

THE COUNCIL OF THE CITY OF NEW YORK

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Report to the Committee on Finance on the Fiscal 2021 – 2025 Executive Financial Plan

May 24, 2021

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Introduction

On April 26, 2021, Mayor de Blasio released the Fiscal 2022 Executive Budget and Executive Financial Plan (the Plan) projecting revenues and spending through Fiscal 2025. For Fiscal 2022, the Mayor described the Plan as presenting a recovery budget from the economic toll brought about by the COVID-19 pandemic which has been wreaking havoc on the City since March 2020. Relying on a substantial influx of federal funding, the Plan makes significant investments in education, youth, health services, and social services, and other areas.¹ The budget also restores both cuts that were imposed as the pandemic took hold last year and reductions that were proposed in the Fiscal 2022 Preliminary Financial Plan. These restorations are primarily in the areas of education, social services, and sanitation. Specifically, the Plan reverses cuts to Fair Student Funding (FSF) and 3-K for all, as well as to Sunday litter basket service. The federal funding is also used to stabilize the City by funding core City operations that would otherwise be supported with City tax levy funding. While the federal stimulus funding is clearly welcome and, per the federal eligibility rules, needs to be used in the next few fiscal years, the Administration's allocation of the non-recurring funding to recurring expenses and programs is concerning in the long term. Lastly, the budget also allocates increases the City's reserves in Fiscal 2022.

This year, the Council has held agency-specific budget hearings throughout the month of May, and on May 24, 2021, the Committee on Finance and the Subcommittee on Capital Budget will hear testimony from the Office of Management and Budget (OMB) regarding the overall Executive Financial Plan. In advance of that hearing, this report offers a summary of the five-year Financial Plan, including the ways in which the budget has increased and how outyear gaps have decreased as compared to the Preliminary Financial Plan. Also included is an overview of the revenue budget and the City's reserves, a summary of the federal stimulus funding included across the Plan, and a summary of expense changes introduced in the Plan.

Financial Plan Overview

The Executive Financial Plan projects spending of \$100.7 billion in Fiscal 2021 and proposes a \$98.6 billion Fiscal 2022 budget. The Financial Plan presents a balanced budget for Fiscal 2021 and Fiscal 2022 and shows manageable budget gaps in the outyears. The Executive Financial Plan projects that expenditures will grow by 4.2 percent, which puts the City back on track to its previous spending growth trajectory. Revenue, however, is projected to decline throughout the Plan until Fiscal 2025 when it is expected to slightly exceed Fiscal 2021 amounts.

¹ The specifics of these proposals are discussed in greater detail in the agency-specific Executive Budget reports that have been prepared by the Council's Finance Division and which are available at: <https://council.nyc.gov/budget/fy2022/> (last accessed May 21, 2021).

Executive Financial Plan Overview					
<i>Dollars in Millions</i>	FY21	FY22	FY23	FY24	FY25
Revenues	\$100,660	\$98,559	\$97,631	\$99,507	\$100,951
Expenditures	\$100,660	\$98,559	\$101,536	\$103,206	\$104,886
Gap	\$0	\$0	\$(3,905)	\$(3,700)	\$(3,936)

The Fiscal 2022 Executive Budget includes \$67.3 billion in City funds, up \$167.4 million, or 0.25 percent, from the Fiscal 2022 Preliminary Budget. The total increase of all funds compared to the Preliminary Budget is \$6.3 billion, primarily due to recognition of new federal aid. The exceptionally high level of federal aid in Fiscal 2021 and Fiscal 2022 reflects the importance of federal support for the City's pandemic response, recovery efforts, fiscal stability. Most of the federal aid is frontloaded in the first two fiscal years of the Plan, with 28 percent allocated in Fiscal 2021 and 41 percent allocated in Fiscal 2022. This is in line with the federal eligibility rules that requires the funding to be spent in a certain timeframe.

Both expenses and revenues, excepting federal revenue, are expected to increase steadily over the five-year Plan period. Total revenue grows at an average annual rate of 0.1 percent, but the portion of revenue from City funds is projected to grow 2.5 percent in the five-year Plan period. Total expenditures increase by an average rate of one percent, greater than revenue growth, resulting in outyear gaps. The table below shows anticipated revenues and expenditures from Fiscal 2021 to Fiscal 2025, as well as the average annual percentage change in each category.

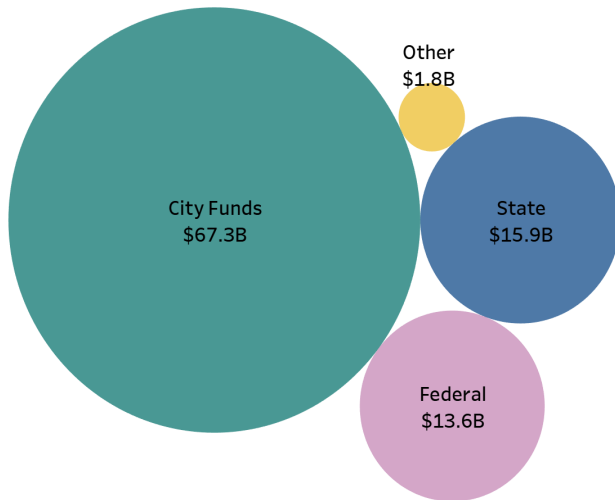
Fiscal 2022 Executive Financial Plan Summary

Dollars in Millions

	FY21	FY22	FY23	FY24	FY25	Average Annual Change
REVENUES						
Taxes	\$62,432	\$62,356	\$65,437	\$67,564	\$69,435	2.7%
Miscellaneous Revenues	\$7,239	\$6,873	\$6,887	\$6,878	\$6,891	(1.2%)
Unrestricted Intergovernmental Aid	1	-	-	-	-	
Less: Intra-City and Disallowances	(\$2,106)	(\$1,906)	(\$1,873)	(\$1,873)	(\$1,868)	(2.9%)
Subtotal, City Funds	\$67,566	\$67,323	\$70,451	\$72,569	\$74,458	2.5%
State Aid	\$15,011	\$15,921	\$16,305	\$16,624	\$16,874	3.0%
Federal Aid	\$16,305	\$13,566	\$9,157	\$8,598	\$7,904	(15.9%)
Other Categorical Grants	\$1,121	\$1,025	\$993	\$991	\$990	(3.0%)
Capital Funds (IFA)	\$658	\$725	\$725	\$725	\$725	2.5%
TOTAL REVENUES	\$100,661	\$98,560	\$97,631	\$99,507	\$100,951	0.1%
EXPENDITURES						
Personal Services	\$50,092	\$53,731	\$53,054	\$54,475	\$55,652	2.7%
Other Than Personal Services (OTPS)	\$46,450	\$42,960	\$40,699	\$40,552	\$40,486	(3.3%)
Debt Service	\$6,351	\$7,088	\$8,391	\$8,788	\$9,352	10.3%
General Reserve	\$50	\$300	\$1,000	\$1,000	\$1,000	183.3%
Capital Stabilization Reserve	-	-	\$250	\$250	\$250	
Less: Intra-City	(\$2,091)	(\$1,891)	(\$1,858)	(\$1,858)	(\$1,853)	(2.9%)
Spending Before Adjustments	\$100,470	\$94,932	\$101,536	\$103,207	\$104,887	1.0%
Surplus Roll Adjustment (Net)	(\$191)	(\$3,628)				
TOTAL EXPENDITURES	\$100,661	\$98,560	\$101,536	\$103,207	\$104,887	1.1%
Gap to be Closed	-	-	\$3,905	\$3,700	\$3,936	

Budget by Funding Source

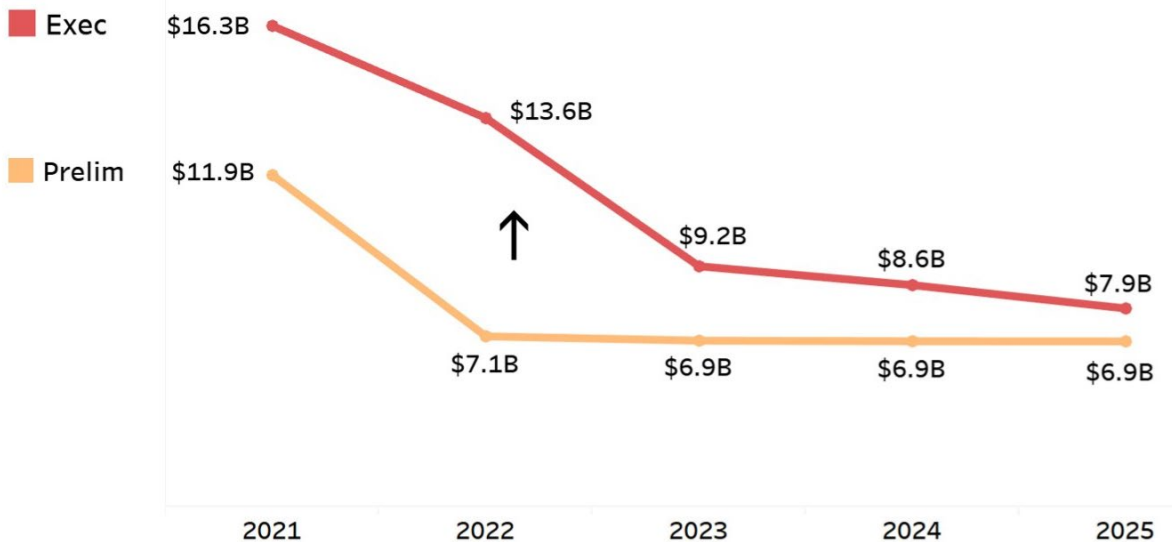
Fiscal 2022 Budget by Funding Source



As referenced above, the \$98.6 billion Fiscal 2022 Executive Budget includes \$67.3 billion in City funds. It also includes \$15.9 billion in State funds, \$13.6 billion in federal funds, and \$1.8 billion in other funding sources.

The chart below illustrates the change in federal funds by each fiscal year between the Preliminary and Executive Financial Plans. The Executive Plan now provides \$16.3 billion in federal funds for Fiscal 2021 and \$13.6 billion for Fiscal 2022. For Fiscal 2022, this represents an increase in federal funds of \$6.5 billion.

Increase in Federal Funds for Executive Plan



Federal Stimulus Funding

Two stimulus acts have had a profound effect on the Plan and the City’s fiscal outlook in general. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) enacted in December 2020 provided \$868 billion nationally in total stimulus funding, including \$82 billion in education aid. The American Rescue Plan (ARP) enacted in March 2021, provided \$1.9 trillion nationally in stimulus funds, including \$130 billion in aid to local governments and \$170 billion in education aid. Of those funds, the City was allocated \$2.2 billion in CCRSA funds for education aid and \$555 million for COVID-19 testing, tracing, and mitigation efforts. In addition, the City received \$5.9 billion in ARP recovery funds and \$4.8 billion in ARP education aid. Local

governments have until September 2023 to spend CRSSA funds and December 2024 to spend ARP funds.

Federal aid provides critical fiscal relief to the City and in the Plan the Administration uses the funding to support a wide range of new and ongoing programs. However, the use of federal dollars to support for ongoing programs diminishes in the outyears of the Plan. The total of all new federal funding in the Plan totals \$4.4 billion in Fiscal 2021 and \$6.5 billion in Fiscal 2022, but decreases to \$2.2 billion for Fiscal 2023 and \$1.7 billion for Fiscal 2024.

The Plan frontloads most of the new federal aid because it primarily supports COVID-specific activities and programs, such as Fiscal 2021 additions of \$1 billion in funding to NYC Health + Hospitals (H+H) and \$400 million to pay for COVID medical leave and care. Also some funding, such as the \$1.1 billion in Fiscal 2022 in operational support to the Department of Education (DOE), is provided only on a one-year basis.

Yet another reason for the frontloading is the direct replacement of City funding with federal aid, such as swaps in Fiscal 2021 of \$500 million in the Department of Sanitation (DSNY) for cleaning programs and waste export, and a \$280 million swap provided to the Department of Correction (DOC) for operational expenses. However, as the federal funds decrease throughout the Plan, new City funds increase from \$167 million in Fiscal 2022 to \$583 million by Fiscal 2025 to support the programs initially funded with federal dollars. The use of federal funds must be before the set deadlines for each stimulus package, therefore requiring City funds to pick up programs in the future or risk cancellation. One major program that illustrates this is the expansion of 3K for All, which receives \$753 million in federal funding in Fiscal 2024, but by Fiscal 2025 the cost is split with City and federal funds each providing \$376 million. The reduction in federal aid by Fiscal 2023 leaves some programs with no funding at all in the outyears. For example, \$112 million is provided for mental health teams at the Fire Department (FDNY) and H+H, but only for Fiscal 2022. This leaves the program to be funded in a future financial plan or to be discontinued by a future Mayor and Council. Similarly, the Plan reverses the City's placeholder for \$1 billion in labor savings in Fiscal 2022 and the remaining \$290 million in labor savings for Fiscal 2021. However, a \$1 billion labor savings remains in the budget for Fiscal 2023 and Fiscal 2024, but without a plan to achieve the reduction.

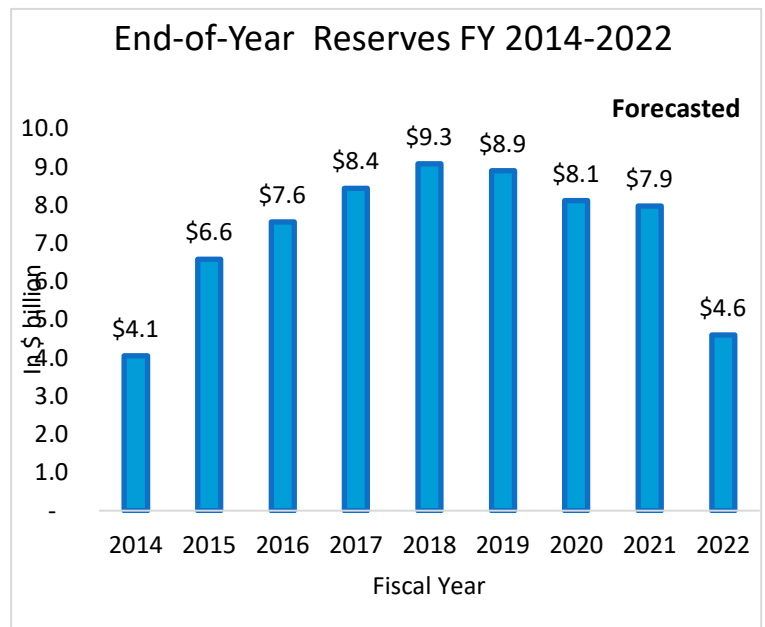
Significant Adds from Stimulus for Fiscal 2022

Operational Supports for DOE	\$1,077M
Reconciliation of previous Labor Savings	\$1,000M
ARP Funding Swap for DSNY Revenue Loss	\$500M
Academic Recovery and Student Supports	\$500M
3K Expansion	\$334M
ARP DOC Funds	\$280M
Special Education Services	\$236M
Instructional Support for DOE	\$220M
Programmatic Support for DOE	\$202M
DSS Rental Housing Assistance Vouchers	\$168M
Information Technology Support for DOE	\$155M
Restoration of Temporary FSF Reduction	\$150M
Clean Up Corps	\$123M
Small Business Grant Program	\$104M
Mental Health Teams - FDNY And H+H	\$92M

Stimulus funds also used to restore cuts totaling \$133 million previously made to the Fiscal 2022 budget, including \$121 million for various DOE programs and \$95 million for DSNY litter collection.

Reserves

New York City revenues vary with the ups and downs of the economy, as has unfortunately been demonstrated during the COVID-19 pandemic. Over the years, the City has developed an informal system to manage the budget across the business cycle, saving in good times and using those funds in bad times as we are currently experiencing. The City's reserve system is categorized into four general components that collectively make up the City's reserves: 1) current in-year budget reserves, such as the General Reserve and the Capital Stabilization Reserve; 2) the Budget Stabilization Fund (also referred to as the surplus roll) which is used to prepay debt service costs in the ensuing fiscal year; 3) the Retiree Health Benefits Trust (RHBT); and 4) the new Rainy-Day Fund (RDF), a true, multi-year reserve fund that the City was granted authority to create by the State in Spring 2020.

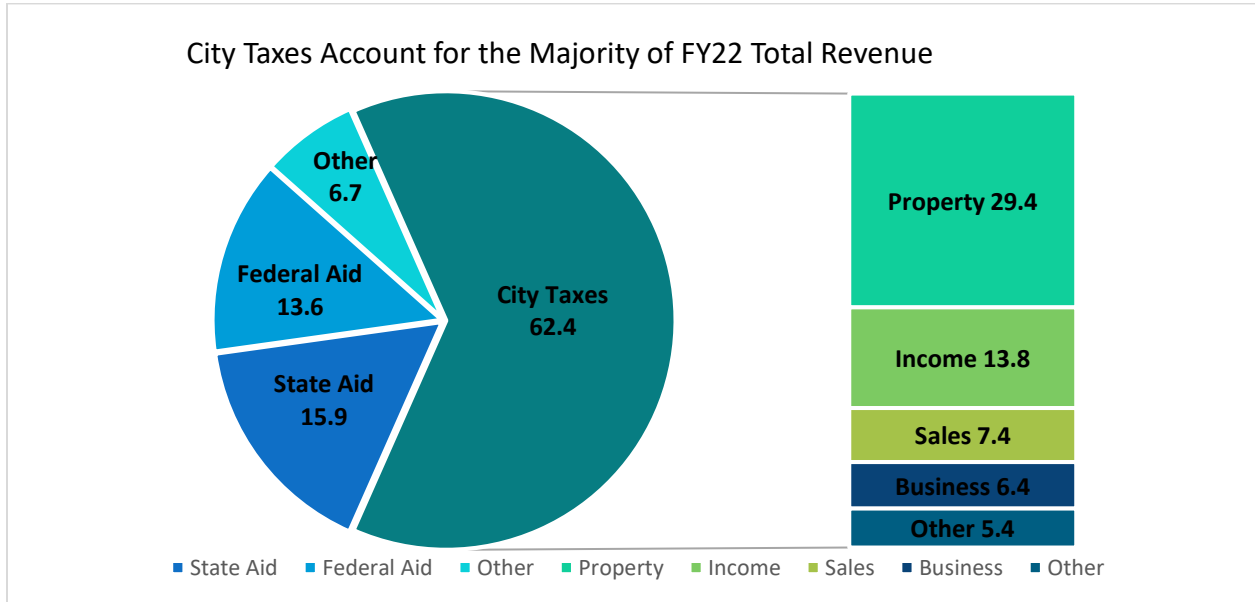


Even as New York City continues to have vaccinations widely available and to increase the percentage of the population that is vaccinated, COVID-19 still remains as the primary risk to the City's tax revenue and economy. In response to the economic crisis caused by COVID-19, the City used reserves in order to sustain its current service levels. At the end of Fiscal 2019, pre-pandemic, the City had a total net end-of-year reserve balance of \$8.9 billion. By the end of Fiscal 2020, those reserves were down to \$8.1 billion, consisting of \$3.8 billion in the Budget Stabilization Fund, roughly \$3.8 billion in the RHBT, and \$493 million in the RDF.

Between the Preliminary and Executive Plans, OMB used another \$160 million in reserves to balance the current fiscal year. This change leaves \$50 million in the Fiscal 2021 General Reserve and \$3.6 billion in the Budget Stabilization Fund, which when combined with the RHBT and RDF totals approximately \$7.9 billion in year-end reserves for Fiscal 2021. As of the Plan, the end-of-year reserve levels for Fiscal 2022 reflects \$300 million in the General Reserve, \$493 million in the RDF, and \$3.8 billion in the RHBT, for a net total end-of-year reserve balance of \$4.6 billion. However, this end-of-year reserve for Fiscal 2022 will change by the Fiscal 2022 Adopted Financial Plan.

Revenue Budget

In the Executive Plan, revenues for Fiscal 2022 total \$98.6 billion, 6.8 percent more than projected in the Fiscal 2022 Preliminary Financial Plan. Revenues come from several sources, including local taxes, miscellaneous revenues, and State and federal categorical grants, as shown in the chart below.



Note: "Other" includes audits.

Source: OMB, "April 2021 Financial Plan, Fiscal Years 2021-2025".

City taxes for Fiscal 2022 are expected to total \$62.2 billion, up 0.3 percent compared to the Fiscal 2022 Preliminary Budget. The real property tax comprised 47.1 percent of all tax revenues, while the personal income tax comprises 22.2 percent. For additional details of the Revenue Budget, see the "Economic and Tax Revenue Forecast for the Fiscal 2022 Executive Budget" report from the Council Finance Division, released simultaneously with this report.

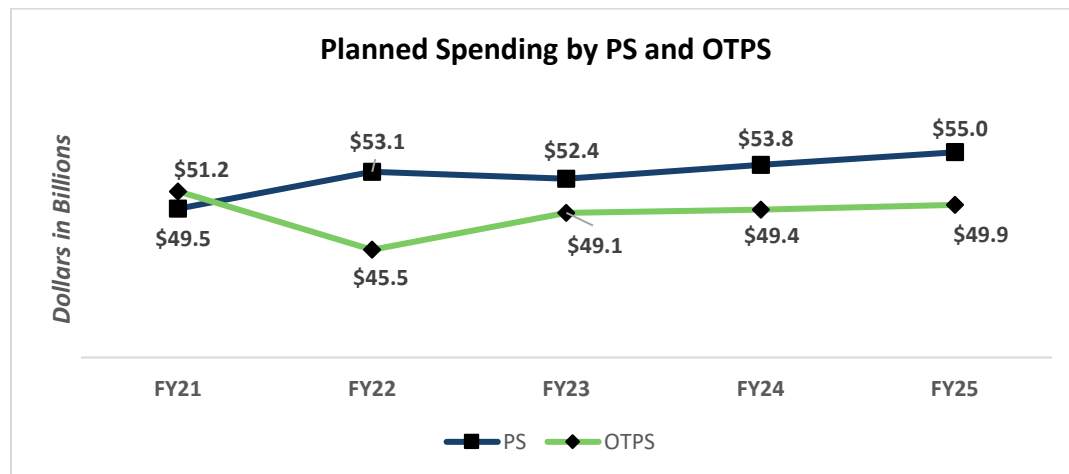
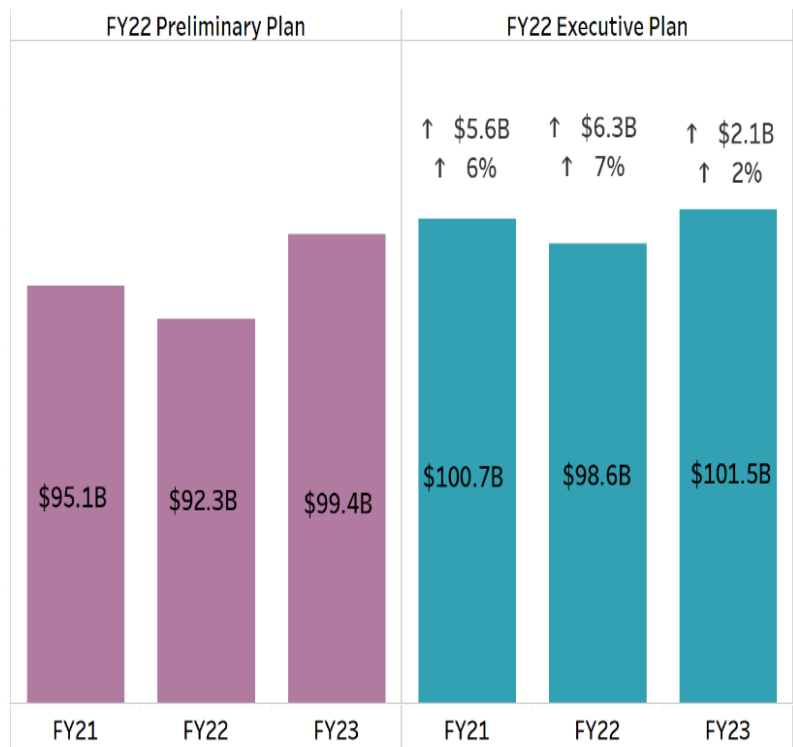
Expenditures

For the current fiscal year, Fiscal 2021, the budget totals \$100.7 billion. Over the life of the Plan, expenditures increase to \$104.9 billion by Fiscal 2025, representing an increase of 4.2 percent, or \$4.2 billion, over the five-year period. Compared to the Preliminary Plan, the Fiscal 2021 budget increases by \$5.6 billion and the Fiscal 2022 Executive Budget grows by \$6.3 billion. The outyears increase as well, although to a smaller degree; the Fiscal 2023 budget increases \$2.1 billion, Fiscal 2024 by \$1.9 billion, and Fiscal 2025 by \$1.7 billion.

Spending: Personal and Other than Personal Services

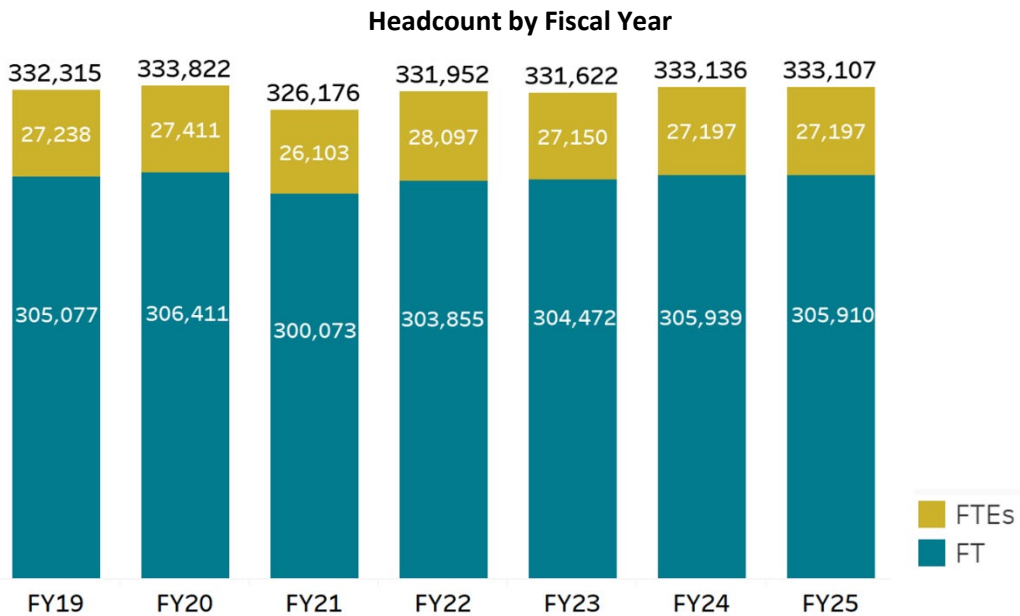
The Fiscal 2022 Executive Budget contains \$53.1 billion in personal services (PS) spending, or 53.8 percent of the total budget, and \$45.5 billion in other than personal services (OTPS) spending, or 46.1 percent of the total budget. PS funding increases at an average annual growth rate of 2.7 percent over the course of the Plan, making it the main contributor to the increase in the budgets in the outyears. OTPS funding decreases by \$5.7 billion, or 11 percent, from Fiscal 2021 to Fiscal 2022. This decrease is primarily due to a decrease in debt service, from \$6.4 billion in Fiscal 2021 to \$3.4 billion in Fiscal 2022 as a result of the debt service prepayment, and decreases in federal funding, from \$16.3 billion in Fiscal 2021 to \$13.6 billion in Fiscal 2022.

Executive Plan Compared to Preliminary Plan



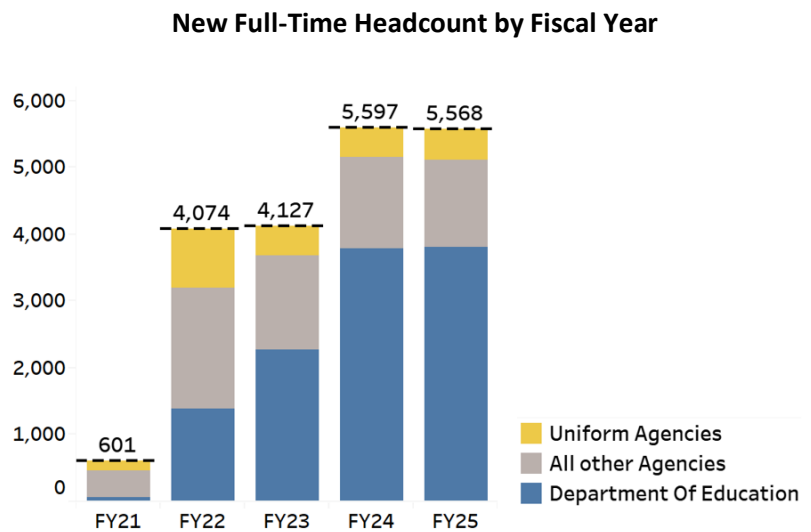
Citywide Headcount

In the Plan, the Fiscal 2022 citywide headcount totals 331,952, which consists of 132,379 pedagogical positions (40%), 110,558 civilian positions (33%), 60,918 uniform positions (18%), and 28,097 full-time equivalents (9%). The City’s current Fiscal 2021 budgeted headcount is 326,176 which, as a result of pandemic-related budget cuts, is a decrease of 7,646 compared to the previous year.



The headcount changes made in this Plan indicate a near full restoration of headcount to pre-pandemic levels by Fiscal 2022, and full restoration by Fiscal 2024. The new positions added in the Plan can be seen in the chart below.

The agency with the highest number of additional headcount additions is DOE. For DOE, the Plan adds 1,414 positions for Fiscal 2022, 2,294 for Fiscal 2023, and 3,793 by Fiscal 2024. The DOE headcount additions represent one-third of new headcount in Fiscal 2022 and two-thirds of new headcount added in Fiscal 2024 and Fiscal 2025. The expansion of free 3-K for All throughout the City is the primary reason for the headcount increase, followed by mental health support and special education pre-kindergarten.



Additionally, the City’s hiring control plan introduced in the Preliminary Plan that permitted the hiring of one position for every three vacancies has been modified. That plan caused a reduction of 4,937 positions for a savings of \$292 million across multiple agencies. The Executive Plan restores 485 of those positions at a cost of \$38 million and shifts from the hiring control plan to hire one position for every three vacancies from attrition to hiring one position for every two vacancies. Other agencies with significant headcount additions for Fiscal 2022 include the Department of Health and Mental Hygiene (DOHMH) with 354 positions, the New York Police Department (NYPD) with 216, the Department of Buildings (DOB) with 168, the Department of

Transportation (DOT) with 166, and DSNY with 151. Specific descriptions of the significant changes to the City's headcount are listed below by agency.

Significant Headcount Changes

Agency	Description	FY21	FY22	FY23	FY24	FY25
Department Of Education	3K Expansion	75	721	1,398	2,825	2,853
	Mental Health Support for DOE	0	490	520	520	520
	Expand Pre-K for All Special Education	0	162	330	402	402
	Expand Restorative Justice (DOE)	0	31	36	36	36
	Expand PSAL	0	10	10	10	10
Citywide Savings Initiatives	Partial Restoration of Attrition Mgmt	0	485	485	485	485
Department Of Correction	Correction Officer Recruit Class	0	400	0	0	0
	PS Adjustment	3	11	8	8	8
Department Of Health And Mental Hygiene	DOHMH New Family Home Visits	0	213	0	0	0
	DOHMH DOE 3K Expansion	0	55	55	55	0
	DOHMH Mobile Treatment	0	41	41	41	41
	Lead Poisoning Prevention	7	20	20	20	20
	MFV Permits & Grading	0	18	23	23	23
	Other Positions	-3	7	2	2	2
Police Department	NYPD Civilian Positions	11	208	208	208	208
	Community Ambassadors	4	8	8	8	8
Department Of Transportation	Traffic Planning and Management Division	37	69	69	69	69
	Permanent Open Restaurants (DOT)	0	34	34	34	34
	Crash Investigation Unit	0	29	29	29	29
	Master Plan	3	14	17	19	19
	Other DOT Positions	4	25	27	27	29
	ITCS In-Sourcing	0	0	20	31	31
Department Of Buildings	DOB COVID Inspections	20	80	20	20	20
	Small Business Recovery	0	0	42	0	0
	Energy Code Enforcement	0	25	25	25	25
	Construction Safety Monitoring	0	22	22	22	22
	Facade Safety	0	20	20	20	20
	Other DOB Positions	8	21	21	21	21
Department Of Sanitation	Restoration for Weekday Basket Service	0	59	59	59	59
	Commercial Waste Zone	2	28	38	38	38
	Precision Cleaning Initiative	0	37	37	37	37
	Organics Programs	0	15	0	0	0
	Other DSNY Positions	0	12	8	8	8

Executive Plan Changes

The Plan introduced changes that increased the Fiscal 2021 budget by \$5.6 billion and the Fiscal 2022 budget by \$6.3 billion. City-funded actions total \$2.7 billion across Fiscal 2021-2025. New needs total \$436 million in Fiscal 2021 and \$1.3 billion in Fiscal 2022. Savings amount to \$603 million across Fiscal 2021 and Fiscal 2022, and reflect both projected revenue increases and spending reductions. Fiscal 2022 debt service prepayments increase by \$270 million with Fiscal 2021 funding. The Plan also reverses cuts imposed in previous financial plans, which total \$667 million across Fiscal 2021 and Fiscal 2022. Lastly, the Plan introduces other adjustments of \$4.9 billion in Fiscal 2021 and \$5.1 billion in Fiscal 2022.

Executive Financial Plan Changes					
<i>Dollars in Millions</i>	FY21	FY22	FY23	FY24	FY25
New Needs	\$436	\$1,328	\$644	\$580	\$902
Other Adjustments	4,899	5,144	1,499	1,367	896
Savings Program	(264)	(339)	(212)	(170)	(166)
Debt Service	270	(270)	0	0	0
PEG Restorations	268	399	169	140	54
Total Changes	\$5,609	\$6,262	\$2,100	\$1,917	\$1,686

Other Adjustments

The Plan includes other adjustments of \$13.8 billion across the five fiscal years of the Plan, with increases of just over \$10 billion between Fiscal 2021 and Fiscal 2022. The vast majority of the other adjustments included in the Plan are supported with federal stimulus funding. Federally funded other adjustments total \$10.7 billion over Fiscal 2021 and Fiscal 2022, compared to a reduction of \$90.6 million in City-funded other adjustments across the same fiscal years.

Some of the major programs categorized as other adjustments and supported with federal aid in Fiscal 2022 include:

- \$639.5 million in supplemental Medicaid adjustments for the Department of Social Services (DSS);
- \$168 million for rental housing assistance vouchers offered by DSS;
- \$103.7 million for the Small Business Grant Program for the Department of Small Business Services (SBS);
- \$1.2 billion across Fiscal 2021 and Fiscal 2022 to reverse labor savings;
- \$60.5 million for the indirect cost rate initiative for nonprofit human service providers; and
- Reimbursements for COVID-19 related expenses incurred by City agencies, such as the installation of plexiglass for social distancing purposes and overtime expenses for City workers participating in vaccination hubs.

Additionally, the Plan has added \$1.6 billion to the RHBT and \$200 million for the General Reserve, using City funds, for Fiscal 2022.

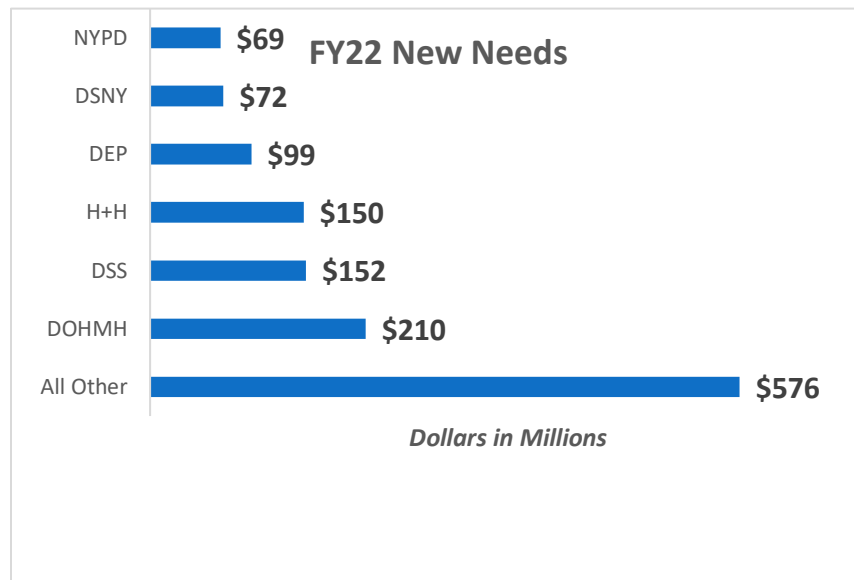
New Needs

The Plan outlines \$3.9 billion in new needs across Fiscal 2021-2025, and \$1.7 billion in new needs across Fiscal 2021 and Fiscal 2022 alone. Some of the new needs added in Fiscal 2022 include the following:

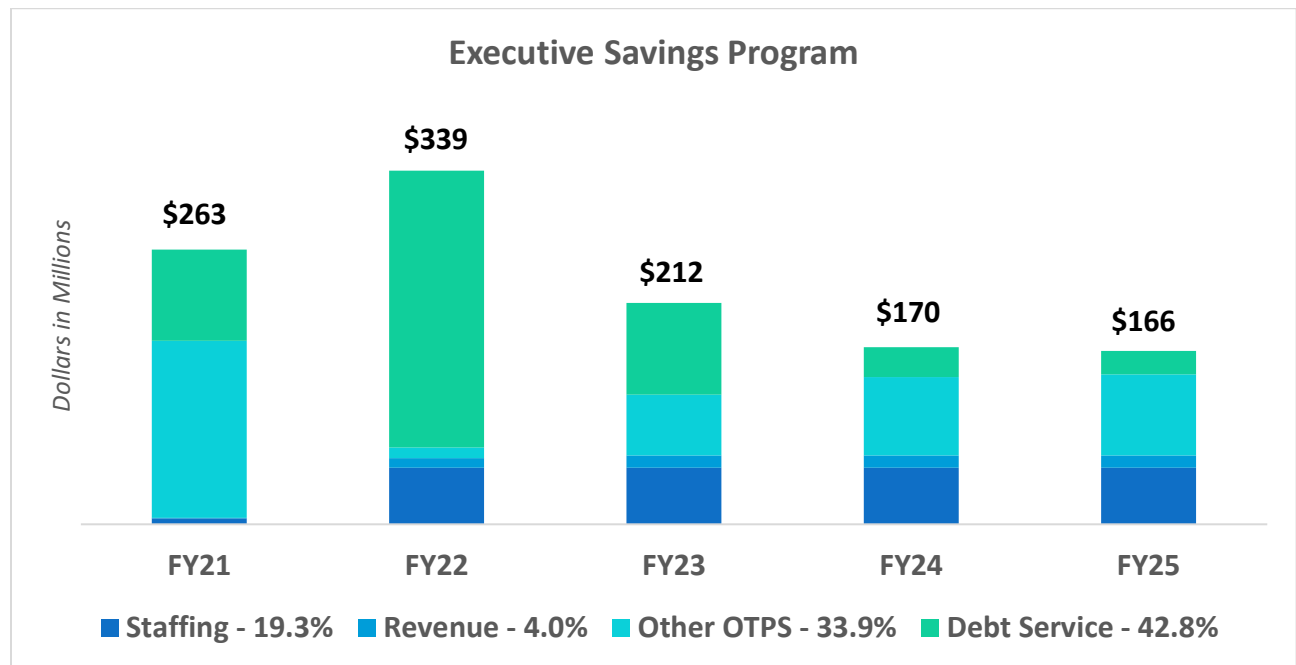
- \$249.1 million in Fiscal 2022 to expand Epidemiology and Laboratory Capacity (ELC) across multiple agencies;
- \$150 million for H+H to operate the test and trace program in school buildings as they reopen;
- 47.9 million for the HIV and AIDS Services Administration (HASA) single-room occupancy units; and
- \$36.2 million for Build-it-Back construction inspectors.

Savings Program

Savings introduced in the Executive Citywide Savings Program are minimal, totaling just over \$1 billion across Fiscal 2021-2025. They are mostly frontloaded in Fiscal 2021 and Fiscal 2022, totaling \$603 million. Savings include a mixture of staffing reductions, re-estimates in revenue



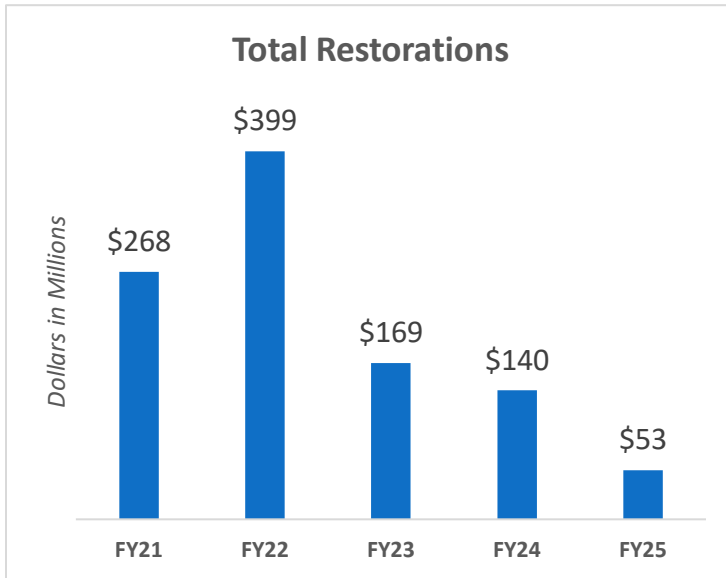
projections and debt service, and agency-wide programmatic cuts. Adjustments for debt service expenses account for the majority of the savings program, accounting for \$265.5 million in Fiscal 2022, contributing to 78.3 percent of the savings in that year Fiscal 2, and 42.8 percent across the entire savings program. Furthermore, the program sees little agency efficiency savings or other permanent changes.



Cost Savings Program Restorations

The Plan includes restorations for cuts imposed during previous financial plans that total just over \$1 billion across the five fiscal years of the Plan. Fiscal 2022 restorations include \$133.2 million, or 79 percent, of total cuts included in the Fiscal 2021 Executive and Adopted Financial Plans, which had reduced spending by \$168.4 million. Additionally, cuts included in the Fiscal 2022

Preliminary Plan, totaling \$265.8 million, are completely restored. The reversed cuts included in the Fiscal 2022 Preliminary Budget include \$150 million for FSF and \$43.8 million pre-kindergarten, among others. Additionally, there is a partial restoration of the hiring and attrition savings, totaling \$37.9 million in Fiscal 2022.



As shown in the chart on the left, the majority of these restorations impact Fiscal 2021 and Fiscal 2022, with only \$53 million worth of restorations added in Fiscal 2025.