget proposes to increase Early Intervention provider rates by 2.5%, effective October 1, 2006, increasing by the Consumer Price Index over the next three years. While the Executive proposes a COLA for a broad range of Human Services providers, the EI provider COLA is the only one with a local budget impact. New York City expects an impact of $2.5 million in 2007 and $3.5 million the following year.

Position: The City supports budget actions to reform the EI program and control costs, while preserving services. There may be some local administrative burdens in the budget proposal which could offset any saving. However, mandating that counties work with the fiscal agent if the State chooses to utilize one, is problematic for New York City. Although New York City currently uses a fiscal agent, the City believes its EI billing should be run completely through the State's Medicaid billing system, MMIS. This will allow for greater administrative ease and consolidation of billing systems of the various health programs. Therefore, the City recommends that the proposal to use a statewide fiscal agent should be at local option.

MEDICAID

HOSPITAL AND BENEFICIARY ACTIONS

The Executive Budget proposes $1.3 billion in savings from Medicaid cost containment actions. The proposals will significantly impact hospitals and nursing homes, including HHC. Outlined below are some of the major actions.

> Hospitals and nursing homes are affected primarily through rate reductions and freezes, changes in the Graduate Medical Education (GME) reimbursement methodology and reductions in the inpatient detox rate.
>
> Other Medicaid actions that impact HHC include maximizing the Federal Medicare Part D Prescription Drug program for dual eligibles, increasing certain Family Health Plus co-pays and making all mandatory and certain actions in the Medicaid managed care program.

Position: Oppose. While it is vital for the State to continue to work to curb Medicaid costs, many of these cost containment proposals will have a significant financial impact on both the New York City Health and Hospitals Corporation (HHC) and the voluntary hospitals in the City.   HHC is required by State law to treat every patient regardless of ability to pay, and therefore, the public hospitals, clinics and long-term care facilities that make up HHC are the safety net health care providers for City residents when they have no where else to turn for medical care. Millions of New Yorkers receive health and mental health care at HHC and many will continue to seek treatment at HHC regardless of whether they have insurance coverage or can pay a co-payment. The Corporation estimates that the Medicaid proposals will result in a loss of approximately $150 million dollars to their bottom line. Medicaid cost containment must not be made on the backs of the institutions that provide care to the City's most vulnerable populations.

MEDICAID FRAUD PREVENTION AND DETECTION

The Executive Budget proposes a comprehensive Fraud prevention and detection program by consolidating the Medicaid anti-fraud activities of various state agencies into a newly created Office of the Medicaid Inspector General, creating multi-agency teams to combat fraud and forming task forces of Federal and local law enforcement agencies to investigate patterns of abuse. The Executive also recommends strengthening existing penalties for health care fraud, among other actions.

Position: Support. New York City supports the State's efforts to strengthen Medicaid fraud prevention and detection efforts. It is imperative that immediate action be taken to crack down on persons participating in Medicaid fraud both on the provider and recipient side. The City welcomes the collaboration of various agencies across all levels of government to work to control fraud in the Medicaid program and to stiffen penalties for those engaged in such illegal activity to both punish those who perpetuate it and serve as a disincentive for others.

STATE TAKEOVER OF LOCAL MEDICAID MANAGED CARE CONTRACT ADMINISTRATION

The Executive Budget proposes to takeover the local administration of the Medicaid Managed Care contracts. In New York City, this is currently done by the Department of Health and Mental Hygiene (DOHMH).

Position: Oppose. Local oversight of the Medicaid managed care program has often resulted in stricter contract requirements and more forceful measures to protect New York City Medicaid recipients. The State takeover of the managed care contract administration by DOHMH would cause the City to lose its current ability to include local contract terms in the Medicaid managed care agreements and weaken its oversight role to that of an agent of the state. It would strip the City of any power to take effective action consistent with its monitoring of our public health goals while leaving the City responsible for day-to-day program enforcement. New York City has used its role in the Medicaid managed care program to maximize public health opportunities and target interventions through close collaboration with other DOHMH activities such as disease control and epidemiology.

SOCIAL SERVICES

FLEXIBLE FUND FOR FAMILY SERVICES

The SFY 2006-07 Executive Budget continues the Flexible Fund for Family Services (FFFS) which provides a block grant to localities for TANF surplus funds. The Executive appropriates $1.025 billion and includes TANF funds for child care that currently are outside the FFFS and transferred to the Child Care Development Block Grant. Other programs, such as non-residential domestic violence prevention services and summer youth employment services, currently funded outside the block grant, would be funded in the FFFS, as well.

Position: While the FFFS offers maximum flexibility to localities in using TANF funds, the inadequate level of funding forces them to make difficult choices in order to stay within the FFFS allocation. Federal TANF reauthorization establishes costly mandates for expanded work requirements. The City and other localities in the State have met workforce participation requirements based on credits for reducing caseloads since 1995. This credit is sharply reduced under TANF reauthorization. Moreover, federal appropriations under-fund child care at the same time that federal HHS rules on eligible work activities, expected this October, pose unfunded mandates that local districts will be unable to meet without sufficient resources. The result will be that, in the future, if TANF clients do not meet workforce participation requirements, localities could face stiff State and Federal penalties. To avoid these penalties and enable TANF clients to achieve self-sufficiency, localities need an equitable State partnership so that they do not have to choose between spending on day care, job training or spending on child welfare services.

Furthermore, a fair distribution of social services funds must accompany an adequate allocation. In SFY 2005-06 the City received $351 million from the $600 million FFFS, or roughly 58 percent of the statewide allocation, even though the City comprises 67 percent of the statewide TANF caseload. The original allocation to the City was $361 million, however, $10 million was redistributed to other counties based on a "county wealth factor" that is unrelated to caseload or to actual costs for TANF-related programs. This year's allocation needs to be fair and equitable based on caseload rather than unrelated factors that serve only to skew distribution in a manner unrelated to need.

Although the State actually made cuts in the TANF surplus funding provided last year, the City was able to maintain funding for child care, as well as employment services and training programs due to the availability of one-time, non-recurring revenues. Next year, without assurances that from the State of adequate funding or the likelihood that one-time revenues will recur, the City will face difficult choices.

REDUCE PERSONAL NEEDS ALLOWANCE FOR SAFETY NET RECIPIENTS IN DRUG OR ALCOHOL RESIDENTIAL REHABILITATION PROGRAMS

The Executive Budget adjusts the personal needs allowance (PNA) for safety net assistance recipients in residential drug/alcohol rehabilitation from $135 per month to $45 per month, which is the PNA rate for public assistance recipients in other types of residential facilities.

Position: This proposal could provide savings of approximately $1.5 million to the City.

LOCAL ADMINISTRATION FUND ENHANCED REIMBURSEMENT TIED TO WORK PARTICIPATION RATES

The Executive Budget proposes a Local Administration Fund enhanced reimbursement for local districts that achieve a 50 percent work participation requirement for all Public Assistance categories. Separate amounts of reimbursements for local administration of

Public Assistance, Food Stamps, and employment programs will be available to local districts for each of the Public Assistance categories: TANF, Safety Net with dependent children, and Safety Net without dependent children. However, OTDA will recoup the enhanced reimbursement if localities do not meet the participation rates.

Local social services districts lose their allocation of the local administration fund bonus for failure to meet the 50 percent work participation requirement for TANF households, Safety Net households with dependent children, and Safety Net households without dependent children regardless of whether the State's overall work participation requirement rate meets federal requirements. For SFY 2006-07 the work participation rate is calculated by averaging the monthly participation rate from October 1, 2006 through December 31, 2006. Thereafter, the participation rate is calculated by averaging the monthly participation rate for the federal fiscal year.

Position: Oppose. The City urges the State to increase the appropriation for the Local Administration Fund so that this funding can help local districts work with Public Assistance clients in achieving self-sufficiency. Linking enhanced reimbursement to work participation rates ignores the challenge local districts face to meet more rigorous federal work participation requirements recently enacted. Moreover, the State last year capped reimbursement to local districts for the State share of administrative costs associated with Public Assistance employment-related programs through an under-funded block grant. The State also capped through the FFFS the federal support for employment training and services for TANF recipients. Enhanced reimbursement through the Local Administration Fund should not be pegged to work participation rate outcomes but rather should serve as an investment in local district employment-related programs and contracts to support local efforts to achieve work participation rates. Under the Executive proposal, the City likely would be ineligible to retain approximately $14 million in enhanced local administrative funds.

NEW YORK/NEW YORK III

The Executive Budget provides $7.7 million for the New York/New York III program. This program is a partnership between New York State and New York City to provide supportive housing for the homeless and mentally ill. NY/NYIII aims to increase housing capacity for these populations in New York City by over 5,550 beds over the next 10 years as part of a 9,000 bed effort to provide stable housing for other vulnerable populations. The City commitment includes development and operating support for its share of the 9,000 units.

Position: Support. This essential state funding will help to fulfill the City's commitment to create 12,000 units for supportive housing and increase by over 50% the existing 20,000 units of supportive housing available today in the City. New York City's goal is to end chronic homelessness through proven, cost-effective solutions like prevention and supportive housing and the New York/New York III initiative is a significant step in that direction.

ECONOMIC DEVELOPMENT/TRANSPORTATION

ECONOMIC DEVELOPMENT CAPITAL PROJECTS

The Executive Budget includes $505 million in bonding authority for the New York State Urban Development Corporation (UDC), to issue bonds to finance a new capital program. These funds will be used for priority economic development, cultural facilities, academic facilities and energy initiatives across the State. Projects such as: the Museum of Natural History ($18 million), World Trade Center Visitor Orientation and Education Center ($57 million), New York City Public Library ($12 million), Lincoln Center ($15 million), Governor's Island ($22.5 million) and Hudson River Park ($11 million) will receive capital funding through this bonding authority. In addition, the Executive Budget includes $74.7 million in capital funds for the construction of a new stadium in Queens for the Mets and $74.7 million in capital funding for improvements to construct a new parking facility at a new stadium in the Bronx for the Yankees.

Position: Support. This new capital funding will be allocated for cultural institutions, projects, parks and stadiums that are vital to New York City's economy. Additionally, construction of new Yankee and Mets Stadiums will result in thousands of jobs in New York City. These funds proposed in the Governor's Budget will assist in building first-rate facilities which are essential to the economic development of New York City.

BIOMEDICINE AND BIOTECHNOLOGY RESEARCH INITIATIVE

The Executive Budget includes a new $200 million Biotechnology and Biomedicine research initiative that is expected to generate an additional $600 million in federal, not-for-profit, and private sector matching funds to expand biotechnology and biomedicine research and development at hospitals around the State. Hospitals in New York City include Columbia, Mt. Sinai, Memorial Sloan Kettering and NYU. This new initiative is designed to build upon New York State's Center of Excellence Program. The goal of this program is provide additional support to these hospitals to produce life-saving cures and treatments.

Position: It is essential for New York to continue to invest and build the technology and bioscience sectors to establish the State, as well as New York City, as an emerging knowledge-based economy. High technology and economic development projects are already making the State a leader in economic growth and job creation in these fields, but continued operating and capital investments are required to maintain the State's advantage and grow the sector within the City.

GOVERNOR'S ISLAND

The 2006-07 Executive Budget proposes $22.5 million in capital funds and $7.5 million in operating funds to support the preservation and redevelopment of Governor's Island. These funds are to be used to preserve the historic structures and provide for critical infrastructure work to maintain operations in preparation for redevelopment of the Island. The State and the City have been working together to restore and preserve the Island's historic resources.

Position: Support. New York City supports this $30 million in State funding for Governor's Island. In concert with $30 million allocated in the City budget, these funds will be used to preserve its many natural and manmade amenities, while also creating a broad array of new attractions that enhance the Island's potential as a world class destination, through the creation of new commercial, educational, cultural and tourist opportunities and new waterfront and public open space development. This improved and expanded Island will benefit both New York City and New York State residents.

ELIMINATION OF LOCAL ADMINISTRATION FUNDING FOR EMPIRE ZONES

The State Empire Zone program was created by the State in an effort to revitalize and expand New York's economy. The Empire Zones are particularly attractive to businesses since they offer numerous tax incentives for qualifying businesses located within the zone. The 2006-07 Executive Budget proposes to eliminate the $2.3 million statewide appropriation for local administration of the State's Empire Zone program.

Position: Oppose. New York State's local administration funds for Empire Zones are intended to cover salaries and other costs for the Local Development organizations that administer each Zone. In 2003 there were cuts made to this program; the current level of approximately $35,000 per zone only partially covers salaries. Since the Empire Zones do not currently receive enough funding to pay salaries for individuals to administer these Zones, any additional reductions in funding will further impede the operations of the Empire Zones in New York City. This elimination of local administration funding for the Empire Zones would reduce funding by approximately $300,000 to New York City. This is clearly an unfair cost shift of a state responsibility to local entities.

LOCAL TRANSIT FUNDING

The Executive Budget proposal includes slight increases in funding to New York City for the City run transit systems. Ferries are funded at $24.3 million, a $3.9 million increase from last year, and buses are funded at $66.9 million, a $6.9 million increase from last year.

Position: Support. The additional ferry funding will be used for day to day costs such as salaries and wages, including collective bargaining, continuing to provide assistance to the improved security and operations of the Staten Island ferry. The transfer of the formerly private bus companies is expected to be completed by the time the new fiscal year begins. Once the transfer is completed, the funding for buses will be used to complement the City's subsidy to the MTA Bus Company.

CONSOLIDATED HIGHWAY IMPROVEMENT PROGRAM (CHIPS) FUNDING

The Executive Budget proposes to increase funding to the CHIPS capital program to counties and New York City. This additional funding is due to increases to transportation programs overall, which are funded by the State's five-year Capital Plan. The CHIPs program is designed to help cities, counties, towns and villages cover the costs of construction, operation and maintenance of local highways and bridges.

Position: Support. The City supports an increase to the CHIPs capital program. New York City received $64.3 million in SFY 2005-06 for CHIPs Capital. If the City receives the same percentage of funding as last year (23%), the City's share could increase by $1.4 million to $66 million. CHIPS funding is essential for the City's street construction projects including the installation of traffic signals, street lighting construction, and the upgrade and modernization of parking meters.

CRIMINAL JUSTICE

INCREASED REIMBURSEMENT FOR STATE-READY INMATES AND PAROLE VIOLATORS

In Fiscal Year 2006, the City expects to spend $159 million for the temporary custody of state-ready inmates and parole violators. The majority will be spent for the care of individuals who have violated the terms of parole granted by the State, and the rest will be spent on the care of inmates who have been sentenced to a term in a state prison but who have not yet been remanded to the State Department of Correctional Services. State law requires localities to be reimbursed for the full cost, up to a limit of $40 per capita per eligible day. For more than ten years, the adopted budgets have ignored the law and capped the reimbursement level at $34. The Executive Budget proposes to raise the reimbursement rate to localities for the care of state-ready inmates and parole violators from $34 to $40 as of April 1, 2006.

Position: Support with recommendations. Raising the reimbursement rate to the statutory level would provide the City with an additional $3.3 million annually. However, the $40 reimbursement is still far short of the $291 actual per capital daily cost. In FY 2006, the City predicts a shortfall of $141 million dollars between the actual cost and the state reimbursement. The City strongly supports a change in state law that would allow the state to reimburse localities for the full cost of housing state-ready inmates and parole violators.

DISTRICT ATTORNEY RECRUITMENT

The Executive Budget includes new funding for a program to improve the recruitment and retention of District Attorneys. Of the $5 million available statewide, New York City would receive $1 million. This program, to be paid from the Criminal Justice Improvement Account, would be funded by a $5 portion of an increase in the fee charged for a criminal history search.

Position: Support. Effective prosecution is a crucial step in the City's criminal justice strategy. The ability of the District Attorneys' office to recruit and retain qualified individuals strengthens the City's ability to reduce crime and the City is supportive of any funds to assist the City in these efforts.

GUN TRAFFICKING

The Executive Budget includes $2 million from the Department of Criminal Justice Services for a new anti-gun trafficking initiative, of which New York City is slated to receive $1 million. The funds will be split evenly between the Police Department and the District Attorneys.

Position: Support with recommendations. The City strongly supports the State's assistance in combating the urgent threat of illegal gun trafficking. More than eight out of every ten guns used in crimes in New York City come from other states. In addition, about one percent of gun dealers account for almost 60 percent of the guns used in crimes nationwide. Stopping the flow of illegal guns into New York City is critical to preventing the violent crimes that they are used to commit.

This year, the City plans to address the problem of illegal guns on multiple fronts. Every felony gun defendant will be debriefed by the Police Department's Gun Suppression Squad, by the District Attorneys, or by both so that we can learn much more about how illegal guns are trafficked on our streets. When gun offenders are arrested for other crimes, their cases will be flagged so that all law enforcement officials will be alerted to the threat they pose and can treat them accordingly. The City will continue to use gun crimes to identify Impact Zones, where additional police presence cracks down on violent crime and will bring lawsuits against irresponsible gun dealers whose illegal practices allow guns to fall into the hands of criminals. In addition, the City will also pursue local legislation to limit gun purchases to one gun per three months, and state legislation to make criminal possession of a loaded gun a Class C felony with a minimum sentence of 3 1/2 years.

NEW FUNDING TO ENHANCE DNA LAB CAPACITY AND TO ASSIST LOCAL PROBATION DEPARTMENTS IN COLLECTION

The Executive Budget includes a new appropriation for identification technology grants including DNA programs. Of the $10 million dedicated to this program, New York City is expected to receive $3 million. The 30-day amendments to the budget also included a $1 million appropriation for the expenses of local probation departments related to the collection of DNA from offenders on probation supervision.

Position: Support. In 2004, the state increased the number of crimes for which offenders must submit DNA samples, and in 2005 the Governor issued Executive Order 143, which further increased the number of crimes and expanded the DNA database to include samples from persons on parole or probation. The City strongly supports State legislation to expand the DNA identification index to include samples from those convicted of any crime. These changes, however, have created a need to increase the capacity of DNA processing facilities. New funding for DNA labs will help the City meet the demand for their services and to continue to use DNA evidence to solve as many crimes as possible. In addition, because the executive order requires local probation departments to collect DNA samples from offenders on probation supervision, funding is needed for collection as well as analysis.

ALLOW COUNTIES TO IMPLEMENT PROBATION FEES

The Executive Budget proposes allowing counties to impose probation fees for electronic monitoring, supervision administration, and drug testing. Although some counties currently charge such fees, the State Attorney General has opined that such fees are not authorized. This proposal would codify the practice of those counties.

Position: No Position. New York City does not charge such fees and does not have immediate plans to implement them. The City has no opposition to affording this flexibility to other localities, provided that the authorization of new fees does not replace state aid to local probation departments, which is already below the statutory maximum.

INCREASE PROPORTION OF BAIL AVAILABLE FOR ALTERNATIVES TO INCARCERATION

The Executive Budget proposes an increase in the percent of bail monies that are devoted to alternatives to incarceration programs from one percent to two percent.

Position: Support. The City particularly supports increased funding for alternatives to incarceration (ATI), and devoting a greater proportion of bail monies to these programs. In addition to providing services such as substance abuse treatment and job training, ATI programs have a lower cost to the State and the City than incarceration. The State provides a small amount of funding each year to the City, equal to approximately 10 percent of the City dollars spent on ATI programs, and that amount has decreased over the past two years, from $3.3 million in 2003 to $2.8 million in 2005. Therefore, the City supports increasing funding for alternatives to incarceration programs.

ENVIRONMENT/PARKS

ENVIRONMENTAL PROTECTION FUND (EPF)

The Executive Budget appropriates $180 million for EPF, a $30 million increase from last year's amount. In addition, the Executive Budget amends the Environmental Protection Act of 1993 to expand the purposes for which the EPF may be used. The proposal permanently authorizes the EPF to be used for additional purposes including State Parks and lands resources; assessment of natural resource damages in the Hudson River; implementation of the Hudson River Estuary Management Plan; county Soil and Water Conservation District activities; the Hudson River Park project; and for Historic Barns projects. Funding is also authorized from the EPF for beneficial end-use projects at closed municipal landfills and for municipal landfill gas management projects at active landfills, to encourage municipalities to transform them into beneficial public use areas such as parks, golf courses and waterfront recreational facilities. In addition, a new EPF water account would be established that would authorize funding for additional purposes including an Oceans and Great Lakes initiative and water quality improvement projects.

Position: Support. New York City may be able to apply for funds in the new water account and supports making the other purposes such as Hudson River Park funding permanent.

FUNDING OF THE STATE'S SUPERFUND/BROWNFIELDS CLEANUP PROGRAMS

The Executive Budget provides $135 million for the State Superfund and Brownfields Cleanup Programs, the same funding level as SFY 2005-06. The State Superfund is appropriated $120 million and the Brownfields Clean-up Program is appropriated $15 million, also amounts level with last year.

Position: Support with recommendation. The Executive proposes to provide $120 million to refinance the State Superfund program. New York City is expecting approximately $97 million from the Superfund program for the landfill remediation project and about $43 million for the Brookfield Avenue Landfill in 2006. The City supports the financing of the State Superfund program at levels appropriate to cover expected State commitments.

ASIAN LONGHORNED BEETLE FUNDING

The Executive Budget includes $2.5 million for New York City to contain and eradicate the Asian Longhorned Beetle. The Asian Longhorned Beetle is an invasive insect and forty-seven percent of the 5.2 million trees in New York City are susceptible to this pest. To date, almost 4,000 trees in New York City have been found infested with the beetle.

Position: Support. The City supports this funding so that the State could partner with New York City to eradicate this insect.

MANDATE RELIEF

AID AND INCENTIVES FOR MUNICIPALITIES PROGRAM

The 2006-2007 Executive Budget includes a proposal to establishes a permanent Aid and Incentives for Municipalities (AIM) Program. New York City, along with other municipalities across the State, receives Aid and Incentives to Municipalities (AIM) funding. AIM funding provides local governments with a flexible and consistent source of revenue. This local government assistance program was enacted in last year's adopted budget and now it is proposed as a permanent program by the Governor. Under this proposal, in SFY 2006-07, eligible cities, excluding New York City, will receive increases ranging from 3.25% to 11% over SFY 2005-06 AIM funding levels and beginning in SFY 2007-08 all cities, towns and villages outside of New York City will receive a minimum annual increase of 2.5%. New York City is the only municipality in the State that *will not* receive an increase in local government assistance under this proposal.

Position: Oppose. New York City was excluded from both the 5 percent across-the-board increase in revenue sharing enacted in the SFY 2001-02 Budget and the revenue sharing increase provided in the SFY 2005-06 Adopted Budget. New York City is the only municipality in the State that did not benefit from these statewide increases. City taxpayers contribute over $11 billion more in revenue to the State each year than is returned in the form of State expenditures. Therefore, the City deserves to participate in any increase in this revenue stream. If New York City were to receive a 10% increase in this year's State budget, as was provided other municipalities, the City would receive approximately $32.8 million in 2007. In addition, if a 2.5% permanent increase was enacted for the City, as has been proposed for all other municipalities, it would result in an additional $9 million increase in 2008.

COLLATERAL SOURCE

The SFY 2006-07 Executive Budget includes language that would allow judgments and awards against local governments, and the State, to be offset by both past and future compensation from all collateral sources.

Position: Support. Specifically, when a public employee recovers damages against the City due to injury suffered as a result of the City's negligence, the amount of the recovery should be reduced by any amounts the employee will receive from collateral sources, such as a disability pension. This is the case now in the private sector. If an employee is injured due to city negligence the individual should be adequately compensated and made whole. However, currently, an employee is able to walk away with a windfall of close to twice the appropriate award amount since it is not offset by collateral sources. The enactment of collateral source legislation will save New York City millions of dollars in its pending cases and would treat cases against a public employer, similar to those against private employers.

INTEREST ON JUDGMENTS

For many years, the courts have required municipalities to pay post-judgment interest rates of 9 percent. The Executive Budget includes a proposal to link the interest rates on judgments to the 52-week Treasury bill rate while retaining a 9 percent statutory cap on such rates.

Position: Support. The City of New York strongly supports this proposal. Interest rates have been consistently below 9 percent during the past 20 years and unfair economic burdens have been placed on the fiscs of state and local governments by judicial rewards reflecting the 9 percent maximum. New York City estimates that enactment of this proposal would save the City approximately $3 million annually.

TRANSFER JURISDICTION TO THE COURT OF CLAIMS

The Executive Budget includes a proposal to give the Court of Claims exclusive jurisdiction over personal injury and wrongful death claims against boards of education and school districts, the community colleges of the City University of New York, the New York City Transit Authority, the Metropolitan Transit Authority, the Tri-borough Bridge and Tunnel Authority, The New York City Housing Authority, the New York City Off-Track Betting Corporation and the New York City Health and Hospitals Corporation. Article 6 Section 9 of the State Constitution currently gives exclusive jurisdiction over claims against the State to the Court of Claims. The court's jurisdiction has also been expanded to cover claims against the Thruway Authority for torts and breach of contract. This proposal simply expands the Court of Claims jurisdiction over tort claims against state-created entities.

Position: Support. Transferring jurisdiction for personal injury actions against local governments and state-created entities to the Court of Claims would treat these claims the same way as similar claims against the State. There is no justification for the current scheme in which claims against the State are treated in a wholly different manner than claims against local governments, public authorities, public benefit corporations and other instrumentalities created by the State. The transfer of tort claims against localities and these other State-created entities, and their employees, would adequately protect the right of injured individuals while relieving these entities, and the public, from virtually open-ended financial exposure. Furthermore, the transfer of jurisdiction would result in a far more efficient use of judicial resources with quicker trial dates and shorter trials. Transferring jurisdiction to the Court of Claims would save millions of dollars, at a time when the City's tort expenses have increased to almost $600 million annually.

WICKS LAW REPEAL

The Executive Budget includes a provision for Wicks Law Repeal for municipalities, schools and public authorities in the budget. Currently under the Wicks Law, for construction projects costing more than $50,000, the City must issue four separate contracts for electric, plumbing, heating, ventilation and air conditioning (HVAC) and all other services. This multiple contracting requirement adds approximately 14 percent to the cost of every City funded construction project.

Position: Support. The Wicks Law multiple contract requirement requires the City to become the "General Contractor", responsible for coordinating the activities of the four contractors. The four contractors are only responsible for completing their portion of the project where no one contractor has authority over the other. Therefore, none of the four contractors is responsible for the overall scheduling, coordination and success of the project. Overlapping components or finishing a connection where two trades are required also raise concerns as to who is responsible for coordination. If a particular contractor is performing slowly, other contractors will blame their delays on him.

With New York City acting as a General Contractor, defects in workmanship and accountability continually become a City burden. Under a single contract system, any defect in workmanship or damages caused by other contractors becomes the responsibility of the general contractor. Projects bid under multiple contract systems also cost more than single contract bids. These costs include risk of delays, litigation, unenforceable warranties and higher costs in insurance and change-orders. Full repeal would provide the City with almost $3.0 billion in capital construction cost savings over the next ten years. In addition, full Wicks Law repeal will provide New York City with debt savings reductions of $5.8 million in 2007.

MISCELLANEOUS PROVISIONS

RENT REGULATION ADMINISTRATION INCREASE

Until SFY 2000-01 the State administered the New York City rent regulation program and required the City to provide reimbursement at a capped rate of $10 per rent-regulated unit or approximately $8 million per year. The SFY 2000-01 State Budget transferred the full program costs, totaling $37 million, to New York City without allowing the City to increase the amount collected per unit. Ever since the full program cost was transferred to the City the cost to administer the program has increased by over $5 million. The Executive Budget, once again, proposes to increase the administration of this program by approximately an additional $1 million.

Position:** Oppose. The City opposes this cost shift on New York City. The State's ability to shift the full administration costs to New York City, without providing a way to control program costs or raise the amount assessed to unit owners, is clearly unfair.

BOND ISSUANCE CHARGE PHASE OUT FOR PUBLIC AUTHORITIES AND PUBLIC BENEFIT CORPORATIONS

Currently, the State can impose a bond issuance charge on public authorities and public benefit corporations that issue bonds. This charge is levied on a progressive scale based upon the size of each bond issue. The Executive Budget includes a proposal to reduce and eventually eliminate this bond issuance charge over a three year period. The proposal also grants exemptions from the bond issuance charge to all otherwise applicable bond issues of $10 million or less throughout the phase out period, consistent with current practice.

*Position: Support***.** This State-imposed charge is not paid directly by public authorities and public benefit corporations controlled by the City of New York. However, public authorities controlled by the State of New York, such as the Dormitory Authority of the State of New York ("DASNY") and the New York State Environmental Facilities Corporation ("EFC") do pay such charges. When the New York City Municipal Water Finance Authority ("NYW") issues bonds through EFC, NYW must reimburse EFC for these charges. The same holds true in those circumstances where the City of New York has issued bonds through DASNY. The elimination of these charges will eliminate the need for the City of New York and/or NYW to make such reimbursements.

ALLOW THE COLLECTION OF A SURCHARGE ON PREPAID WIRELESS ACCOUNTS.

Monthly wireless service plans are currently subject to a $1.20 State surcharge and a $0.30 City surcharge. However, purchasers of prepaid wireless accounts avoid this charge. The Executive Budget proposal would allow the surcharge to be extended to prepaid wireless accounts. The State would collect the same $1.20 surcharge on prepaid service that it now collects on monthly wireless plans, and the City would be authorized to implement its current $0.30 wireless surcharge on prepaid service.

Position: Support. The City’s surcharge revenue is available for costs associated with the design, construction, operation, maintenance, and administration of public safety networks serving the City. Based on the State’s estimate that the surcharges on prepaid wireless would result in $3.5 million for the State in FY2006-2007, the City estimates that the implementation of a $0.30 charge on prepaid wireless services would bring the City about $640,000. This change also ensures that the account is funded by all wireless phone account holders regardless of the type of plan selected.

Prepared by NYC Office of Management and Budget
Intergovernmental Relations Task Force

FINANCIAL PLAN OVERVIEW
City Fiscal Years 2006-2010

Financial Plan Revenues and Expenditures

$ in Millions

Revenues	2006	2007	2008	2009	2010
Taxes					
General Property Tax	$12,434	$12,780	$13,686	$14,361	$15,039
Other Taxes [1]	19,347	18,866	18,376	19,407	20,500
Tax Audit Revenue	512	509	509	509	510
Miscellaneous Revenues	5,034	4,646	5,031	4,621	4,641
Unrestricted Intergovernmental Aid	490	340	340	340	340
Anticipated Federal & State Aid	- - -	350	250	250	250
FY 2005 Discretionary Transfer [1]	947	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	**$37,321**	**$36,192**	**$36,895**	**$38,189**	**$39,980**
Other Categorical Grants	947	915	926	941	945
Inter-Fund Revenues	373	365	346	346	346
Total City Funds and Inter-Fund Revenues	**$38,641**	**$37,472**	**$38,167**	**$39,476**	**$41,271**
Federal Categorical Grants	5,608	4,911	4,900	4,899	4,902
State Categorical Grants	9,559	9,822	9,937	9,965	10,001
Total Revenues	**$53,808**	**$52,205**	**$53,004**	**$54,340**	**$56,174**
Expenditures					
Personal Service					
Salaries and Wages	$18,804	$18,955	$19,166	$19,308	$19,522
Pensions	4,017	4,886	5,610	5,846	5,712
Fringe Benefits	6,655	6,928	6,270	6,592	6,854
Subtotal: Personal Service	**$29,476**	**$30,769**	**$31,046**	**$31,746**	**$32,088**
Other Than Personal Service					
Medical Assistance	$4,463	$4,950	$5,097	$5,236	$5,413
Public Assistance	2,446	2,441	2,445	2,445	2,445
Pay-As-You-Go Capital	200	200	200	200	200
All Other [1]	14,596	14,076	14,182	14,357	14,543
Subtotal: Other Than Personal Service	**$21,705**	**$21,667**	**$21,924**	**$22,238**	**$22,601**
Debt Service [1, 2]	3,273	3,997	4,453	4,840	5,181
FY 2005 Budget Stabilization and Discretionary Transfers [1]	(2,582)	- - -	- - -	- - -	- - -
FY 2006 Budget Stabilization and Discretionary Transfers [2]	3,254	(3,254)	- - -	- - -	- - -
MAC Debt Service/Administrative Expenses	10	10	10	- - -	- - -
General Reserve	100	300	300	300	300
Subtotal	$55,236	$53,489	$57,733	$59,124	$60,170
Less: Intra-City Expenses	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Total Expenditures	**$53,808**	**$52,205**	**$56,451**	**$57,840**	**$58,885**
Gap To Be Closed	**$ - - -**	**$ - - -**	**($3,447)**	**($3,500)**	**($2,711)**

[1] Fiscal Year 2005 Budget Stabilization and Discretionary Transfers total $3.529 billion, including increased fiscal year 2006 tax revenue of $947 million

[2] Fiscal Year 2006 Budget Stabilization and Discretionary Transfers total $3.254 billion.

Financial Plan Revenues and Expenditures

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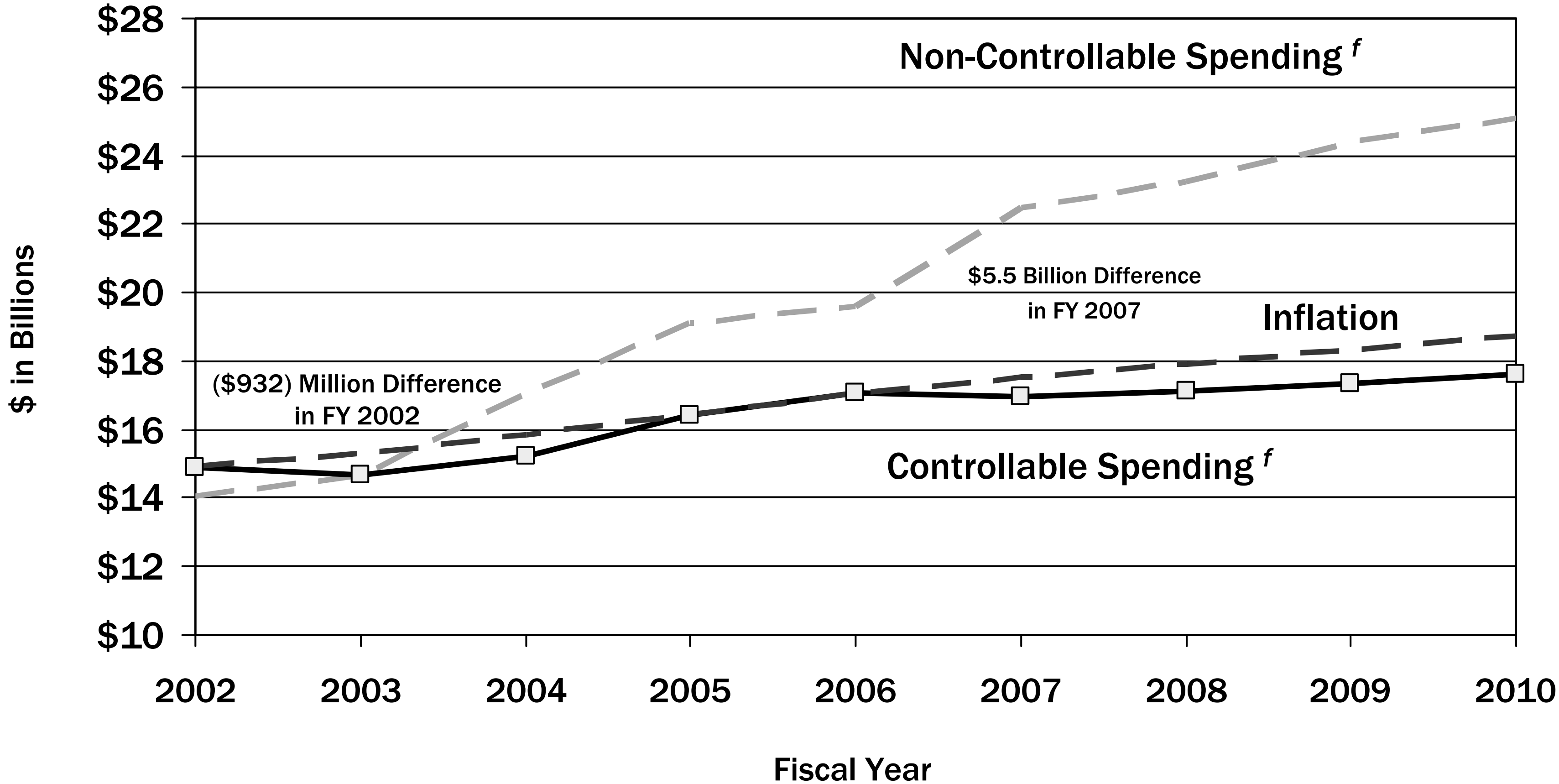
Miscellaneous Revenues	5,034	4,646	5,031	4,621	4,641
Unrestricted Intergovernmental Aid	490	340	340	340	340
Anticipated Federal & State Aid	- - -	350	250	250	250
FY 2005 Discretionary Transfer [1]	947	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	**$37,321**	**$36,192**	**$36,895**	**$38,189**	**$39,980**
Other Categorical Grants	947	915	926	941	945
Inter-Fund Revenues	373	365	346	346	346
Total City Funds and Inter-Fund Revenues	**$38,641**	**$37,472**	**$38,167**	**$39,476**	**$41,271**
Federal Categorical Grants	5,608	4,911	4,900	4,899	4,902
State Categorical Grants	9,559	9,822	9,937	9,965	10,001
Total Revenues	**$53,808**	**$52,205**	**$53,004**	**$54,340**	**$56,174**
Expenditures					
Personal Service					
Salaries and Wages	$18,804	$18,955	$19,166	$19,308	$19,522
Pensions	4,017	4,886	5,610	5,846	5,712
Fringe Benefits	6,655	6,928	6,270	6,592	6,854
Subtotal: Personal Service	**$29,476**	**$30,769**	**$31,046**	**$31,746**	**$32,088**
Other Than Personal Service					
Medical Assistance	$4,463	$4,950	$5,097	$5,236	$5,413
Public Assistance	2,446	2,441	2,445	2,445	2,445
Pay-As-You-Go Capital	200	200	200	200	200
All Other [1]	14,596	14,076	14,182	14,357	14,543
Subtotal: Other Than Personal Service	**$21,705**	**$21,667**	**$21,924**	**$22,238**	**$22,601**
Debt Service [1], [2]	3,273	3,997	4,453	4,840	5,181
FY 2005 Budget Stabilization and Discretionary Transfers [1]	(2,582)	- - -	- - -	- - -	- - -
FY 2006 Budget Stabilization and Discretionary Transfers [2]	3,254	(3,254)	- - -	- - -	- - -
MAC Debt Service/Administrative Expenses	10	10	10	- - -	- - -
General Reserve	100	300	300	300	300
Subtotal	$55,236	$53,489	$57,733	$59,124	$60,170
Less: Intra-City Expenses	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Total Expenditures	**$53,808**	**$52,205**	**$56,451**	**$57,840**	**$58,885**
Gap To Be Closed	**$ - - -**	**$ - - -**	**($3,447)**	**($3,500)**	**($2,711)**

[1] Fiscal Year 2005 Budget Stabilization and Discretionary Transfers total $3.529 billion, including increased fiscal year 2006 tax revenue of $947 million

[2] Fiscal Year 2006 Budget Stabilization and Discretionary Transfers total $3.254 billion.

Our Non-Controllable Expenses Continue to Be Larger than Controllable Expenses



f = forecast for years 2006 – 2010

Growth in Non-Controllable Agency Expenses*

City Funds - $ In Millions

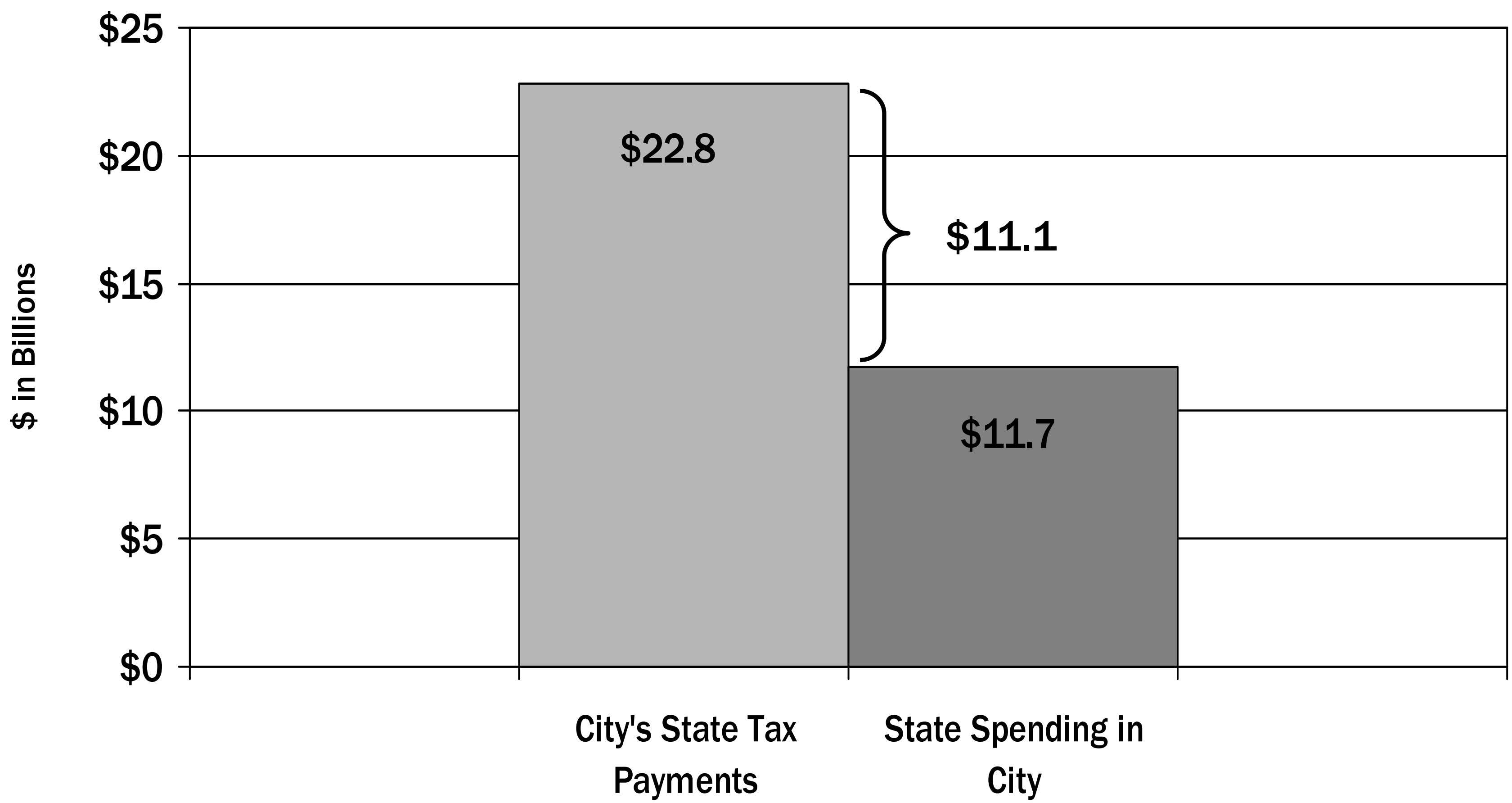
	2002	2003	2004	2005	2006ᶠ	2007ᶠ	2008ᶠ	2009ᶠ	2010ᶠ
Non-Controllable Agency Expenses									
Pensions	$1,334	$1,534	$2,263	$3,194	$4,763	$5,277	$5,428	$5,663	$5,529
Year-to-Year Change:		*$200*	*$729*	*$931*	*$1,569*	*$514*	*$151*	*$235*	*($134)*
		15.0%	*47.5%*	*41.1%*	*49.1%*	*10.8%*	*2.9%*	*4.3%*	*(2.4%)*
Delayed Pension Contribution	$0	$0	$0	$0	($925)	($571)	$0	$0	$0
Fringe Benefits	$3,794	$4,058	$4,275	$4,671	$5,072	$5,351	$5,672	$5,994	$6,257
Year-to-Year Change:		*$264*	*$217*	*$396*	*$401*	*$279*	*$321*	*$322*	*$263*
		7.0%	*5.3%*	*9.3%*	*8.6%*	*5.5%*	*6.0%*	*5.7%*	*4.4%*
Retiree Health Benefits Trust Fund	$0	$0	$0	$0	$1,000	$1,000	$0	$0	$0
Subtotal: Employee-Related Costs	$5,128	$5,592	$6,538	$7,865	$9,910	$11,057	$11,100	$11,657	$11,786
Year-to-Year Change:		*$464*	*$946*	*$1,327*	*$2,045*	*$1,147*	*$43*	*$557*	*$129*
		9.0%	*16.9%*	*20.3%*	*26.0%*	*11.6%*	*0.4%*	*5.0%*	*1.1%*
Debt Service[1]	$3,327	$2,696	$3,390	$3,164	$3,151	$3,854	$4,311	$4,689	$5,034
Year-to-Year Change:		*($631)*	*$694*	*($226)*	*($13)*	*$703*	*$457*	*$378*	*$345*
		(19.0%)	*25.7%*	*(6.7%)*	*(0.4%)*	*22.3%*	*11.9%*	*8.8%*	*7.4%*
Medicaid	$3,537	$3,877	$4,268	$4,774	$4,303	$4,797	$4,944	$5,083	$5,242
Year-to-Year Change:		*$340*	*$391*	*$506*	*($471)*	*$494*	*$147*	*$139*	*$159*
		9.6%	*10.1%*	*11.9%*	*(9.9%)*	*11.5%*	*3.1%*	*2.8%*	*3.1%*
Re-estimate of Prior Year's Expenses	($413)	($179)	($329)	($226)	($400)	$0	$0	$0	$0
Year-to-Year Change:		*$234*	*($150)*	*$103*	*($174)*	*$400*	*$0*	*$0*	*$0*
		56.7%	*(83.8%)*	*31.3%*	*(77.0%)*	*100.0%*	*0.0%*	*0.0%*	*0.0%*
General Reserve	$0	$0	$0	$0	$100	$300	$300	$300	$300
Year-to-Year Change:		*$0*	*$0*	*$0*	*$100*	*$200*	*$0*	*$0*	*$0*
		0.0%	*0.0%*	*0.0%*	*0.0%*	*200.0%*	*0.0%*	*0.0%*	*0.0%*
All Other[2]	$1,893	$2,007	$2,252	$2,455	$2,510	$2,463	$2,540	$2,620	$2,713
Year-to-Year Change:		*$114*	*$245*	*$202*	*$55*	*($47)*	*$77*	*$80*	*$93*
		6.0%	*12.2%*	*9.0%*	*2.2%*	*(1.9%)*	*3.1%*	*3.1%*	*3.5%*
Total Non-Controllable Agency Expenses	$13,472	$13,993	$16,119	$18,032	$19,574	$22,471	$23,195	$24,349	$25,075
Year-to-Year Change:		*$521*	*$2,126*	*$1,912*	*$1,542*	*$2,897*	*$724*	*$1,154*	*$726*
		3.9%	*15.2%*	*11.9%*	*8.6%*	*14.8%*	*3.2%*	*5.0%*	*3.0%*

* Excludes the impact of prepayments.
f = forecast for Years 2006 - 2010
(1) Excluding TFA and Tobacco Bonds.
(2) Includes judgments and claims, subsidies to the Transit Authority and private bus lines and public assistance.

Out-Year Gaps Remain Significant

	$ in Millions (Increases Gap) / Decreases Gap		
	2008	**2009**	**2010**
Remaining Gaps to be Closed as of November 2005	($4,120)	($3,466)	($2,854)
Revenue Changes			
Tax Revenue Forecast	318	340	291
Restructure Outstanding TSASC Debt	454	22	24
Non Tax Revenue	8	9	12
Total Revenue Increase / (Decrease)	**$780**	**$371**	**$327**
Expense Changes			
Agency Expense Increases	($157)	($159)	($160)
Debt Service	6	1	(14)
Pension Changes to Assumptions and Methods	(161)	(452)	(211)
Total Expense (Increase) / Decrease	**($312)**	**($610)**	**($385)**
Surplus / (Gap) to be Closed January Plan	($3,652)	($3,705)	($2,912)
Gap Closing Program			
Agency Program	211	211	207
State Actions	250	250	250
Total	**$461**	**$461**	**$457**
Extend Property Tax Rebate	(256)	(256)	(256)
Remaining Gaps January 2006 Plan	($3,447)	($3,500)	($2,711)

New York City Pays $11.1 Billion More in State Taxes Than it Gets in Funding



Source: "Balance of Revenue & Expenditure Among NYS Regions", Center for Governmental Research, Inc. May 2004.

State Agenda

- The 2007 Gap Closing Program calls for $250 million in initiatives requiring State action. We have provided a menu of over $500 million in initiatives to achieve this goal.

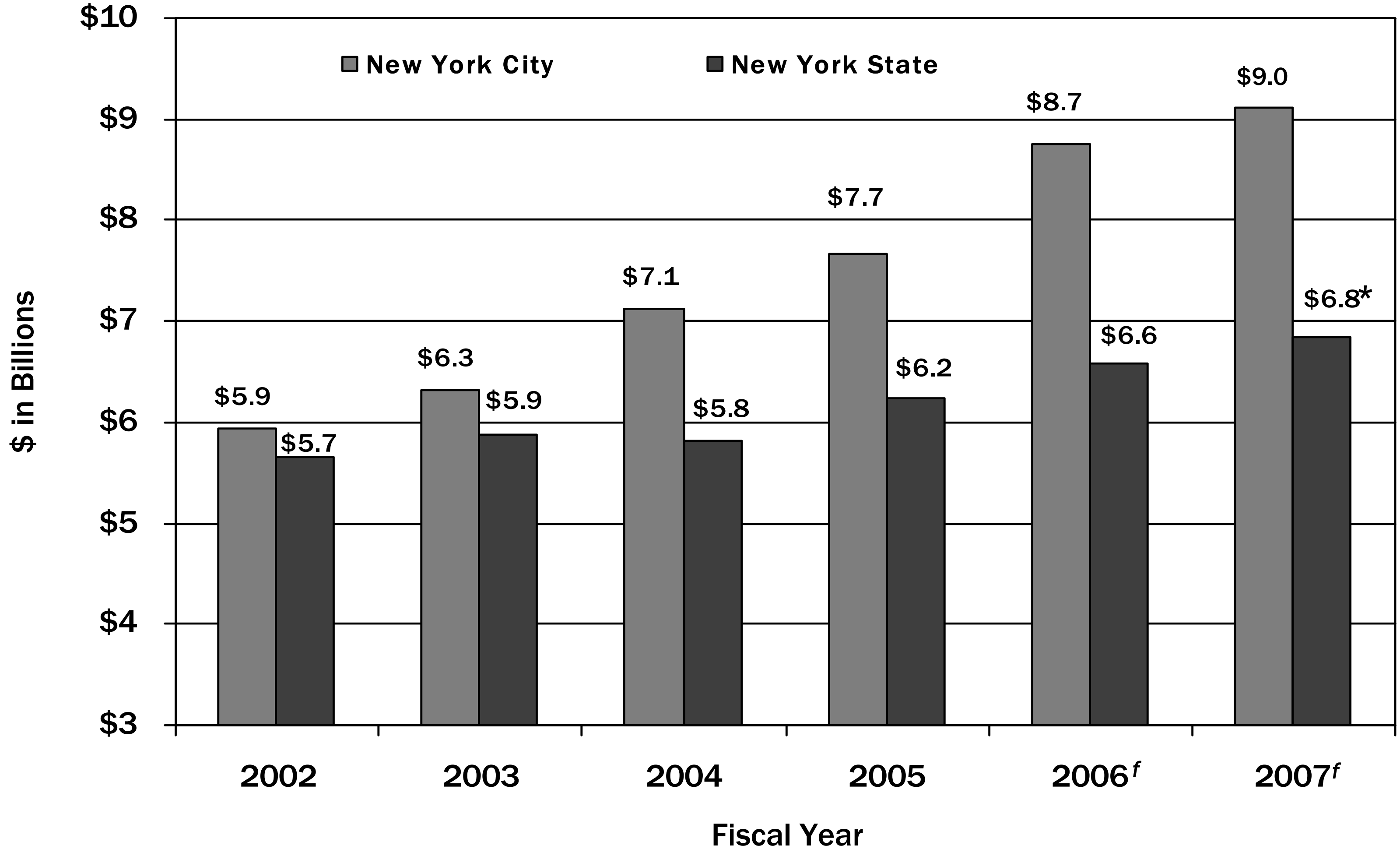
- Our State Agenda is designed to:
  - control expenses such as the costs of capital construction, debt financing and growing pension costs.
  - utilize government resources more efficiently by streamlining certain administrative and funding arrangements.
  - create an equitable human services partnership that will update state reimbursement rates and provide the necessary resources to meet TANF mandates.

State Initiatives

	$ in Millions			
	2007	2008	2009	2010
Provide Sufficient Resources to Meet TANF Mandates(1)	$185.0	$185.0	$185.0	$185.0
Update State Reimbursement Rates and Charges	162.9	163.2	163.5	163.8
Institute Tort Reform Initiatives	80.0	83.0	86.0	90.0
Streamline the Funding of CUNY	50.0	2.0	2.0	2.0
Allow New York City to Share Equally in Revenue Sharing Increases	32.8	41.8	42.0	42.3
Increase the City's Cigarette Tax from $1.50 to $2.00 Per Pack(2)	21.2	39.9	38.3	37.9
Reduce State Imposed Mandates on OTB	10.0	10.0	10.0	10.0
Strengthen Initiatives to Capture and Penalize Cigarette Tax Evasion	10.0	10.0	10.0	10.0
Reform Local Finance Laws	7.0	7.0	7.0	7.0
Create a Statewide Enhanced 311 Network to Respond to Human Services Needs	6.9	7.8	8.6	9.0
Lower the Cost of Capital Construction by Repealing the Wicks Law	5.8	21.8	43.3	63.8
Enact Pension Reform	TBD	TBD	TBD	TBD
Total	**$571.6**	**$571.5**	**$595.7**	**$620.8**

(1)Failure to obtain this funding will necessitate an increase in City Tax Levy or a reduction in TANF eligible services.
(2)A portion of this revenue will be dedicated to smoking prevention and cessation programs.

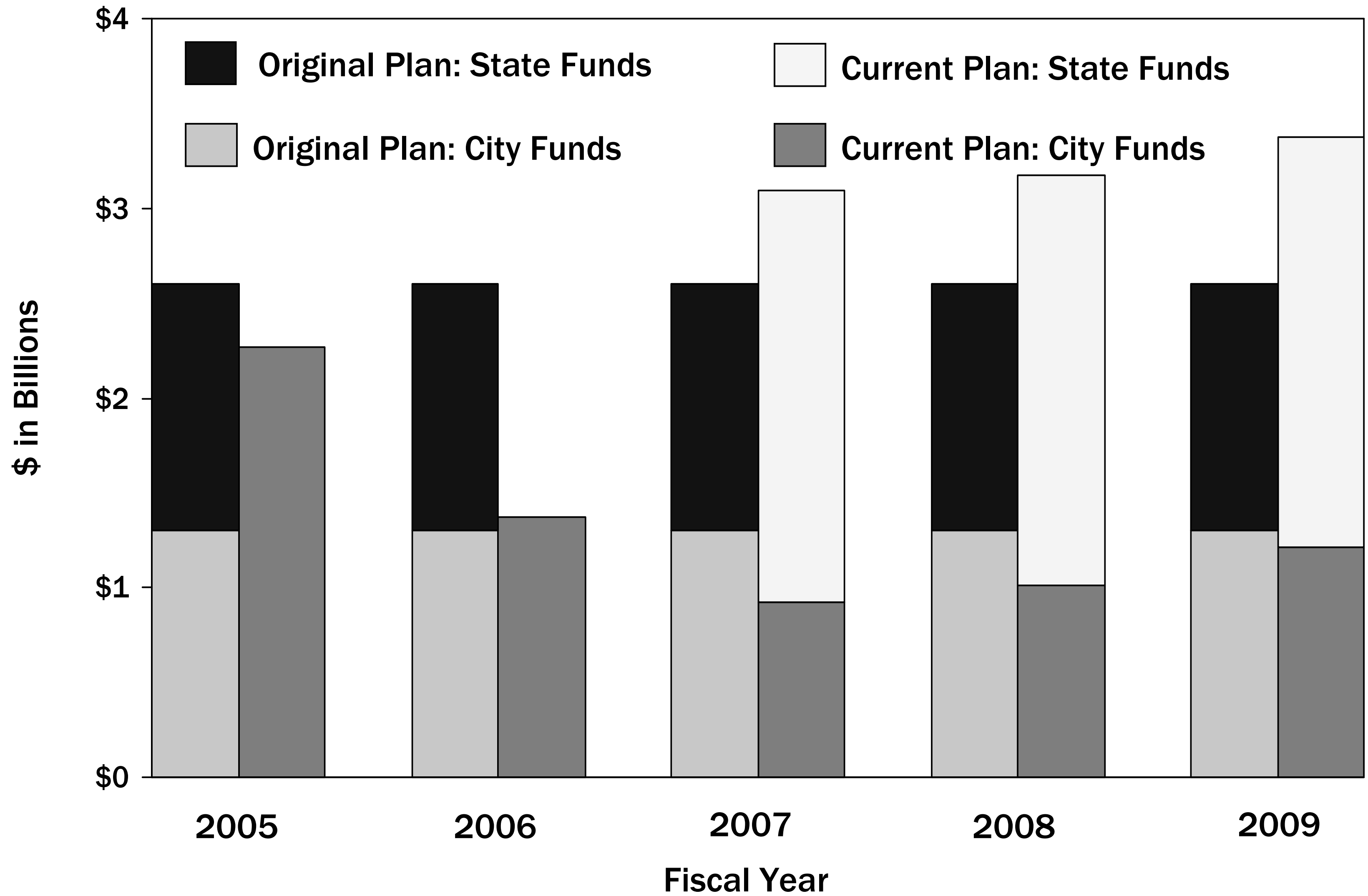
Since 2002, Annual City Spending on Behalf of the Department of Education Has Increased By $3.1 Billion While State Spending Has Increased By Only $1.1 Billion



*Proposed Governor's Budget, January 2006

f = forecast

In Order to Maintain Our $13.1 Billion Capital Commitment to Our Schools, the State Must Provide an Additional $6.5 Billion Over the Next Three Years. State Inaction Has Already Resulted in the Delay of $1.8 Billion in Capital Projects.



STATE GAP CLOSING INITIATIVES

STATE AGENDA

Provide Sufficient Resources to Meet Expected TANF Mandates
The SFY 2005-06 Adopted Budget created the Flexible Fund for Family Services (FFFS) which provides a block grant to localities for TANF surplus funds. The FFFS offers flexibility to localities in using TANF funds; however, the inadequate level of funding forces them to make difficult choices so that the locality does not surpass its FFFS allocation. Federal TANF reauthorization is expected to be approved in the coming weeks and proposes to establish potentially costly mandates through expanded work requirements. The base year update for caseload reduction credits, under-funded child care and rules on eligible work activities expected in the coming year pose unfunded mandates that local districts will be unable to meet without sufficient resources from both the Federal government and State government.

As the public assistance rolls have declined, an increasing proportion of the caseload face medical and psychiatric barriers to employment. In response, the City has developed the WeCARE (Wellness, Comprehensive Assessment, Rehabilitation, and Employment) program. WeCARE provides mandatory assessment and job search services to help public assistance recipients achieve self-sufficiency. These programs support the City's efforts to achieve Federally-mandated participation rates, and will be critical to achieving more rigorous rates under TANF reauthorization. They also have helped achieve an overall caseload reduction of 54% since the inception of TANF in 1997. While the City has made great strides in employment services and training for the hardest to place clients, adequate Federal and State funding is critical to continue the success in getting the most challenging populations into the workforce and towards self-sufficiency.

This year the City maintained funding for child care, employment services, and training programs, due to the availability of one-time, non-recurring revenues. Next year, however, without a commitment by the State to provide adequate funding for the FFFS the City will contend with a funding shortfall of $185 million.

Update State Reimbursement Rates and Charges

Increase Daily Reimbursement Rate for State Readies and Parole Violators
The State is required to provide reimbursement to localities for the incarceration of state-ready inmates and parole violators at $40 per inmate per day. State-ready prisoners are convicted felons who have been sentenced and committed to the State Department of Correctional Services, but have not yet been accepted by the State. Parole violators are also individuals who are temporarily detained in City correctional facilities. Despite this law, the State only reimburses localities $34 per inmate per day. Both the current rate as required by law and the rate paid by the State leaves the City with a substantial shortfall since the actual average cost per inmate per day is approximately $291. The City recognizes that the State has recently taken these individuals into their custody in a timelier manner, thereby reducing the City's costs; however, given that these individuals are the responsibility of the State, the

State should provide full reimbursement to the City. The City is requesting full reimbursement for the full cost of incarceration for state-ready inmates and parole violators, saving the City $140 million annually.

Provide Funding for Foster Care Children Awaiting Placement in State Institutions
Children with serious mental illness or emotional disturbances who frequently enter the foster care system are referred to the State Office of Mental Retardation and Developmental Disability (OMRDD) for residential treatment facility (RTF) placement. RTF placements are funded 100 percent by the State. Currently there are substantial waiting periods to move a child from foster care to these facilities, where more appropriate services can be provided. During this time the State neither provides services nor reimburses localities the RTF rate when services are provided for children waiting to be transferred. Care for these children is fully supported by the City, even after the placement determination for care by OMRDD is made. The State must take immediate action to expand RTF capacity so these children can be transferred as soon as possible to the appropriate care setting. Since children awaiting RTF placement are legally the responsibility of the State, the State should reimburse counties in full for the cost of providing services to these children prior to their placement. Further, it is unfair to require counties to spend already scarce foster care block grant funds in order to support these activities. It is estimated that the City would save $4 million annually if the State were to provide the City full reimbursement.

Increase Article VI Reimbursement Rates for Optional Services from 30% to Core Services Level of 36%
Article VI funding is used for general public health programs and services and is currently an open-ended entitlement where the State provides either a 30 percent match for optional services or 36 percent match for core services for county public health expenditures. New York City uses Article VI funds for a broad range of services including communicable disease prevention and treatment, environmental programs, school health services, disease prevention programs, dental clinics and poison control, among many other programs. New York City advocates for increasing reimbursement for optional services from 30 percent to 36 percent. There is no reason that certain services should be reimbursed at a higher rate than others when all services are vital in the effort to protect the public health of City residents. The savings to City from the rate increase would be $5.9 million in 2007 and $6.2 million in 2008.

Probation Aid Reimbursement Rate Increase from 20% to Statutory Level of 50%
While New York State law provides that local government probation spending shall be reimbursed up to 50 percent of the eligible local spending amount, the State actually reimburses the City significantly less than the statute requires. The State's probation aid has been gradually decreasing, and reimbursement rates have reached only 20 percent of approved expenditures over the last two years. As a result, the City is required to fully finance this shortfall in probation aid at close to $13 million each year. This is an enormous burden, only compounded by the fact that the City's probation services actually save the State money, since many of the individuals on

probation would be in a State prison if they were not sentenced to this alternative to incarceration. The City recommends an increase in the probation reimbursement amount up to the statutory limit.

Institute Tort Reform

The City proposes that the State enact far-reaching tort reform legislation. Tort liability costs have increased dramatically since the early 1990s. Last year, the City paid out almost $600 million in tort claims alone. The City's proposal includes several initiatives that will produce savings for both the City and the State, such as linking the interest paid by municipal corporations on judgments and claims to the 52-week Treasury bill rate, establishing a medical expense threshold and a cap on awards for pain and suffering, and allowing tort actions to be offset by a collateral source. It is anticipated that the City will realize at least $80 million annually in savings as a result of enacting these tort reform initiatives.

Streamline the Funding of CUNY

Approximately twenty years ago it was established that CUNY senior colleges would be funded through a combination of state aid and tuition. Although financial support of senior colleges was to be the sole responsibility of the State, at that time New York City was mandated to advance funds to CUNY for its senior college operating expenses. The City provides approximately $1.3 billion annually to CUNY for this purpose. The State is required by law to reimburse the City after CUNY claims for State Aid. However, just last year, the City was forced to pay over $48 million in outstanding balances as a result of this bi-furcated claiming process which is intended to have no impact on the finances of the City of New York. Further, New York City loses approximately $2 million annually in interest revenue from this pre-funding arrangement. The City advocates for full reimbursement of this $48 million in 2007 and $2 million annually in interest revenue.

Allow New York City to Share Equally in Revenue Sharing Increases

New York City, along with other municipalities across the State, receives Aid and Incentives to Municipalities (AIM) funding. AIM funding provides local governments with a flexible and consistent source of revenue. New York City was excluded from both the 5 percent across-the-board increase in revenue sharing enacted in the SFY 2001-02 Budget and the revenue sharing increase provided in the SFY 2005-06 Budget. New York City is the only municipality in the State that did not benefit from these statewide increases. City taxpayers contribute over $11 billion more in revenue to the State each year than is returned to the City in the form of State expenditures. Therefore, the City deserves to participate in any increase in this revenue stream. If New York City were to receive a 10% increase in this year's State budget, as was provided to other municipalities, the City would receive approximately $32.8 million in 2007. In addition, if a 2.5% permanent increase was enacted to include the City, as has been proposed for all other municipalities, it would result in an additional $9 million increase in 2008.

Cigarette Tax Initiatives

Increase the City's Cigarette Tax from $1.50 to $2.00 Per Pack

Cigarette smoking is one of the leading causes of lung-related illness and deaths in this country. The effects of secondhand smoke are also well known to put individuals around smokers, especially children, at risk for smoking-related diseases. Findings from the Community Health Survey and data from City and State cigarette and sales tax information show a significant decline in smoking prevalence when New York City increased the cigarette tax in 2002. The City is now proposing to increase the City's cigarette tax from $1.50 to $2.00, bringing the cost of a pack of cigarettes in New York City to $3.50. The increase will continue to serve as a disincentive for cigarette consumption and therefore lead to a decrease in the long term health care costs associated with smoking-related illness and disease. Further, a portion of the tax increase will provide the City with additional revenues to spend on new public health efforts to prevent and stop smoking. The $0.50 increase is estimated to bring the City $21 million in 2007.

Strengthen Initiatives to Capture and Penalize Cigarette Tax Evasion

New York City also advocates for new enforcement powers to strengthen the Department of Finance's ability to collect the cigarette tax. The City seeks enactment of State legislation that authorizes an award for information leading to violations of the New York City Cigarette Tax and imposes penalties against tax stamp counterfeiters. Other proposals include giving the State Attorney General the authority to prosecute violations of the City's cigarette tax, as well as provide the Attorney General, the Corporation Counsel, and any district attorney with concurrent jurisdiction in cases involving multiple defendants where violations are committed in multiple boroughs or outside the City's borders. New York City also proposes strengthening penalties for Internet shipping violations by counting each shipment as a separate violation and providing additional powers to the Attorney General and the Corporation Counsel to recover civil penalties. Additionally, the City proposes allowing local and injunctive enforcement to prohibit common carrier delivery of cigarettes to any entity not authorized to tax stamp the cigarettes. Revenue to the City from these strengthened enforcement proposals is expected to be at least $10 million annually.

Reduce State-Imposed Mandates on Off-Track Betting Corporations

The City seeks to eliminate the State-imposed financial mandates on Off-Track Betting Corporations. In the past two years, New York City Off-Track Betting Corporation (NYCOTB) has had operating losses due to mandated payments required under State law. NYCOTB has successfully implemented many measures to cut operating costs, but real reform and assistance is needed at the State level to keep NYCOTB operating. The City seeks to make numerous changes to the State laws governing racing and wagering in order to ease restrictions and allow for NYCOTB to continue producing revenue for New York City. Among these changes are: lowering takeout rates, reducing the State-assessed regulatory fees, in addition to eliminating hold harmless payments.

Reform Local Finance Laws

The City of New York proposes that the State grant the City the authority to maximize the benefits of the municipal bond market in order to reduce debt service costs. The City also recommends changes that will strengthen the City's credit rating. The City's reform package includes the following proposals that will save the City over $7 million annually if enacted.

Increase Transitional Finance Authority Bonding Capacity

When the Transitional Finance Authority (TFA) was created in 1997 it was intended to provide New York City with an additional financing mechanism for the City's capital program. The cost of issuing debt through TFA is significantly less than the cost of issuing General Obligation debt. The maintenance, expansion and rebuilding of the City's infrastructure in an efficient and cost effective manner are matters of serious concern to the people of the City of New York. For this reason, the City recommends increasing TFA bonding capacity to lower the cost of the City's capital program.

Tie Cost Recovery Fee Formula to Debt Outstanding

Public Authorities Law §2975 allows for the recovery of indirect state governmental costs from public authorities and public benefit corporations. According to this statute, every public authority or public benefit corporation created by State law with at least three members appointed by the Governor is required to reimburse the State for indirect governmental costs attributable to the provision of services to the public authority. In 2003 the aggregate amount that the State can assess public authorities under this section was increased from $20 million to $40 million. Furthermore, statutory language was amended that no longer tied assessments to the proportion of outstanding debt of each public benefit corporation to the total debt for all public benefit corporations. Instead, the amount assessed each public benefit corporation is solely determined at the discretion of the State Director of the Budget. As a result of these changes, the State recovery costs assessed on both the Battery Park City Authority (BPCA) and the Municipal Assistance Corporation (MAC) have grown significantly. The state recovery costs assessed BPCA have grown from $225,000 in 2003, to $3.6 million in 2006, while the MAC cost recovery fees have shown a similar increase, growing from $600,000 in 2003 to $1.6 million in 2005. The City is requesting that the State assess these fees in an equitable manner by amending the statute to provide for the pre-2003 proportional methodology for calculating the fees. This would result in a significant reduction in the amount assessed the City. Furthermore, the City is requesting a full and detailed accounting of state oversight costs that correspond to the fees assessed.

Amend the Local Finance Laws to Strengthen the City's Credit Rating

This proposal would strengthen the credit of New York City General Obligation debt by making certain provisions of the Financial Emergency Act permanent and by creating a statutory lien in the debt service fund in favor of the City's bond holders. This proposal would also authorize a pledge and agreement of the State to holders of City debt relating to preservation of the general debt service fund and the statutory lien.

Create a Statewide Enhanced 311 Network to Respond to Human Services Needs
New York City currently provides residents with access to important government information and services through the 3-1-1 phone system. In order to enhance this system New York City is implementing a new program to provide information on social services provided by non-profit groups. The City will be able to provide information and referral assistance to New Yorkers on the City's vast network of City agencies, non-profit providers, community based organizations and religious organizations in order to help those most in need. Residents will be able to navigate the maze of non-profit services in New York City much the way 3-1-1 has made it simple to connect with their government. Currently, these services are difficult to access, especially for those that need these services the most. By partnering with the City and providing assistance for this important service, New York State can contribute to a statewide enhanced 3-1-1 initiative that will benefit those in need throughout the State. An equitable partnership with New York City would provide $6.9 million in 2007.

Lower the Cost of Capital Construction by Repealing the Wicks Law
Currently, for construction projects costing more than $50,000, the City must issue four separate contracts for electric, plumbing, heating, ventilation and air conditioning (HVAC) and all other services. This multiple contracting requirement adds approximately 14% to the cost of every City–funded construction project and requires the City to become the "General Contractor," responsible for coordinating the activities of the four contractors. By the City acting as a General Contractor, defects in workmanship and accountability continually become a city burden. Under a single contract system, any defect in workmanship or damages caused by other contractors becomes the responsibility of the general contractor. Projects bid under multiple contract systems also cost more than single contract bids. These costs include risk of delays, litigation, unenforceable warranties and higher costs in insurance and change-orders. Therefore, the City is requesting full repeal of the Wicks Law which would provide over $2.8 billion in capital construction cost savings over the next ten years and $5.8 million in debt service savings in 2007.

Enact Pension Reform
Pension reform is necessary in order for New York City to gain control over escalating costs. Some pension reforms that should be examined include: adjusting post-retirement supplemental benefits, mandating employee contributions throughout active service, establishing age requirements for retirement systems where none currently exist, raising the retirement age and number of years of service necessary to retire where these requirements already exist and standardizing the final average salary calculations among employees. These items, in addition to other proposals, should be considered as part of any solution to limit the growth in mandated pension spending.