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Testimony of Ronnie Lowenstein
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To the New York City Council
Subcommittee on Revenue Forecast
On the Governor's Budget Proposals and a Fair Share State Budget

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Good afternoon Chairman Koppell and members of the Subcommittee on Revenue Forecast. I am Ronnie Lowenstein, director of the New York City Independent Budget Office. Thank you for inviting me to speak at today's hearing.

Today's discussion focuses on what seems like a perennial question: Is Albany providing New York City—the state's economic engine—with a fair share of aid? While this is certainly an important question, there may be another, equally important question that also deserves consideration: the extent of the city's fiscal autonomy. Nearly all the decisions about how much we can tax ourselves as well as many key decisions about how we can spend our local tax dollars are made in Albany rather than City Hall.

Determining the right "balance" between how many tax dollars the city sends to the state and how much we should get back in aid is difficult. Two basic principles that guide these decisions are ability to pay and need.

Taxing on the basis of ability to pay implies that a comparatively wealthy jurisdiction—and New York City is a prime example—will not get as much back in aid as it sends to Albany in taxes. There is no "right" degree of progressivity, however; the extent to which New York State should redistribute tax dollars from wealthier to poorer localities is a question people will answer differently based on their personal values.

The other guiding factor is need. While New York City is a particularly wealthy jurisdiction, it is also a city of tremendous need.

Education is one area where New York State aid has fallen short in terms of the basis of both need and ability to pay. As you know, the state courts have ruled, though another appeal is pending, that spending on education must increase. While the Governor's budget would provide an increase of about $96 million by IBO's estimate for 2006, this is far below the amount ordered by the court or even suggested by the Governor's own commission, which he appointed to help resolve the issue of how much more the state should pay. As the court noted in its Campaign for Fiscal Equity decision, if the state education aid formula was revised to more fully reflect the criteria of need, New York City's share of aid would rise to more than 50 percent of state aid, as opposed to the less than 40 percent we currently receive.

Another longstanding inequity is evident in one of the Governor's signature education programs—the School Tax Relief program, or STaR. The program, created to give property-owners a break on their school taxes, provides a disproportionately small share of benefits to city taxpayers. Though the city comprises roughly 40 percent of the state's population, we get less than one-quarter of the statewide benefit. A new proposal to adjust StaR for increases in the cost of living would send only about 5 percent of the new benefit to the city.

New York City's very low share of STaR benefits might make sense if the localities receiving the highest shares of aid under STaR were the state's neediest jurisdictions. Unfortunately, the opposite is the case. STaR aid disproportionately flows to the state's wealthiest suburban districts.

Health care funding provides another example of how state aid often fails to recognize the city's needs. The Governor's plan to cut Medicaid reimbursements will save the city money by reducing the ballooning Medicaid costs we jointly share. But a side effect will be a loss of about $275 million in revenue for the city's Health and Hospitals Corporation. The city already has had to come to the corporation's aid with an additional subsidy of $150 million a year in each of the next three years because of the public hospital system's increasingly precarious fiscal position. A large part of HHC's fiscal problems stem from the corporation's provision of care for the uninsured. IBO estimates that HHC provided about $200 million in unreimbursed care last year in treating about 435,000 uninsured people.

Another health-related example is the Governor's plan to accelerate the state takeover of funding Family Health Plus. He proposes this acceleration throughout the state—except for New York City. For the city, the Governor proposes a different savings that is contingent upon federal approval. Absent the federal go-ahead, the city will have to carry a roughly $42 million expense next year while all other parts of the state are relieved of their share Family Health Plus.

To be fair, the city does quite well in the distribution of some state subsidies. One example is the Ladder program, which helps fund universal pre-kindergarten and class- size reduction efforts.

Whether pluses like Ladder add up to a sufficient balance against the shortfalls in other aid under our progressive tax system is an open question. But where there is no question of the city's inequitable status is on the issue of fiscal autonomy.

Unlike most towns and cities that rely on property taxes as their main source of local revenue, New York City generates about 60 percent of its local revenue from an array of income and sales taxes. This makes us much more like a state than a city in terms of taxes. Unlike a state, though, the city has virtually no control over the structure of its tax system or in setting tax rates. Only the property tax rate is set by the city.

The city also has some unusual, state-like spending requirements. Albany requires localities statewide to pay roughly 19 percent of their Medicaid costs. IBO estimates this will cost the city $4.9 billion this year and $5.1 billion next year. Although the Governor has proposed some changes that will help relieve this burden, their adoption is far from certain and the most important change is not proposed until 2008.

Ensuring that the city gets its fair share of state subsidies is essential. But so, too, is gaining greater control over how local resources are generated and spent.

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