



BOARD OF SUPERVISORS AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Submitted on:
(COB Stamp)

Department Name:	County Executive Office
Department No.:	012
Agenda Date:	December 16, 2025
Placement:	Departmental Agenda
Estimated Time:	1 Hour
Continued Item:	No
If Yes, date from:	N/A
Vote Required:	Majority

TO: Board of Supervisors
FROM: Department Director(s): Mona Miyasato, County Executive Officer
Contact Info: Paul Clementi, Budget Director
SUBJECT: FY 2026-31 Five-Year Forecast

DocuSigned by:
Mona Miyasato
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County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

It is recommended that the Board of Supervisors of the County of Santa Barbara (acting concurrently as the Board of Supervisors of the County of Santa Barbara and the Board of Directors of the Santa Barbara County Fire Protection District, Santa Barbara County Flood Control and Water Conservation District, Laguna County Sanitation District, Santa Barbara County Water Agency and other special districts under the supervision and control of the Board of Supervisors):

- Receive and file the Five-Year Forecast for Fiscal Years 2026-27 through 2030-31;
- Adopt the Fiscal Year 2026-27 Budget Development Policies;
- Review funding priorities for Fiscal Year 2026-27
- Review Budget Balancing Framework and provide direction as appropriate; and
- Determine pursuant to California Environmental Quality Act Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

Summary Text:

This item presents the County's preliminary five-year financial forecast for FY 2026–31, highlighting projected budget challenges and outlining strategies to address them. The forecast anticipates a cumulative \$66.4 million deficit across the General Fund and key special revenue funds that support safety net services. This includes a \$26.2 million General Fund shortfall and an additional \$40.3 million gap in safety net programs, driven by state and federal policy changes, revenue shortfalls, and structural operating deficits. The projected shortfall in FY 2026-27 if all current service levels were maintained is \$23 million after the release of available ongoing set-asides.

The County's fiscal outlook is significantly strained by the impacts of Federal House Resolution 1 (H.R. 1), which introduces significant changes to Medi-Cal and CalFresh, reducing coverage and increasing local costs, and related State budget changes. These changes, along with expiring grants and rising costs in indigent care, homelessness services, and criminal justice programs, compound the budgetary pressure. The forecast does not include community-wide impacts to other service providers that support safety net services in our county.

To address these challenges, the County proposes a Budget Balancing Framework that includes:

- Departmental budget reduction proposals
- Efficiency measures and hiring controls
- Revenue generation options, including a potential sales tax
- Strategic use of reserves and one-time funds
- Prioritization of critical safety net services
- Other one time and ongoing savings measures

Additionally, the FY 2026–27 budget development policies recommend earmarking \$50 million in one-time funds and \$8.5 million in ongoing funds for the Northern Branch Jail expansion. Putting \$50 million towards the project is expected to save \$3.7 million annually in debt service.

The Board is asked to receive and file the forecast, adopt budget development policies, review funding priorities, and provide direction on balancing strategies. Staff will return with regular updates as needed prior to the April Budget Workshops and then June Budget adoption.

Discussion:

Economic Outlook

Economic Indicators

The UCLA Anderson Forecast suggests that a recession is unlikely, but notes high uncertainty levels in the current forecast, as indicators are very volatile. While a recession is unlikely GDP growth is expected to slow through the end of the calendar year 2025 and continue well into 2026. According to the Anderson Forecast, the Federal Reserve made two quarter-point interest rate reductions in September and October as part of a shift to a stronger emphasis on their employment mandate to protect the already degrading labor market, rather than to decrease inflation, which is expected to continue to rise. Significant inflationary pressure is coming primarily from the service sector, such as healthcare, with tariff's also beginning to impact the cost of goods. Uncertainties such as government shutdowns, the developing impacts of tariffs, and changes in federal policies continue to remain as threats that could alter the trajectory of the economy.

State & Federal Budget and Legislative Impacts

Recent state and federal policy changes present significant fiscal and operational challenges for departments that make up the local social safety net. The 2025-26 California State Budget closed a multi-billion-dollar shortfall through deferred spending, limited program growth, and reductions to certain health and human services augmentations. Furthermore, the Legislative Analyst's Office wrote in November 2025 that the State faces an estimated \$18 billion budget shortfall in 2026-27, about \$5 billion worse than earlier projections, and warns that structural deficits are likely to grow to around \$35 billion annually in the coming years unless the Legislature institutes meaningful spending reductions and/or revenue increases.

Federal House Resolution 1 of 2025 (H.R. 1)—the One Big Beautiful Bill Act passed by Congress and signed by the President in July 2025—introduced multiple significant changes to health and human services programs. These changes primarily impact CalFresh and Medi-Cal in a number of ways, including by tightening eligibility, reducing federal funding for services and programs, and placing stricter limits on the use of certain financing mechanisms. The H.R. 1 changes to these programs will be phased in over multiple years, beginning in 2025 and continuing through federal fiscal year 2028.

The County's five-year forecast reflects the uncertainty of the economic outlook and outlines potential impacts of H.R. 1 and other legislative changes to local safety net services. Further detail regarding General County Revenue assumptions included in the forecast may be found below in the General Fund section of this letter.

Projections for FY 2026-31

The County has spent the past year planning for challenges to its financial sustainability driven by growing jail and other operating costs outpacing revenue growth; slowing State revenues upon which the County relies; and mounting federal and state policy pressures that will place a significant financial burden on already strained local safety net services. Strategic changes to other post-employment benefits (OPEB) plan contributions and an improved revenue outlook largely addressed the nearly \$20 million cumulative five-year deficit forecasted in January 2025. Yet, developing estimates of state and federal policy impacts now reveal a new and substantial budget problem primarily within the health and human services special revenue funds that would require resources that exceed the General Fund's current capacity to address.

General Fund

The General Fund represents the main operating fund for the County and is therefore a primary focus of budget discussions. Discretionary revenues generated within the County are critically important as they are distributed to departments as General Fund Contribution (GFC). GFC provides funding for departmental operations and services for which no special or dedicated revenues are available. A forecast for the County's major discretionary revenues has been prepared, and areas of significant impact are discussed below.

Discretionary Revenue

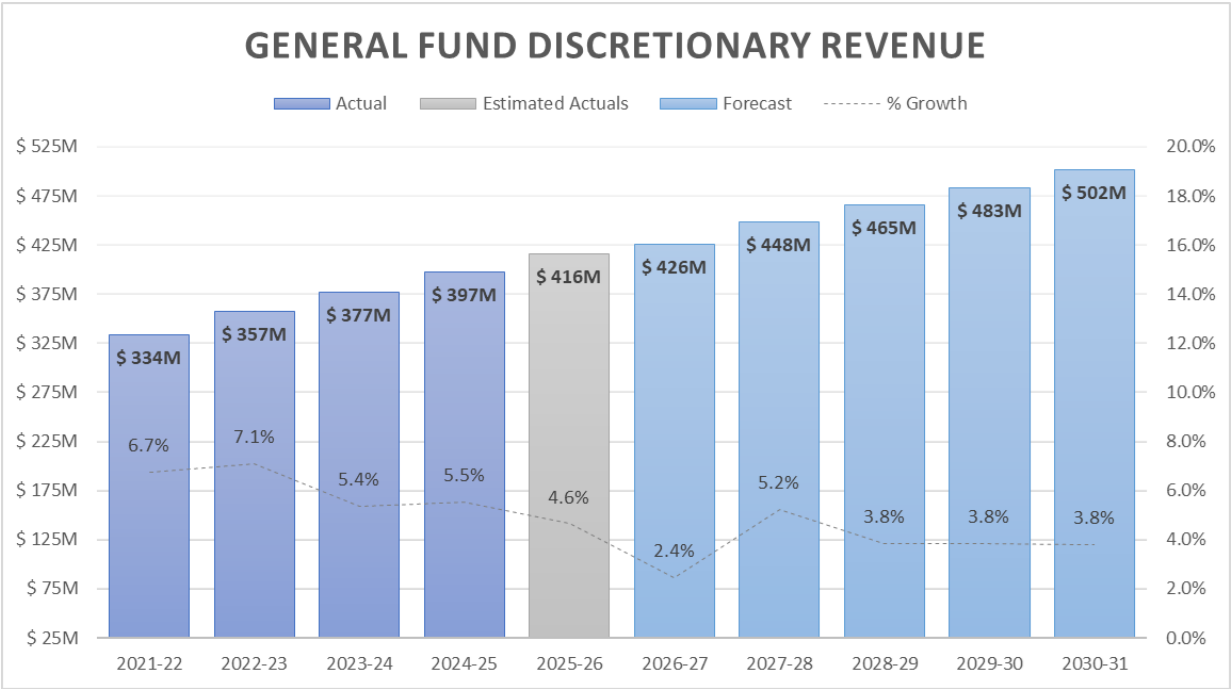
Slowed growth in discretionary revenue is primarily driven by recent trends and economic uncertainty. This year's forecast assumes that discretionary revenue growth will largely slow in comparison to the robust growth experienced post-pandemic, primarily driven by the persistence of uncertainty in the economy. Revenue in year one is estimated to grow modestly at 2.4% then increases to 5.2% in year two before leveling off to moderate growth of 3.8% in each of the final three years. The major sources that comprise the County's discretionary revenues are discussed below and includes their associated forecast assumptions.

- **Property Tax growth estimated to moderate driven by a continued decrease in the volume of property transfers.** The forecast assumes property tax revenue growth of 4.3% in year one that then slows to 4.0% growth in each of the final four years, representing flatter growth than what has materialized in recent years. The slower growth is mainly attributable to an estimated reduction in assessed value growth driven by higher mortgage rates and a corresponding decrease in the volume of real estate transactions. Future decreases to bank

borrowing rates may lead to reductions in mortgage rates, but uncertainty regarding monetary policy remains.

- **Transient Occupancy Tax (TOT) expected to grow modestly due to continued demand for travel, despite uncertainty in the economy.** TOT revenue is assumed to remain stable growing at an average rate of 4.1% in all years except for year two, where significant growth of 18% has been estimated due to the anticipated reopening of a major hotel in the unincorporated area. Although growth is estimated, the level of growth is slowing compared to the 5-year average growth of 17.6% and 10-year average of 11.0%.
- **Local Sales Tax is anticipated to grow moderately marking an increase over the average growth levels of actual receipts collected in recent years.** With guidance from sales tax consultant, HdL, local sales tax has been forecasted to grow at an average rate of 3.8% which marks an increase over the recent 3-year average growth of actual receipts of 1.6%. Local sales taxes grew substantially during the pandemic but waned significantly over the past few years due to economic uncertainty that has impacted consumer sentiment and spending. Growth in year one is estimated to remain flat as economic uncertainty continues but is expected to improve over the balance of the forecast to moderate growth levels in the 4% range.

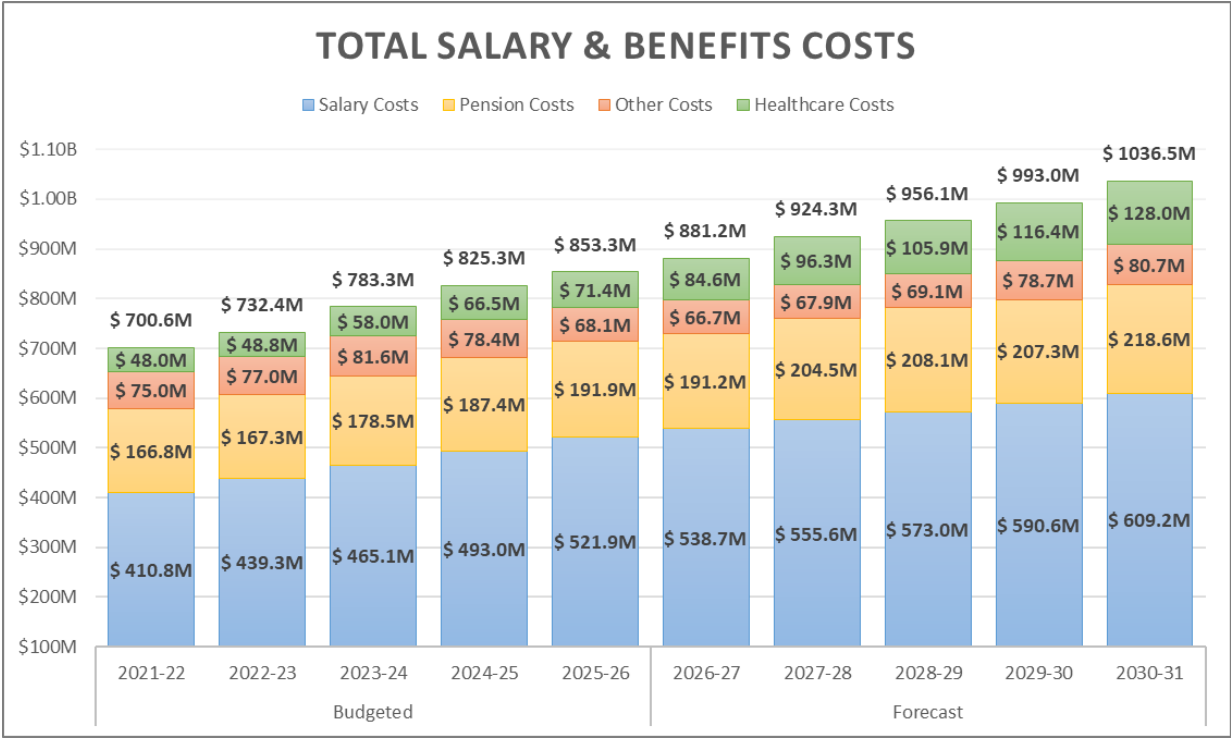
The following chart illustrates the forecasted General Fund discretionary revenue growth compared to the FY 2025-26 estimated actuals and actual revenue collected in the prior four fiscal years.



Countywide Salary and Benefit Costs

Forecasted salary and benefit growth assumes moderate cost-of-living adjustments resulting in slightly lower than actual, average annual increases over the next five years. Salary and benefit costs comprise \$853.3 million or 51% of the County’s adopted FY 2025-26 operating budget and are forecasted to increase by \$36.7 million or 4% per year over the next five fiscal years. Forecasted growth is slightly lower than the actual average growth of 5.7% over the five previous fiscal years due to assumed stability in staffing levels, moderate cost-of-living adjustments, and low pension contribution growth rates in three of the five forecasted years.

Salary, pension, and healthcare contributions are the primary drivers of personnel costs and comprise 90% of the total. This year’s forecast includes moderate salary growth assumptions of 3.1% per year, pension growth assumptions of 2.7% per year, and health insurance growth assumptions of 12.4% per year. The chart shown below provides a breakdown of the total salary and benefits budgeted costs over the past five years and the estimated costs over the forecast period.



Five-Year Financial Forecast

Operating costs in the General Fund continue to outpace discretionary revenue growth and new safety net costs deplete ongoing revenue set-asides by year two of the forecast.

A five-year forecast of ongoing expenditures funded with ongoing General Fund discretionary revenue was prepared using the revenue estimates discussed above, in addition to salary and benefit increases, prior Board policy commitments, and certain anticipated major operational cost increases. The forecast assumes status quo operations and does not include any potential department expansion requests or fiscal issues that are still being determined, monitored, and quantified. Cannabis tax revenue was excluded as an available ongoing source due to the uncertainty around that revenue source.

Forecast anticipates a \$35.6 million General Fund deficit over the next five years (reduced to \$26.2 million assuming depletion of \$9.5 million in set-asides). The cost of maintaining status quo operations is outpacing discretionary revenue growth in the General Fund by more than \$7.1 million per year. Anticipated deficits are driven by salary and benefit increases and internal services costs; and are made larger by growing obligations to the General Fund related to jail construction, operation and medical service costs; and new safety net obligations related to indigent care, categorical aid costs and inpatient mental health treatment costs. Thanks to the financial foresight of the Board in prior years, \$9.5 million of the anticipated deficit may be offset by the release of ongoing prior year set asides. However, the remaining \$26.2 million deficit to address at the end of the forecast period remains a significant fiscal challenge.

An additional \$40.3 million would be needed to preserve current service levels in the Health and Human Services departments, given the impacts of recent state and federal policy changes, state

revenue shortfalls, and structural operating deficits. The drivers of these shortfalls will be discussed in greater detail after the General Fund forecast section below. The cumulative deficit to maintain existing service levels and address upcoming issues over the five-year period is \$66.4 million, after the depletion of set-asides.

General Fund Forecast Table

BASE LEVEL FIVE-YEAR FINANCIAL FORECAST					
INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS					
FISCAL YEARS 2026-27 THROUGH 2030-31					
Ongoing Revenue Sources:	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Discretionary Revenue (moderate growth)	\$ 18,706,100	\$ 22,137,700	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700
Ongoing Set Asides	\$ 8,601,433	\$ 858,067	\$ -	\$ -	\$ -
Release Prior Year Set Aside	8,601,433	858,067	-	-	-
Total Revenue Change	\$ 27,307,533	\$ 22,995,767	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700
Ongoing Cost Changes:					
Salaries + Rates + Reserves + Deferred Maint.	\$ 8,997,316	\$ 20,219,722	\$ 14,970,263	\$ 13,420,557	\$ 19,035,183
Salary Increases	6,215,104	6,857,929	6,278,943	5,858,727	6,710,566
Pension Costs	(17,236)	5,176,341	1,370,481	(272,896)	3,849,299
OPEB Policy Change	(4,179,747)	-	-	-	-
Health Benefits	4,536,666	4,714,762	3,343,812	3,308,653	4,120,996
Internal Service Rate Increases	2,034,330	3,470,689	3,977,026	4,526,074	4,354,322
Strategic Reserve	408,200	-	-	-	-
18% Deferred Maintenance	-	-	-	-	-
Safety Net Costs	\$ 5,544,772	\$ 1,445,822	\$ 565,091	\$ 260,871	\$ 189,410
In-Home Supportive Services MOE Increases	1,522,172	258,972	565,091	260,871	189,410
Homelessness Services Costs	3,515,000	180,000	-	-	-
Co-Response Teams	507,600	1,006,850	-	-	-
New Safety Net Costs (GF Responsibility)	\$ 7,421,444	\$ 11,121,444	\$ 3,100,000	\$ 1,000,000	\$ 1,100,000
Indigent Care Program	5,721,444	5,721,444	-	-	-
Categorical Aid, Foster Care + Adoptions Assist.	1,700,000	-	-	-	-
Mental Health Beds (IMD)	-	5,400,000	3,100,000	1,000,000	1,100,000
Criminal Justice Costs	\$ 5,344,000	\$ 7,730,000	\$ 2,100,000	\$ 4,200,000	\$ 1,900,000
AB 1869 Backfill Sunset	850,000	-	-	-	-
Jail Healthcare New Costs & Annual Increases	1,600,000	1,700,000	1,900,000	1,800,000	1,900,000
911 Public Safety Answering Point Funding Gap	200,000	200,000	200,000	200,000	-
NBJ 384 Bed Construction Debt Svc	2,694,000	5,830,000	-	-	-
Systemwide Custody Operating Costs Increases	-	-	-	5,000,000	-
Potential Cost Savings in Main Jail	-	-	-	(2,800,000)	-
Total Change in Costs	\$ 27,307,533	\$ 40,516,988	\$ 20,735,354	\$ 18,881,428	\$ 22,224,593
Annual (Deficit)/Surplus	\$ -	\$ (17,521,221)	\$ (3,715,754)	\$ (1,045,028)	\$ (3,890,893)
Cumulative (Deficit)/Surplus	\$ -	\$ (17,521,221)	\$ (21,236,975)	\$ (22,282,003)	\$ (26,172,896)

Further detail regarding each projected category of the five-year forecast is included as follows.

- **Salaries, Rates, Reserves, and Deferred Maintenance**

- a) **Impacts of salary, pension and health benefit increases on discretionary revenue total \$57.9 million over the next five years, after decreasing Other Post Employment Benefits (OPEB) Plan contributions.** The General Fund Contribution share of countywide salary and benefits costs (approximately 31%) is forecasted to grow by an average of \$11.5 million, or 2.7%, per year over the forecast period. Significant drivers of the growth include general salary increases, and a \$5 million increase in pension contributions in FY 2027-28 related to the final smoothing in of a prior year investment loss. Decreases in OPEB plan contributions from 4% of pensionable payroll to 1.5% effective January 1, 2026 help to offset salary growth in FY 2026-27 by \$4.2 million. The change in OPEB Funding Policy was approved by the Board on November 18, 2025 and will not impact eligible employee benefits.

- b) **Internal service costs for General Fund departments could increase by \$18.4 million over the next five years, largely driven by General Liability, Information Technology, and Workers' Compensation costs.** Internal service charges and insurance premiums continue to present a financial issue for some General Fund departments. General Liability insurance charges specifically are expected to grow by 41% over the forecast period. In accordance with Budget Development Policy 3.h, the forecast reflects General Fund Contributions growing by approximately \$3.4 million per year to help departments manage these increases and avoid service level reductions due to these charges over the next five years.
 - c) **Strategic Reserve target requires an additional ongoing \$408 thousand.** In accordance with Budget Development Policy 5, the County maintains a strategic reserve equal to 8% of General Fund operating revenue, which in FY 2025-26 is \$47.5 million. It is estimated that the ongoing General Fund revenue allocation of \$1.86 million used to maintain the reserve will require a \$408 thousand increase in FY 2026-27 to meet and maintain the County's 8% target throughout the forecast period.
 - d) **18% Deferred Maintenance Allocation is not forecasted to grow over next five years in light of current budgetary challenges.** Budget Development Policy 7.e commits 18% of unallocated Discretionary General Fund revenues for deferred maintenance needs, which has traditionally been allocated to Public Works (50%), General Services (35%) and Parks (15%). After accounting for the County's current funding needs, the forecast anticipates no growth in deferred maintenance allocations. The total cost of the County's current backlog of deferred maintenance projects is estimated at \$577 million split between the Public Works (\$329 million), General Services (\$173 million), and Community Services (\$75 million) departments.
- **Safety Net Cost**
 - a) **In-Home Supportive Services (IHSS) costs increase by \$2.8 million over the next five years.** The IHSS program, administered by the Department of Social Services (DSS), provides in-home assistance to income-eligible aged, blind, and disabled individuals. Program costs are shared by the federal, State, and county governments. The IHSS Maintenance of Effort (MOE) is the county share of costs, comprised of locally negotiated wage and benefit costs for individual providers and an annual 4% inflation factor. These costs are generally covered with State 1991 Realignment revenue and ongoing General Fund Contribution dollars. The forecast fluctuates annually, due to anticipated offsets in certain years, but the average increase equals almost \$560K a year.
 - b) **Homelessness Services funding gaps could grow to \$3.7 million per year by FY 2027-28, unless new funding sources are secured.** As limited-term grants and other funding sources expire, the County anticipates funding shortfalls of \$895 thousand for key homeless services such as encampment cleanups, prevention services, and shelter support. Additionally, new federal restrictions on Continuum of Care and Youth Homelessness Demonstration Program funding limits permanent housing activities to 30% of the combined allocation, which requires restructuring or replacement of \$2.8 million in current permanent housing funding to maintain current service level. Options to mitigate the impact include a funding swap with other state resources, like the Homeless Housing, Assistance and Prevention (HHAP) funds - but HHAP is also time-limited and state funding requirements conflict with federal program rules, meaning a swap would require major programmatic changes, could affect existing state funding, and may necessitate changing program requirements. Funding challenges for homelessness services are compounded by the anticipated federal regulations related to

individuals with Unsatisfactory Immigration Status (UIS), which could restrict the use of all federal homeless-service funding for UIS clients, which the County does not currently verify. Further analysis will be required to fully quantify the projected cost to maintain services for the affected UIS population using local or state dollars.

- c) **Expiring Co-Response funding to leave a \$1.5 million gap.** These are discretionary services that are not required to be funded but are a past Board priority, assuming the program is implemented as signified. In 2019, the County received \$2 million in grant funding to operate three full-time Co-Response teams staffed with Sheriff and Behavioral Wellness employees. Two teams operate in South County and one operates primarily in North County. A fourth team was funded by the Community Corrections Partnership (CCP) in 2023 to respond to the Lompoc and Santa Ynez Valley region. Funding for the three original Co-Response teams included American Rescue Plan Act dollars, Proposition 47 Cohort III grant dollars, Mental Health Services Act funds, and limited Medi-Cal service reimbursement. Most of the funding is expected to expire by the end of June 2026, however, some funding runs through December 31, 2026, after which the \$1.5 million ongoing cost would fall to the General Fund, if the program is to continue in its current form and another funding source cannot be identified. While the program's intent is understood and supported, utilization of the program is continuing to be reviewed, particularly in light of changes to the mobile crisis services benefit.

- **New Safety Net Costs (General Fund Responsibility)**

- a) **Unfunded indigent care costs are estimated to total \$11.4 million over the next two fiscal years as a result of lost Medi-Cal coverage for residents.** With the loss of Medi-Cal coverage for many County residents, County Health anticipates increased enrollment in the County's indigent care program at an estimated cost of \$11.4 million that is not currently supported by any funding source. The indigent care program was created by the State to provide medical assistance to uninsured, low-income individuals who cannot afford care. The County is the legally mandated provider of last resort for medically indigent adults, ensuring access to basic health services when other coverage options are unavailable. These programs often cover essential treatments, hospital services, and preventive care, functioning as a critical part of the public health safety net alongside Medicaid and public hospitals. The program used to be covered mostly by 1991 Realignment revenues distributed to the County Health programs. In 2013, Assembly Bill (AB) 85 reshaped indigent care funding after the passage of the Affordable Care Act expanded Medi-Cal coverage to many low-income County residents and redirected County Health Realignment dollars toward CalWORKS programs. It is now anticipated that some residents who gained eligibility to Medi-Cal under the Affordable Care Act (ACA) and those that can no longer afford Covered California premiums may lose coverage. While estimates are still very preliminary, County Health has applied inflationary increases to the medical cost of care and indigent care program administration figures from years predating the ACA Medi-Cal expansion to estimate possible program costs over the next two fiscal years.
- b) **Mandated categorical aid cash assistance payments for foster care and adoptions assistance are anticipated to outpace available Realignment revenue by \$1.7 million next year.** These costs have grown significantly in recent years, due in large part to more cases requiring higher, more costly levels of care, increases in cost rates for all levels of care, and increases in the number of cases that do not meet the criteria for federal funding participation. Coupled with inadequate growth in Realignment revenue, on which the program relies, the Social Services Department estimates a \$1.7 million funding gap for categorical aid payments in FY 2026-27. To address Realignment revenue shortfalls, the department unfunded 58 positions and reduced \$2.3 million in costs - yet, a significant structural gap persists.

- c) **Growing placements in Institutions for Mental Disease (IMD) are expected to cost the General Fund \$10.6 million over the next five years.** Lanterman-Petris-Short Act conservatorship services to individuals who are gravely disabled and have a mental health disorder rely heavily on Mental Health Realignment funding to support services delivered in IMDs, which are ineligible for Medi-Cal reimbursement. Over the past four fiscal years, IMD placements have increased by 127% from 55 placements in FY 2021-22 to 125 in FY 2024-25. Accordingly, costs have increased 62% from \$9.8 million to \$15.9 million over the same period of time. Over the same time Mental Health Realignment revenue has increased 43%, not keeping pace with the placement costs. If placements and costs continue to increase, the Behavioral Wellness Department anticipates running out of fund balance to cover costs in FY 2027-28, after which approximately \$10.6 million of costs would fall to the General Fund through FY 2030-31.

- **Criminal Justice Costs**

- a) **Assembly Bill 1869 backfill of \$850,000 will expire in FY 2025-26.** The backfill is discretionary and not required but the services provided have been a past priority, assuming efficient use of funds. AB 1869 repealed the authority of counties to charge defendants for various criminal justice fees, effective July 1, 2021. To offset the loss in revenue to counties, the bill included a time-limited backfill provision from the State. In FY 2026-27, after the sunset of the backfill, the County will lose the \$850,000 revenue, which is split between the Probation Department and the Sheriff's Office to support adult supervision program staff and alternative sentencing program costs. The departments do not currently have any alternatives to mitigate the loss of this revenue. There have been advocacy efforts at the State level to extend or remove the expiration of these funds though passage seems unlikely.
- b) **Healthcare Services at Sheriff and Probation Custodial facilities are expected to grow at a rate of \$1.6 to \$1.9 million per year over the next five years.** Several requirements related to the *Murray v. County of Santa Barbara* Stipulated Judgement and implementation of California Advancing and Innovating Medi-Cal (CalAIM) contribute to the annual costs increase. The current healthcare contract extends until March 31, 2027, with three optional one-year extensions. Beyond expected inflationary increases to contract renewals, with the future implementation of CalAIM, the Sheriff's Office expects to see a significant cost increase in pharmaceutical costs primarily associated with the provision of a 30-day supply of medications to formerly incarcerated people upon re-entry into the community. With the implementation of billing Medi-Cal for pre-release services going live in the jail on October 1, 2026, the County expects to receive revenue that may potentially offset a portion of the jail medical costs, however, it is premature to determine the extent of any cost offset.
- c) **Sheriff and Fire dispatch split expected to increase General Fund operating costs by \$800 thousand over the next four years.** The Fire Department's Regional Fire Communication Center (RFCC) went live in Spring 2025, taking over dispatch duties for emergency medical and fire calls from the Sheriff's Office. However, the Sheriff's Office remains the principal Public Safety Answering Point (PSAP) call taker and will transfer medical and fire calls to the RFCC. This shift in responsibilities will result in reduced revenue for the Sheriff's Office dispatch operation, while the cost savings from reduced staffing levels will not fully offset the revenue loss. While Fire has committed to cover the Sheriff's Office for \$800,000 of the costs in FY 2025-26, the forecast anticipates a smoothing out of those payments by \$200,000 per year, necessitating additional General Fund Contribution each year.

- d) **NBJ Debt Service estimated at \$8.5 million starting in FY 2026-27.** To replace some of the bed capacity that will be lost due to the Main Branch Jail renovations and in compliance with the *Murray v. County of Santa Barbara* Stipulated Judgement, additional housing units need to be constructed at the Northern Branch Jail (NBJ). On April 1, 2025, the Board approved a plan to construct an additional 384 beds, at an estimated cost of \$165 million. Funding this construction will require issuing debt, with a rough estimate of \$8.5 million in annual debt service for 20 years if the County is able to put \$50 million of cash towards the project. Setting aside these funds is included as a proposed budget policy in **Attachment B**. If the full amount were to be financed, debt service is estimated to be \$3.7 million higher, at \$12.2 million per year, which would cost an additional \$74 million in payments over the life of the debt.
- e) **Addressing optimal countywide custody staffing is expected to cost an additional \$2.2 million per year in FY 2029-30.** Custody shift relief ensures there are enough funded positions for staff to cover each other when leave is taken for sick days, vacation, etc., on posts that require 24-hour coverage, without resorting to overtime. Staffing studies have determined that the jail system funded positions do not include full shift relief, which can contribute to higher overtime usage and employee turnover. To provide system-wide custody shift relief when the jail system transition is anticipated to occur in FY 2029-30 would cost an estimated \$2.2 million per year. This cost estimate assumes the 384-bed new construction at the NBJ and expanded staffing required, while factoring in possible savings from reducing down to 120 beds at the Main Jail and consolidating staffing and services.

Additional Costs to Maintain Current Service Levels

The County would need ***an additional \$40.3 million of discretionary funding to preserve the safety net services at current service levels impacted by recent state and federal policy changes, state revenue shortfalls, and structural operating deficits.*** There is considerable uncertainty in timing and scope of these changes, and the estimated county-level costs (highlighted in blue in the forecast table) are still being developed and refined. Based on preliminary estimates, preserving the totality of existing services would increase the forecasted General Fund deficit to \$66.4 million over the next five years, and is not recommended nor financially feasible without securing a new source of discretionary revenue.

A combination of priority setting, revenue generation and spending reductions will be necessary to balance the budget in future years. Given the extent of the forecasted deficit, it is recommended that the County develop a budget treatment strategy that identifies critical safety net services to preserve, pursues an increase to discretionary revenue to preserve these services through a limited-term sales tax measure, and initiates reductions to current spending, which may include decreasing core service levels across all departments in order to balance the FY 2026-27 budget. Further discussion of these recommended strategies is included in the Budget Balancing Strategies section of this report.

General Fund Forecast Table Including Preservation of Current Safety Net Service Levels

FIVE-YEAR FINANCIAL FORECAST					
INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS					
FISCAL YEARS 2026-27 THROUGH 2030-31					
<u>Ongoing Revenue Sources:</u>	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Discretionary Revenue (moderate growth)	\$ 18,706,100	\$ 22,137,700	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700
Ongoing Set Asides	\$ 8,601,433	\$ 858,067	\$ -	\$ -	\$ -
<i>Release Prior Year Set Aside</i>	<i>8,601,433</i>	<i>858,067</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total Revenue Change	\$ 27,307,533	\$ 22,995,767	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700
<u>Ongoing Cost Changes:</u>					
Salaries + Rates + Reserves + Deferred Maint.	\$ 8,997,316	\$ 20,219,722	\$ 14,970,263	\$ 13,420,557	\$ 19,035,183
Safety Net Costs	\$ 5,544,772	\$ 1,445,822	\$ 565,091	\$ 260,871	\$ 189,410
New Safety Net Costs (GF Responsibility)	\$ 7,421,444	\$ 11,121,444	\$ 3,100,000	\$ 1,000,000	\$ 1,100,000
Criminal Justice Costs	\$ 5,344,000	\$ 7,730,000	\$ 2,100,000	\$ 4,200,000	\$ 1,900,000
Additional Cost to Maintain Current Service Level	\$ 23,005,000	\$ 11,504,800	\$ 5,751,000	\$ -	\$ -
Structural Operating Deficits					
County Health Structural Deficit	1,300,000	6,000,000	-	-	-
Realignment Revenue Shortfall					
Adult Social Services Programs	500,000	-	-	-	-
Children's Social Services Programs	7,500,000	-	-	-	-
H.R.1 and State Budget Impacts					
CalFresh Education	623,000	-	-	-	-
CalFresh Administration	3,000,000	850,000	-	-	-
Medi-Cal Revenue Loss, Mental Health Services	685,000	712,800	-	-	-
Medi-Cal Revenue Loss, SUD Services	-	1,500,000	5,000,000	-	-
Medi-Cal Revenue Loss, Clinics	9,397,000	2,442,000	751,000	-	-
Total Change in Costs	\$ 50,312,533	\$ 52,021,788	\$ 26,486,354	\$ 18,881,428	\$ 22,224,593
Annual (Deficit)/Surplus	\$ (23,005,000)	\$ (29,026,021)	\$ (9,466,754)	\$ (1,045,028)	\$ (3,890,893)
Cumulative (Deficit)/Surplus	\$ (23,005,000)	\$ (52,031,021)	\$ (61,497,775)	\$ (62,542,803)	\$ (66,433,696)

Further detail regarding each projected category of the five-year forecast is included as follows.

- a) **The continued structural operating deficit in County Health clinics is expected to exceed available fund balance reserves by \$7.3 million over the next two years.** For several years, County Health has relied on reserves to balance Health Care Center budgets, an issue that became exacerbated by the State changes to certain pharmacy benefits that reduced ongoing revenues in 2022. In FY 2026-27, the department anticipates a \$1.3 million deficit after depleting its remaining fund balance. That deficit is forecasted to grow by an additional \$6 million in FY 2027-28. Absent new sources of revenue or General Fund support, clinics would need to scale back specialty care services to continue the delivery of the core services required for Federally Qualified Health Centers (FQHC).
- b) **State Realignment funding is anticipated to fall \$8 million short in covering costs for children's social services programs (\$7.5 million) and adult social services programs (\$500 thousand) over the next five years.** The Social Services Department is projecting a \$7.5 million funding gap in its children's programs and a \$500 thousand gap in its adult programs in FY 2026-27. Both programs rely on Realignment funding to cover its local share of costs. Preliminary estimates may change based on updated Realignment estimates in the Governor's January budget and staff attrition through the end of this fiscal year. In the current fiscal year \$2.8 million of children's social services programs for foster care and adoptions assistance were covered by one-time General Fund contribution. The department expects the costs to continue to rise and expects little to no growth in Realignment revenue, leading to a shortfall.

c) **Impacts of federal and state policy changes on Medi-Cal enrollment and reimbursement are anticipated to create a \$21.4 million funding gap for county safety net services over the next three fiscal years, largely related to changing eligibility requirements, reduced reimbursement, and growing uncompensated care costs.** The Legislative Analyst's Office (LAO) estimates that statewide Medi-Cal enrollment will decline by 20% by FY 2029-30 as a direct result of H.R. 1 policy changes including new work requirements and more frequent eligibility redeterminations, both of which will increase the eligibility workload for local Social Services departments without additional funding. At the same time, State enrollment freezes and premiums for adults with unsatisfactory immigration status are anticipated to shift a significant number of Medi-Cal recipients from comprehensive benefits to restricted coverage plans and, along with the reinstated asset limit test, will place further downward pressure on enrollment.

- H.R. 1 cuts funding for the CalFresh Education Program (SNAP-Ed at the federal level) which will leave a \$623,000 funding gap (3 FTE) in the County Health Department starting in FY 2026-27.
- H.R. 1 increases the State's share of CalFresh administration costs from 50% to 75% and the County's share of that increased cost is anticipated to be \$3.9 million annually. Additionally, the Social Services Department anticipates significant workload increases as a result of new eligibility determination requirements. Another CalFresh cost that counties may face in FY 2027-28 is related to an increased State share of CalFresh benefit payments – currently estimated at \$2 billion based on the State's payment error rates. Some share of this cost could be passed on to counties. However, at this time, the future impact of Benefit Cost Sharing is unknown.
- The anticipated loss in Medi-Cal revenue for county mental health services due to lost coverage is estimated at \$9.9 million per year, but can be largely mitigated through increased productivity in mental health programs and use of the Mental Health Services Act (MHSA) fund balance – currently \$43 million. However, MHSA funds cannot be used to backfill Medi-Cal revenue losses for acute inpatient services which will result in a funding gap of \$1.4 million over the next two fiscal years.
- The anticipated loss in Medi-Cal revenue for alcohol and drug program services due to lost coverage is estimated at \$6.5 million per year. The department has fund balance that can be used to backfill lost revenue in FY 2026-27 and part of FY 2027-28, but a new revenue source will be necessary to sustain these services beyond then. A large part of the alcohol and drug programs revenue lost is for court-mandated for substance abuse services. The cost of these services range from \$1,300 for one week of detox services to \$24,000 for residential treatment over several months and total estimated revenue loss is based on an average of 450 individuals per year. It is anticipated that the instances of lost coverage for this population would be greater than the general Medi-Cal population and therefore approximately 75% of currently reimbursed costs may fall to the County.
- The anticipated loss in Medi-Cal revenue for County clinics due to lost coverage and significantly lower reimbursement for clients who remain covered under Medi-Cal expansion is estimated at \$12.6 million per year by the third year of the forecast, with most of that increase, \$9.4 million, occurring in FY 2026-27. A significant portion of this estimated loss is due to the change from Prospective Payment System (PPS) per-visit rate reimbursements for State-only services provided by FQHCs for individuals

with UIS status to fee for service, anticipated to have an ongoing \$6.7 million impact to revenue. This payment change was adopted by the State in June 2025, and takes effect on July 1, 2026. Additional changes (work requirements having the largest remaining impact) are causing a further \$3.2 million impact to revenue in FY 2026-27, which grows to \$5.9 million when annualized in FY 2027-28 and beyond.

Other Fiscal Issues Under Review

The forecast does not include department expansion requests and fiscal issues that are difficult to quantify, or may not materialize, but are still being monitored. In developing the five-year forecast, departments identified several fiscal issues that were reviewed by the County Executive Office for significance and will be further considered as part of the budget development review process. If any items are determined critical to address in the FY 2026-27 budget, they will be detailed as part of budget workshops and ultimately the recommended budget.

The California Air Resources Board's (CARB) Advanced Clean Fleet (ACF) regulation requires that 50% of new vehicle purchases be zero-emission or near-zero-emission vehicles (ZEVs) by 2027 and 100% by 2030. Recent amendments to the ACF rule have extended the compliance timeline by three years, delaying the 50% requirement from 2024 to 2027, and the 100% ZEV purchase mandate will now take effect in 2030. This extension provides departments additional time to plan for the transition, allows the market to expand its medium- and heavy-duty ZEV offerings, and may help lessen fiscal impacts. However, replacing combustion engine vehicles, especially medium and heavy-duty units, with ZEVs over the next five years could still be costly. These costs are difficult to project because replacement timing varies by department, and some may delay upgrades due to high prices. General Services is working closely with departments to ensure compliance with the updated regulations. The special revenue funds most likely to be impacted by these high costs are the Roads and Flood Control funds within Public Works.

Assembly Bill (AB) 1637 requires counties and other local agencies in California to transition their public websites and employee email addresses to ".gov" or ".ca.gov" domains by January 1, 2029. This mandate is intended to improve cybersecurity and public trust in government communications. However, this means counties must absorb the costs of domain registration, IT upgrades, and administrative changes without State reimbursement. Staff estimates that this could cost approximately \$1 million to implement. In December 2024, Santa Clara County filed a test claim for AB 1637 with the Commission on State Mandates. If approved, the State would adopt guidelines for agencies claiming reimbursement and prepare a statewide cost estimate.

The upcoming implementation of the Behavioral Health Services Act (BHSA) will place strain on the Behavioral Wellness Department's budget by reducing overall funding and changing the structure of its funding, while simultaneously expanding responsibilities. The Mental Health Services Act Fund (Fund 0048) was established as a result of the State's 2004 behavioral health system expansion and is funded through a 1% tax on personal incomes in excess of \$1 million per year. Funding is primarily allocated toward direct mental health services under the categories of community services and supports, prevention and early intervention, and innovation. In March 2024, voters narrowly approved Proposition 1 or BHSA, which amends the 2004 Mental Health Services Act. Although there are other changes to funding, two of the most significant changes come from the overall reduction of funding to counties by 5% and the redirection of 30% of funding to housing for the chronically homeless and housing capital development projects. The programs most directly impacted will be those under the current Community Services and Support (CSS) programs.

In addition to financial pressures, the County will face increased administrative and reporting obligations. Under BHSA, counties are required to submit three-year Integrated Plans for Behavioral

Health Services and Outcomes that detail how counties plan to use all available behavioral health funding, including BHSA, 1991 and 2011 Realignment, federal grant programs, federal financial participation from Medi-Cal, opioid settlement funds, local funding, and other funding to meet statewide and local outcome measures, reduce disparities, and address the unmet need in their community. The Plan must be approved by the Board of Supervisors and submitted to the Department of Health Care Services no later than June 30, 2026. In the interim, it is anticipated that the County will continue to receive its current MHSA distributions.

Budget Balancing Framework and Strategies

In the past, to address General Fund budget problems, the County has looked to reductions in employee compensation through hiring freezes, furloughs, and management wage freezes, as well as position reductions. Additional treatments for consideration include reducing operating expenses by continuing to implement the operational efficiency recommendations made by KPMG, increased application of artificial intelligence (AI) and other forms of technology in the workplace, renegotiating contracts, limiting travel and training, consolidating services, and deferring capital projects.

Consideration of these treatments will continue, but to address the projected General Fund deficit and broader fiscal challenges, the County will implement a Budget Balancing Framework during the FY 2026–27 budget development process. This framework outlines ten strategies to guide departments in developing budget recommendations and options for Board consideration:

1. Control Personnel Costs

a. Funded Vacancy Eliminations

Departments will be expected to eliminate vacant positions as part of their reduction strategies, unless those positions are critical to revenue generation, compliance, cost savings, or other critical needs.

b. Hiring Reductions

While a countywide hiring freeze is not planned due to varying departmental circumstances, a Hiring Review process will be implemented to evaluate positions that do not require backfill and could generate net savings.

c. Labor Concessions

The County will explore one-time and ongoing cost-saving measures in collaboration with employee bargaining units and management. These may include furloughs, salary freezes, or other compensation adjustments.

2. Program Reductions

Departments will be asked to submit budget reduction proposals—potentially totaling up to \$23 million, the size of the full FY 2026-27 deficit—to help close the General Fund and safety net deficits and submit a plan to begin addressing the FY 2027-28 deficit. These are not across-the-board cuts; rather, they serve as a starting point for evaluating service-level impacts.

3. Efficiency Measures

Departments will be encouraged to propose reorganizations and operational improvements, including time-saving initiatives, even if they do not yield immediate budget savings.

4. Prioritization of Essential Safety Net Services

The County will identify and preserve critical safety net services, ensuring that limited resources are directed to the most essential programs.

5. Safety Net Downsizing Plans

Departments such as Social Services, County Health, and Behavioral Wellness will be required to develop multi-year downsizing plans (3–5 years) to address revenue losses and structural deficits.

6. Revenue Generation Measures

Staff will evaluate the feasibility of a limited-term sales tax measure and return to the Board with polling results and next steps. Fee increases will also be proposed where current rates have not kept pace with inflation or service costs.

7. Funding Shifts

The County will consider redirecting funds from existing allocations—such as the strategic reserve, 18% deferred maintenance set-aside, and the Technology Innovation Fund—to support operations.

8. Financing Options

Options under review include financing the Northern Branch Jail expansion, deferring Other Post-Employment Benefits (OPEB) contributions, or exploring other strategies.

Board Budget Priorities in FY 2026-27

While the County enters this difficult period of contraction, and begins focusing on preservation of services, rather than expansions, the following priorities will continue to guide the County.

- **Provide Coordinated Community Service Delivery and Strengthen Safety Net.** *Continue to make Santa Barbara County a place where our community can lead healthy, prosperous lives*
- **Advance Improvements in Criminal Justice System.** *Continue to improve our Criminal Justice system so that justice is served fairly, expeditiously and with humanity*
- **Foster Financial and Organizational Excellence.** *Continue to improve the transparency, efficiency and effectiveness of how we do our work, and to make County of Santa Barbara a great place to work*
- **Promote Sustainability and Climate Resiliency.** *Continue to reduce Santa Barbara County's contribution to climate change, and improve our resilience to the impacts of a changing climate*
- **Strategically Invest in Technology, Facilities, and Infrastructure.** *Continue to invest in the physical future of Santa Barbara County by building and maintaining infrastructure and technology*

FY 2026-27 Proposed Budget Development Policies

Budget development policies serve as guiding principles for development of the upcoming year's recommended budget. The FY 2026-27 policies proposed herein are similar to those adopted last year, with two notable amendments to ensure funding is committed toward the Board-approved Northern Branch Jail construction project during budget development and to increase CEO discretion over recommended General Fund Contribution allocations in the coming year. The complete policy document may be found in **Attachment A**, with revisions presented in bold italicized text.

Amend existing Policy 7 regarding Capital and Infrastructure to include a section h): *Northern Branch Jail Expansion Project – In FY 2026-27, one-time funds totaling \$50 million will be set-aside to fund project construction costs; and a minimum of \$8.5 million will be recommended to fund annual debt service payments.*

For FY 2026-27 budget development, it is recommended that the County earmark \$50 million of one-time General Fund dollars for Northern Branch Jail construction costs and establish an ongoing set-aside of \$8.5 million to fund the project's annual debt service for the next 20 years.

Amend existing Policy 2.b. regarding General Fund Contribution allocations: Based on available funding, the CEO may recommend GFC allocations above or below the formulaic increase laid out above to address significant issues or structural imbalances within specific departments.

In light of current fiscal challenges, it is also recommended that General Fund Contribution Policy allow the CEO increased flexibility to address significant issues or structural imbalances within specific departments by recommending GFC allocations below the formulaic annual increase.

Next Steps

In the coming weeks, departments will be developing their requested FY 2026-27 budgets, with guidance from CEO on General Fund Contribution allocations. They will be required to submit balanced budgets and document any service level reductions that were necessary to balance. CEO staff will work with all departments to evaluate service level reductions and develop restoration recommendations based on available funding and critical needs, to be presented at the April Workshops (if possible, a preliminary look at the service level reductions may come to the Board before April). The CEO's office will develop the Recommended Budget after hearing feedback from the Board at the April Workshops and release it to the public by May 30, 2026. Adoption hearings will be held on June 16 and 18 (if necessary).

Fiscal Impacts:

The County's five-year forecast is presented in this report along with discussion of significant fiscal issues that may further impact demands on funding in future years.

Attachments:

Attachment A: FY 2026-27 Budget Development Policies and General Fund Allocation Policy

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