New York City Independent Budget Office

Focus On:
The Executive Budget

June 2015

Much of Mayor's Projected Savings Comes From Re-estimates of Borrowing Costs

The Mayor's Executive Budget for 2016 includes a "Citywide Savings Program" worth $589.0 million in 2015, $465.5 million in 2016, and an average of $617.2 million annually in 2017 through 2019. (All years refer to city fiscal years unless otherwise noted.) The program includes efficiencies and savings both citywide and within agencies, including reductions in expenditures and increases in revenues. The savings amount to roughly 1 percent of city-funded expenditures each year.

Nearly half of the 2016 total savings program, $218.7 million, or 47.0 percent, would come from various agency initiatives such as replacing all or part of programmatic funding with state or federal categorical aid, efficiencies in procurement of goods or services, and administrative actions to better manage program and contractual services. For example, the Department of Education expects to save $32.2 million from various administrative efficiencies in areas such as professional development, contracting, and temporary services, and $10.0 million from restructuring its existing school partnership organizations into affinity groups. The Department of Transportation is counting on generating $16.5 million in additional revenue from deploying more speed cameras and $5.8 million in new revenue from adding more bus lane cameras.

The other half of the anticipated 2016 savings results from citywide actions totaling $246.8 million of which $159.1 million, or 64.5 percent, would come from debt service savings attributable to interest rates that will be below what the de Blasio Administration had expected, allowing the city to issue new bonds at lower cost and generating additional opportunities to refinance existing debt.

When looking at the projected savings from 2017 through 2019, the share of savings generated by agency actions falls to about roughly one-quarter and the savings attributed to debt service is more than double the agency initiatives in each year. The financial plan projects total savings in 2017 of $640.9 million, with $158.5 million, or 24.7 percent, attributable to agency actions. Debt service savings are expected to total $392.7 million in 2017,

May 2015 Financial Plan Savings Program
Dollars in thousands

	2015	2016	2017	2018	2019
Agency Actions	$318,473	$218,693	$158,513	$170,959	$147,785
Percent Share	54.1%	47.0%	24.7%	27.3%	25.3%
Citywide Actions					
Debt Service Savings	$240,501	$159,151	$392,721	$364,847	$344,584
Procurement Savings	-	55,519	55,519	55,519	55,519
Miscellaneous	30,000	32,167	34,189	35,212	36,235
Total Citywide Actions	$270,501	$246,837	$482,429	$455,578	$436,338
Percent Share	45.9%	53.0%	75.3%	72.7%	74.7%
Total Savings Program	**$588,974**	**$465,530**	**$640,942**	**$626,537**	**$584,123**

SOURCE: Executive Budget Fiscal Year 2016, Message of the Mayor

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81.4 percent of savings from citywide initiatives and 61.3 percent of the total savings projected.

This pattern will continue through the end of the financial plan. Projected savings for 2018 includes $170.9 million, or 27.3 percent, from agencies and $455.6 million from citywide savings—debt service is $364.8 million of this amount. Similarly, 2019 projections include $147.8 million, or 25.3 percent, from agencies and $436.3 million citywide, primarily attributable to debt service savings.

For 2015, the city has negotiated a higher federal reimbursement rate for fringe benefits paid to social services workers funded by federal grants. As a result the city expects to receive $153.8 million in additional federal revenue, "saving" the city an equal amount. This is reported as an agency savings, although the initiative is not agency specific. If those savings were instead categorized as citywide, then the portion of savings from agency actions in 2015 would be 28.0 percent, closer to the figures for 2017 through 2019.

When looking back over past financial plans, the reliance on generating savings from agencies as compared with citywide initiatives, such as debt service and procurement initiatives, is quite different from the 2016 savings plan. The shares of projected savings in the 2013 and 2014 executive budget financial plans (which included changes from the respective November and preliminary budget financial plans) averaged roughly 80 percent from agency actions and 20 percent from citywide initiatives.

Focus on Debt Service Savings. Changes in the city's debt service budget account for nearly 52 percent ($1.5 billion of $2.9 billion) of the five-year total of the savings program, even though most, if not all, of the savings would likely have happened in the absence of the Mayor's plan.

More than $900 million of the cost savings result from changes in the Mayor's Office of Management and Budget's (OMB) assumptions about interest rates that the city will pay on future bond offerings. The new assumptions are closer to the rates that the city has paid in recent years while still remaining conservative relative to the current bond market. The shift results in considerable savings, but it also takes credit for savings that the city will likely realize in the future.

Previously, the budget office assumed that the city would pay an interest rate of 7.0 percent on future tax-exempt general obligation bond issues. In the executive budget financial plan, these rates were lowered to 5.5 percent for the remainder of 2015 and 2016 and to 6.0 percent for 2017 through 2019. Assuming planned debt issuance is unaffected by the change, the lower interest rate assumption results in savings of $306 million cumulatively through 2019. These savings were partially offset by debt service payments on $500 million in future borrowing added to the plan over the same period, reducing the total reported savings to $287 million through 2019. The assumed rate on the city's variable rate general obligation debt was also lowered from 2.49 percent to 0.35 percent for tax-exempt debt and from 3.0 percent to 0.50 percent for taxable debt, resulting in additional savings of $153 million in 2015, with smaller savings in the out-years due to a reduction in planned issuance of taxable bonds.

The projected interest rates on future debt to be issued by the city's Transitional Finance Authority (TFA) were also lowered from 6.8 percent to 5.3 percent for 2015 and 2016 and 5.8 percent in the latter years of the financial plan. Even after accounting for an additional $500 million in planned TFA borrowing, reducing the interest rate assumptions on TFA debt generated cumulative savings of $463 million through 2019.

The city's savings program also counts savings from two bond refinancing transactions that took place between the preliminary and executive budgets. These bond deals will result in at least $200 million in total savings through 2019, though OMB has been continuously refinancing the city's outstanding debt in recent years to take advantage of historically low interest rates and likely would have done these deals regardless of the existence of the savings program.

The final major savings identified in the debt service budget is a reduction in the amount that the city has set aside for interest support payments on the Hudson Yards Infrastructure Corporation's (HYIC) $3 billion in outstanding debt. (The city agreed to subsidize HYIC's interest payments until revenue from new development in the Hudson Yards area was sufficient to cover payments on its own.) Several new office projects on the far west side have broken ground, resulting in one-time payments from developers in exchange for density bonuses and air rights. HYIC will also begin receiving payments in lieu of property taxes from these properties in the near future. As a result, OMB now anticipates that the city will not have to make any interest support payments on HYIC debt in 2016 or 2017, a savings of $111 million, and have to contribute only $66 million in 2018, saving another $37 million from what had been previously assumed.

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