

FY 2026-27 Preliminary Budget Update

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FY 2026-27 Budget Development

Summary

- Deficits driven by State and federal policy changes, revenue shortfalls, and structural operating gaps
- Departments have submitted requested budgets with proposed balancing reductions; some are seeking restorations
- This update **does not request final decisions** but rather seeks clarity from the Board on priorities, tolerances, and preferences

Key Objectives

- Provide an early overview of the FY 2026-27 budget and proposed reductions
- Recap projected FY 2027-28 deficits
- Requesting Board **guidance** on eight specific policy questions to better inform the April Workshop discussions.

FY 2026-27 Preliminary Budget Preview

- December five-year forecast showed cumulative \$66.4 million deficit over the next five years for the General Fund and health and human services programs
- Updated figures show slightly higher General Fund revenue and lower costs in FY 2026-27; forecasted FY 2027-28 deficit of \$29M (\$17.5M GF; \$11.5M health and human services) remains unchanged
 - Continued uncertainty around safety net funding
- Budget strategy included:
 - Hold General Fund contributions flat
 - Require programs to balance within allocations
 - Increase funding only for mandated obligations
 - Adjust for reduced State and federal allocations

FY 2026-27 Preliminary Budget Preview

- Departments have proposed \$67M in reductions*
 - \$9 million from flat General Fund contributions
 - \$58 million from other revenues
- Reductions include:
 - Reduced contracts, training, travel, overtime
 - Right-sizing operations for better efficiency
 - Deferring capital projects and equipment replacement
 - Unfunding ~ 400 positions (including vacancies)
 - Increasing fee revenue where possible

**Amounts have been updated since docketing the board letter*

Impacts

- Reduction impacts include:
 - Slower and reduced service
 - Reduced public hours
 - Elimination of non-mandated services
 - Reduction of service levels in mandated programs
- Restoration requests reflect department priorities and include funding for parks, juvenile services, public safety, child welfare, CalFresh administration, animal services, and health clinics

Proposed Service Level Reductions & Restoration Requests

- Health & Human Services
 - Social Services
 - \$28.2M reduction (12.6% on an operating budget of \$225M) includes \$11.2M in CalFresh administration; \$11.4M in Child Welfare services, and various other programs
 - \$4.2M restoration request, which would leverage additional \$10M to partially mitigate reductions in CalFresh and Child Welfare services
 - County Health
 - \$24.8M reduction (25.1% on an operating budget of \$98.7M), mostly in Health Care Centers, partly from rightsizing for efficient level of service. Other reductions are proposed in public health, community wellness, animal services, and administration programs
 - \$2M restoration request for Health Care services and Animal Services

Proposed Service Level Reductions & Restoration Requests

- Criminal Justice Services
 - Sheriff*
 - \$4.9M reduction (2.2% on an operating budget of \$223.6M) in administrative and sworn duties from custody records, Isla Vista Foot Patrol, dispatch, and other areas
 - \$4.1M restoration request
 - Probation
 - \$2M reduction (2.8% on an operating budget of \$74 million) in administration and support, adult and juvenile services
 - \$902K restoration request
 - District Attorney*
 - \$864K reduction (2.3% on an operating budget of \$37.1 million) in criminal prosecution and investigations
 - \$346K restoration request

Proposed Service Level Reductions & Restoration Requests

- Community and Municipal Services
 - Community Services
 - \$2M reduction (5.0% on a General Fund operating budget of \$39.7 million) in Park services, Sheriff holiday patrols, trail maintenance and shifting 18% deferred maintenance funding to regular maintenance staff
 - \$830K restoration request
 - Planning & Development
 - \$381K reduction (1.4% on an operating budget of \$27.3 million) in Long Range Planning and petroleum permitting
 - \$134K restoration request
 - Fire (OEM)
 - \$191K reduction (5.4% on a General Fund operating budget of \$2.8 million) for emergency management services
 - \$191K restoration request

Proposed Service Level Reductions & No Restoration Requests

- CEO: \$731K reduction (7.4% on a General Fund operating budget of \$9.9 million) in contracts, other services and supplies, and unfunding vacant positions
- ITD: \$638K reduction (1.7% on an operating budget of \$36.8 million) in historically underspent contract appropriations
- Child Support Services: \$542K reduction (5% on an operating budget of \$10.8 million) by unfunding vacant positions and reducing services and supplies*
- Auditor Controller: \$458K reduction (3.6% on an operating budget of \$12.9 million) in accounting services and administration by unfunding vacant positions
- Agricultural Commissioner: \$399K reduction (5.2% on an operating budget of \$7.7 million) by unfunding vacant positions
- Public Defender: \$389K reduction (1.5% on an operating budget of \$26 million) in adult legal services and administration by unfunding vacant positions and attrition due to retirements

Proposed Service Level Reductions & No Restoration Requests

- General Services: \$380K reduction (0.7% on an operating budget of \$56.2 million) in contracted services, software, extra help and other costs
- Human Resources: \$153K reduction (1.4% on an operating budget of \$11.2 million) by unfunding a vacant position
- County Counsel: \$141K reduction (1% on an operating budget of \$13.9 million) by unfunding a vacant position
- Clerk Recorder Assessor: \$65K reduction (0.3% on an operating budget of \$22.2 million) in extra help, overtime, training and travel
- Treasurer-Tax Collector: \$88K reduction (0.8% on an operating budget of \$11.2 million) in veteran's services through by unfunding a vacant position

Largely Status Quo, No Reductions

- Behavioral Wellness: No reductions due to increased Medi-Cal revenue and anticipated increases in Behavioral Health Services Act funding
- Public Works: No reductions due to stable funding for transportation, resource management, and flood control services
- First Five: No reductions due to a planned release of fund balance to sustain community investment
- BOS: No reductions due to a decrease in liability insurance rates

Ongoing General Fund & Countywide Deficit

Incremental Change in Discretionary General Fund Ongoing Revenue and Costs (in millions)

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Ongoing Revenue Increase	18.71	22.14	17.02	17.84	18.33
Ongoing Cost Increase	27.31	40.52	20.73	18.88	22.22
Deficit	(8.61)	(18.37)	(3.75)	(1.04)	(3.89)
Use of Set Aside	8.61	0.858	0	0	0
Net Annual Deficit	0	(17.52)	(3.75)	(1.04)	(3.89)
Backfill HHS depts to current service level	23.01	11.50	5.75		
New Net Annual Deficit	(23.01)	(29.03)	(9.47)	(1.05)	(3.89)
<i>Cumulative Deficit</i>	<i>(23.01)</i>	<i>(52.0)</i>	<i>(61.5)</i>	<i>(62.5)</i>	<i>(66.4)</i>

Policy Guidance

1. Multi-year strategy: Should budget balancing for FY 2026-27 be in the context of addressing the larger FY 2027-28 budget imbalance?

- Pursuing a two-year funding strategy that avoids short-term FY 2026-27 solutions that may compound deficits in FY 2027-28 is recommended

2. One-time funds: Is there a desire to use one-time funds in these next two years to soften ongoing reductions, even if it potentially leads to larger reductions in the future and a higher ongoing annual debt service on jail construction?

- The use of one-time dollars to address the ongoing General Fund deficit would only be recommended as a bridge to further operating budget reductions
- \$50M one-time dollars earmarked for the Northern Branch Jail expansion could be redirected, but would leave the General Fund with a compounded structural imbalance in future years and higher debt service on the jail construction

Policy Guidance

3. Areas of preservation: Does the Board wish to establish priority service areas to be protected?

- Identifying priority service areas for protection now will be an important step in guiding how staff develop a strategy for addressing current year restorations and future year reductions

4. Backfill: Should the General Fund backfill State/federal safety net programs, and if so, which areas are most important?

- The County in the past has opted not to backfill State or federal safety net programs due to discretionary funding limitations but did so in the current year.
- If there is a desire to backfill funding losses for specific State and federal safety net programs, identification of priority areas of focus are requested

Policy Guidance

5. *Program Cuts: Is there tolerance for elimination or consolidation of specific programs? If so, what are those that should be assessed?*

- Are there additional programs that the Board would like considered for elimination or consolidation? Staff can return with more information in April.

6. *Vacancies: Should departments prioritize reduction of vacant positions first, and non-employee costs, regardless of service impact to a particular program?*

- Should layoffs be a last resort or should there be flexibility given to departments as is done now, to use discretion knowing the circumstances of those programs and their budgets?

Policy Guidance

7. *Countywide Workforce: Should staff pursue countywide labor cost reductions over the next two years that could be one-time or ongoing to address the deficit?*

- Personnel cost savings could be generated through flat wage increases, employee furloughs, or reductions to generate savings in both FY 2026-27 and FY 2027-28

8. *Future Year Budget Strategy: Should ongoing 18% maintenance funding be reallocated in part or entirely on a temporary basis with a plan for restoration in FY 2031-32?*

- The Board could temporarily reallocate this funding with a commitment to restore it using expected retirement savings that will materialize in FY 2031-32; \$600+ million backlog will grow even faster

Next Steps

- Continue to work with departments to finalize preliminary budgets
- Budget Workshops – April 13, 15, 17
- Recommended Budget published – May 30
- Budget Adoption – June 16 and 18

Recommended Actions

- a) Receive an informational update on the Fiscal Year 2026-27 preliminary budget outlook and Fiscal Year 2027-28 projected deficit;
- b) Provide guidance on questions outlined in this report to better inform the April Workshops;
- c) Provide other direction as appropriate; and
- d) Determine pursuant to California Environmental Quality Act Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.