



THE CITY OF NEW YORK
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Testimony of Ronnie Lowenstein
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To the New York City Council
Committee on Government Operations
On Secession from the State

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Good afternoon Chairperson Perkins and members of the Committee on Government Operations. I am Ronnie Lowenstein, director of the New York City Independent Budget Office. Thank you for inviting me to speak at today's hearing.

It is not surprising that the notion of secession from the state has surfaced again as New York City must close large and repeated budget shortfalls. There is a fundamental mismatch between the city's fiscal structure and our level of fiscal autonomy. In other words, nearly all the decisions about how much we can tax as well as some key decisions about how we can spend our local tax dollars are made in Albany. Particularly in a time of fiscal duress, this lack of autonomy creates frustration that can lead to talk of secession. But secession is only one of several options for giving the city more control over its budget.

When one looks at New York City's set of taxes, it resembles that of a state more than the typical city. While in most towns and cities the property tax is the predominant source of revenue because of its relative stability, in New York City the property tax accounts for just two-fifths of our revenue. To supplement the property tax, New York City relies on a broad array of income and sales taxes—much as a state would. But these other revenue sources—60 percent of our tax collections—are much more sensitive to the fluctuations of the business cycle.

Unlike a state, though, New York City has virtually no control over the structure of its tax system and in setting tax rates. Among the various taxes in the city, the only thing we can determine directly is the property tax rate. One obvious remedy for this overall lack of self-determination—far short of secession—would be for Albany to give the city more flexibility in setting the rates of a broader array of local taxes.

In terms of spending, New York City also has some responsibilities that are more similar to those of states. The prime example is Medicaid. New York State requires all of its localities to pay roughly 25 percent of their Medicaid costs. For New York City that will amount to about \$3.9 billion this year and IBO estimates the cost will grow by \$330 million next year. At the same time, the decisions about what services to provide and how much to pay service providers are made in Albany.

There are a number of ways this lack of local control over some major expenses could be addressed. Keeping with the Medicaid example, the state could agree to swap the Medicaid burden it places on localities in exchange for a portion of sales tax revenue generated here and in counties across the state.

To ensure the city's long-term fiscal well-being, the city and state must address the issues arising from the mismatch between our fiscal structure and the limits on our ability to make budgetary decisions. These problems are not insurmountable. There are many ways to address them—well short of secession.

Thank you and I would be glad to answer any questions.