

County of Santa Barbara

FY 2026-27 Preliminary Budget Report

Introduction

The preliminary budget marks a significant milestone in the County's budget development process. At this stage, the County Executive Office (CEO), in collaboration with the Auditor-Controller's Office, has reviewed and compiled department-requested spending plans for the coming fiscal year based on revenue estimates from various local, State, and federal sources. Preliminary budget requests will be presented to the Board of Supervisors (Board) during a series of budget workshops in April, and direction received from the Board will be incorporated into the CEO's Recommended Budget. The Recommended Budget is then released to the public in May and presented to the Board for consideration, amendment, and adoption in June.

The County's Fiscal Year (FY) 2026-27 preliminary operating budget of \$1.64 billion represents a 2.9% reduction compared to the current year and preserves a \$9.5 million ongoing revenue set-aside to address the FY 2027-28 projected deficit. Significant changes to appropriations include a \$27.2 million or 3.2% decrease in salaries and benefits, a \$30.8 million or 5.1% decrease in services and supplies, and a \$9.3 million or 4.0% increase in other charges, which include internal service costs such as liability insurance premiums as well cash assistance payments for State and federal social and economic programs administered by the County.

Despite a reduction in operating costs, operating revenue grew slightly by \$19 million or 1.2% compared to the FY 2025-26 Adopted Budget, which points toward a reduced use of fund balance to fund operating costs in FY 2026-27. Operating revenue growth is primarily driven by increases in tax revenue (\$29.4 million), charges for services (\$5.2 million) interest income (\$2.9 million), and license and permit fee revenue (\$2.6 million), and is largely offset by a \$21.4 million decrease in intergovernmental funding for food assistance, child welfare, and highway bridge construction programs.

Strategic balancing measures produced \$70.9 million in reductions and \$16.8 million in ongoing General Fund capacity that may offset future year's deficits. With a \$17 million General Fund deficit forecasted for FY 2027-28 and an additional \$34.5 million revenue shortfall forecasted for safety net programs over the same period, departments were asked to develop next year's preliminary budget with the assumption of no growth in funding for programs supported by General Fund Contribution, and within state federal and other revenue allocations for all other programs. Increased General Fund Contributions were granted for a limited number of mandated programs (e.g., jail medical, indigent care, in-home supportive services). As a result, departments proposed \$70.9 million in reductions by cutting contracts, training, travel, overtime; right-sizing operations for better efficiency; deferring capital projects and equipment replacement; unfunding nearly 400 FTE positions; and increasing fee revenue where possible.

Savings achieved through departmental budget reductions and prudent ongoing reserves established by your Board have created ongoing General Fund capacity of \$16.8 million - \$7.4 million in unallocated FY 2026-27 revenue and \$9.5 million in ongoing revenue previously set-aside by the Board. The CEO recommends allocating these funds in accordance with a two-year funding strategy that releases \$7.4 million to support critical safety net and public safety activities in FY 2026-27 and preserves \$9.5 million to largely resolve the forecasted General Fund deficit in FY 2027-28. The future year set-aside and a portion of the Northern Branch Jail construction debt service set-aside not needed until FY 2027-28 would generate \$12.5 million in one-time funds available for allocation in FY 2026-27, which the CEO recommends investing in critical infrastructure projects, stabilizing safety-net services for the community, and other Board priorities.

State & Federal Budget Impacts

The State's economic position remains stable due to higher revenue; larger deficits expected in the coming years

The Governor released his proposed budget in January with a projected \$2.9 billion shortfall for FY 2026-27, and no new significant spending proposals. Year-to-date revenues reported by the Department of Finance indicate that State General Fund revenues (personal income tax and corporation tax) are generally exceeding budget estimates. In November 2025 the Legislative Analyst's Office (LAO) anticipated the State would be facing an \$18 billion deficit. They have since revised their projections and indicate similar projections to those included in the Governor's Budget. The LAO still anticipates double digit operating deficits starting in FY 2027-28 and suggests using current revenue strength to help prepare for future fiscal challenges. The Governor's January budget suggested minimal changes to funding for existing County programs, but more will be known when the revised budget is released in May. In the meantime, departments will continue to monitor how State budget priorities, funding shifts, and reductions may impact the County.

The March 2026 UCLA Anderson Forecast continues to emphasize uncertainty as the economy responds to geopolitics, tariff policies, and changes in immigration policy. GDP growth decreased slightly at the end of 2025 but is expected to recover throughout 2026, still mainly driven by investments in Artificial Intelligence. Unemployment rates are expected to decrease, and inflation is expected to remain elevated throughout 2026. A recession is not currently predicted but a high level of uncertainty still remains surrounding the Federal Government and any potential economic policies.

Federal House Resolution 1 (H.R. 1) and the 2025 State Budget Act will have significant impacts on safety net services in FY 2026-27. Changes to Medi-Cal, CalFresh, and In-Home Supportive Services funding and eligibility went into effect this fiscal year with the January 2026 Medi-Cal enrollment freeze, benefit reduction, and decrease in provider reimbursement rates for individuals with unsatisfactory immigration status (UIS). In the coming fiscal years further changes to the federal funding ratio for CalFresh in October 2026; new CalFresh and Medi-Cal work requirements and six-month eligibility redeterminations in January 2027; implementation of new Medi-Cal premiums for UIS in July 2027; and reduced state funding of county-approved in-home support services hour increases are anticipated to reduce benefits to the community, increase the eligibility workload for the County, reduce Medi-Cal revenue, and increase local costs associated with indigent health care and in-home supportive services.

Countywide Salary and Benefit Costs

Workforce reductions drive down salary and benefit costs.

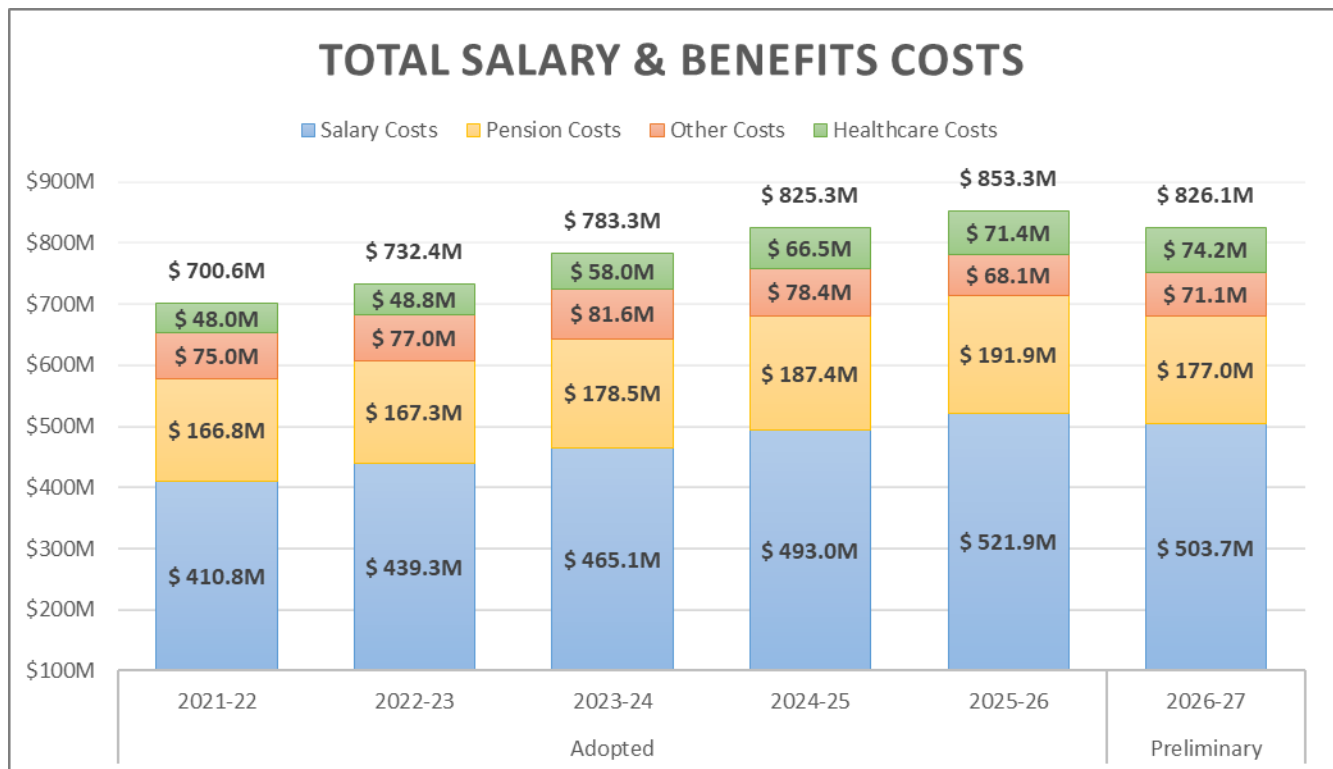
In FY 2026-27, salary and benefit costs of \$826 million, or 50% of total County operating costs, represent a \$27.2 million or 3.2% decrease compared to the FY 2025-26 Adopted Budget. Lower costs are largely driven by a 9.4% reduction in funded full-time equivalent (FTE) positions countywide, which was necessary to balance the preliminary budget. Positions that remained funded next fiscal year saw moderate cost-of-living increases, decreased retirement contributions and increased health insurance premium rates. Salary, pension, and healthcare contributions are the primary drivers of personnel costs and comprise 90% of the total.

- **Salary cost decreases of 2.9% reflect moderate cost-of-living adjustments driven down by a significant reduction in funded positions.** FY 2026-27 salary adjustments average 4.1% across all labor groups, including unrepresented managers and executives, and reflect current agreement terms approved by the Board. The overall impact of salary increases are driven down by the proposed reduction of 447.7 funded FTE made by various departments to balance the budget. A total of 55 FTE position reductions were made by Social Services as a budget balancing measure in the current fiscal year, and another 396.9 FTE are

proposed by fifteen departments to balancing in FY 2026-27. There are also a handful of position reductions made across several departments related to ending grants and other programmatic changes. Departments proposing the largest reductions of more than 20% of current year funded FTE include Social Services (254 FTE, including 55 FTE already eliminated mid-year) and County Health (123 FTE). Sheriff, Community Services, Probation, County Executive Office, District Attorney, Child Support Services, Behavioral Wellness, Auditor-Controller, Fire, Public Defender, Planning & Development, County Counsel, and Treasurer-Tax Collector also proposed funded FTE reductions to balance the preliminary budget.

- Pension cost decreases of 7.7% reflect fewer funded positions and lower contribution rates in FY 2026-27.** Overall pension contributions are anticipated to decrease by \$14.9 million in FY 2026-27 largely driven by the reduction in funded positions but also as a result of a 4.7% average decrease in retirement plan contribution rates. Changes in employer contribution rates are driven by the smoothing in and out of prior year plan investment gains and losses. Rates for FY 2026-27 were approved by the Santa Barbara County Employee’s Retirement System in December and incorporated into the preliminary budget.
- Healthcare costs are expected to grow by 4.1% despite significant FTE reduction.** Medical insurance premiums increased 13.9% in 2026 and are anticipated to increase 12% in 2027 based on market trends identified by the County’s healthcare plan consultant. The current adopted budget assumed a 10% increase in 2026 medical plan premiums, therefore projected budget-to-budget growth for these costs more than offsets the decreases associated with fewer overall FTE.
- Other salary and benefit costs are consistent with prior years.** Generally, other costs like Social Security contributions, workers compensation payments, and overtime pay are budgeted as a smaller and relatively stable share of the County’s budget.

The following table compares budgeted salary and benefit costs for the past five fiscal years to the FY 2026-27 preliminary budget.



Discretionary General Fund Revenue

Solid growth of 5.8% estimated but slightly lower than the prior fiscal year driven by slowing growth in Other Discretionary Revenue.

The General Fund is the main operating fund for the County and a primary focus of budget discussions that relate to discretionary revenue, such as property tax, Transient Occupancy Tax (TOT), and sales and use retail tax. These major discretionary revenues are distributed to departments as General Fund Contribution (GFC), with nearly 90% allocated to General Fund departments. GFC finances departmental operations and services for which no special or dedicated revenues are available and, in special revenue departments, often serves as local match for State and federal funding. FY 2026-27 preliminary recommendations have been developed for the major budgetary components of the General Fund and areas of major impact are discussed below.

Discretionary Revenue. A total preliminary budget of \$431.2 million in General Fund discretionary revenues has been estimated for FY 2026-27 representing an increase of \$23.7 million or 5.8% over the FY 2025-26 Adopted Budget. This level of growth remains robust but slightly lower than the 6.8% budgeted in the current fiscal year. Growth from these revenue sources is vital to paying for increases in labor and operational costs for many County operations, including most of the public safety function. A description of the year-over-year budgetary changes to these primary discretionary revenue sources is provided below, along with the factors that drive these changes.

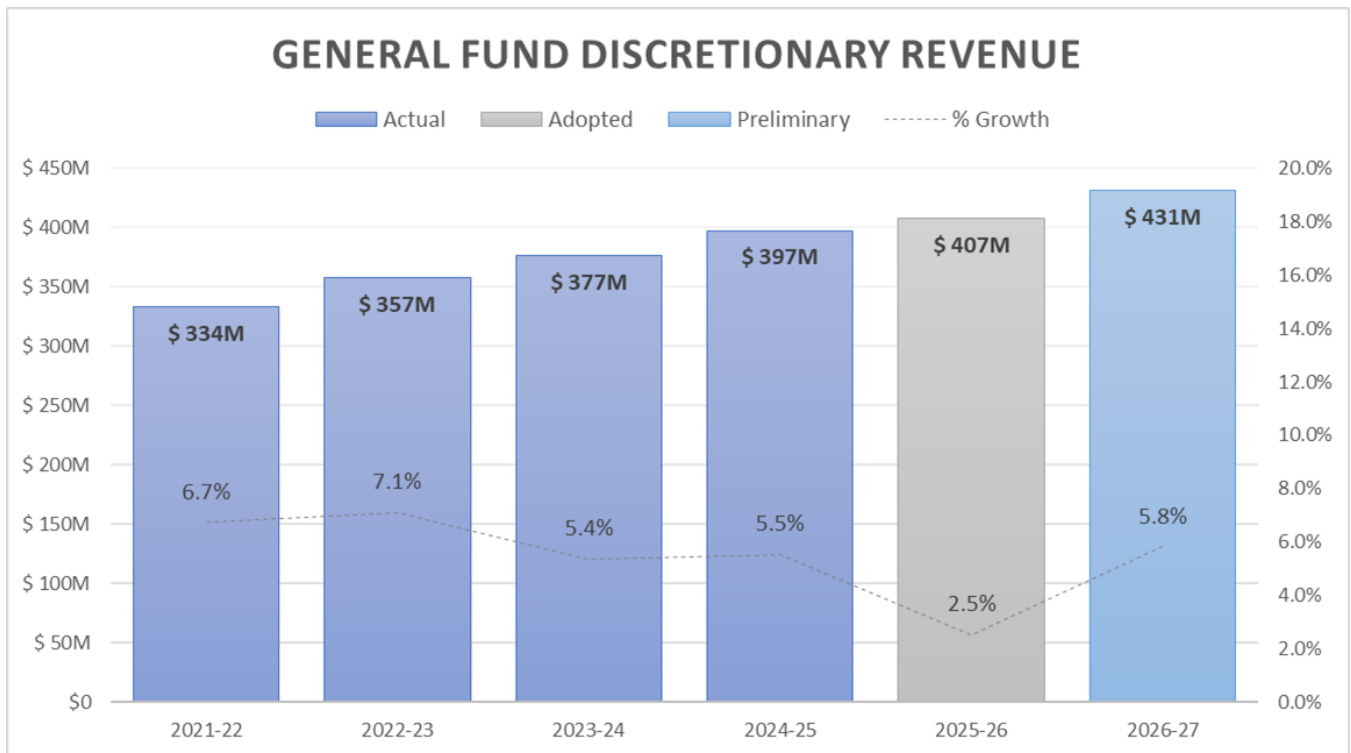
Discretionary General Fund Revenue Summary (in millions)

	FY 2025-26 Adopted	FY 2026-27 Preliminary	\$ Change
Property Taxes	319.35	337.48	18.13
Transient Occupancy Tax	22.43	25.39	2.96
Sales and Use Tax	15.50	16.88	1.38
All Other Discretionary Revenue	50.14	51.41	1.27
Total General Fund Discretionary Revenues	\$407.42	\$431.16	\$23.74

- Property Tax growth of 5.7% is consistent with prior year budgeted growth due to greater than anticipated assessed value growth in the current fiscal year.** Growth in property tax revenue is primarily driven by current secured property tax and property tax in-lieu of Vehicle License Fees (VLF), which are based on the assessed value (AV) of commercial and residential properties in the County. In FY 2026-27 the Auditor-Controller's Office, in collaboration with the Assessor's Office, estimate AV growth of 4.5% over current year estimated actuals, which are currently projecting to exceed the 4.0% growth estimate used to develop the current fiscal year's adopted budget. This effectively results in a higher base to which the assumed growth rate for the subsequent fiscal year is applied.
- TOT growth of 13.2% remains substantial due to high demand for travel resulting in greater than anticipated growth in the current fiscal year.** The County's status as a tourist destination continues to drive demand for travel and spur TOT revenue growth. This level of demand results in current year estimated actuals projecting higher-than-budgeted by \$2.2 million on an adopted budget of \$22.4 million, representing a positive variance of 9.9% over the current year's adopted budget. These robust receipts projected in the current year serve as a higher base in which next year's growth assumption of 3.3% has been applied.
- Local Sales Tax growth of 8.9% driven by resilient consumer spending projected to generate higher than anticipated growth in the current fiscal year.** Despite persistent economic uncertainty, particularly surrounding inflation, tariffs, trade, geopolitics, and consumer confidence, local sales tax generated in the County remains strong with consumer trends reflecting a willingness to spend. With assistance from sales

tax consultant HdL, estimated actuals in the current fiscal year are projecting higher than budgeted by \$1.2 million, or 8%, on an adopted budget of \$15.5 million. Similar to the current year unanticipated growth in property tax and TOT, this unanticipated growth in local sales tax establishes a higher base in which growth assumptions for the next fiscal year are applied.

- Other Discretionary Revenue growth of 2.5% lower than prior year budgeted growth of 7.2%.** Other discretionary revenues include significant sources such as Cost Allocation Plan (CAP), interest income, property transfer taxes, and cannabis taxes. Decreases in cannabis tax and CAP, along with slowing property transfer tax, are driving lower growth. Cannabis tax is estimated to decrease by \$853 thousand, or 15.4%, to \$4.7 million, which is lower than recent trends and is primarily driven by the revocation of business licenses due to non-compliance with odor abatement requirements. CAP reimbursements to the General Fund for costs of services incurred by Enterprise Funds, Internal Service Funds, and other Special Revenue Funds (Mental Health, Social Services, etc.) are calculated by the Auditor-Controller's Office and are decreasing by 0.5% from the prior year's budget driven by a slight decrease in recoverable costs. Property Transfer Tax revenue growth has slowed to a rate of 2.7% primarily due to the assumption that property transfer volume will remain low due to the persistence of higher mortgage rates. These decreases and slowing growth assumptions are more than offset by a significant increase in interest income of \$2.1 million, or 33.5%, mainly due to higher interest earnings on the General Fund's cash balance.



The table above shows the preliminary General Fund Discretionary Revenues with four years of actual receipts and the FY 2025-26 adopted budget. The FY 2026-27 preliminary budget projects growth of \$23.7 million, or 5.8%, over the FY 2025-26 Adopted Budget. Projected discretionary revenue growth along with the implementation of deliberate budget balancing strategies have resulted in a balanced preliminary budget. The following section provides additional detail on those balancing strategies and corresponding restoration requests submitted by departments.

Budget Balancing Strategies and Restoration Requests by Department

Departments reduced projected FY 2026-27 operating costs by \$70.9 million and six have requested \$12.1 million in ongoing General Fund dollars to restore certain services. To address forecasted deficits, departments were directed to adjust costs to balance the preliminary budget against ongoing or reduced State and federal allocations or fee revenue and zero growth in General Fund Contribution revenue. General Fund Contribution increases were granted only for mandated obligations including the jail medical contract, indigent care program, and in-home supportive services maintenance of effort. As a result, departments have proposed \$70.9 million in reductions (4.2% of FY 2025-26 operating budget). Reductions include the elimination of 396.9 FTE, of which it is estimated that approximately 277.5 are currently filled. However, it is important to note that the number of filled positions may change before the end of the fiscal year and many position reductions, even though filled, may not result in a layoff if the incumbent can fill a vacant position elsewhere in the department. Four departments submitted largely status quo budgets with no service level reductions; fourteen departments (the majority) submitted reduced budgets with no request for restoration; and six departments (in health and human services, public safety, and community resources) submitted reduced budgets with a request for partial restoration. Balancing measures and restoration requests are summarized in the following two tables.

Proposed Balancing Measures by Department

Department Balancing Measure & Impact	Reduced FTE	Reduction Amount
Agricultural Commissioner/W&M Holding three positions vacant to generate salary savings Impact. No material service impact anticipated	-	399,000
Auditor-Controller Unfunded three vacant positions in accounting services and administration Impact. Delays in board letter, contract review and supporting property tax-related systems; less available oversight of financial transaction processing	3.00	457,575
Behavioral Wellness - Status Quo Budget	-	-
Board of Supervisors - Status Quo Budget	-	-
Child Support Services Unfunded five vacant positions and reduced services and supplies appropriations Impact. No material service impact anticipated due to declining caseloads and other operational efficiencies	4.75	541,797
Clerk-Recorder-Assessor Reduced extra help, overtime, training and travel appropriations Impact. Minimal service impact anticipated as permanent positions are mostly filled and staff is adequately trained	-	64,500
Community Services Reduced parks services, Sheriff holiday patrols, trail maintenance, deferred capital equipment replacement and unfunded maintenance positions Impact. Reductions in trail maintenance, landscaping quality, facility sanitation, and patrol frequency; slower campsite turnover and emergency response times at remote campgrounds; degraded facility conditions and delayed critical facility repairs and capital improvements	6.75	1,694,500
County Counsel Unfunded one position through attrition and strategically filled two attorney positions at lower-level classifications Impact. Less administrative and clerical support for attorneys	1.00	406,267
County Executive Office Reduced services and supplies and unfunded three vacant positions Impact. No material service impact anticipated due to unfunded positions; reduced ability in the future for compliance oversight, countywide equity coordination or data strategy; minimal impact anticipated from reduced funding for training, travel, and food.	3.00	731,321

Department Balancing Measure & Impact	Reduced FTE	Reduction Amount
County Health Rightsized clinic operations for efficient level of service; consolidated pharmacy operations; and reduced positions in the public health, community wellness, animal services, and administration program Impact. Greatest service impacts anticipated in clinics, pharmacies, and shelters; clinic reductions may impact patient wait-times; pharmacy consolidation will impact patient ability to have prescriptions filled at clinics, but they will have the ability to get the prescription filled at other local pharmacies for the same discounted rate; Animal Services reductions will reduce days open to the public from six to four	128.90	24,337,700
Court Special Services - Status Quo Budget	-	-
District Attorney Reduced regular and extra help positions in criminal prosecution and investigations; strategically filled attorney positions at a lower-level classifications; and delayed equipment replacement Impact. The greatest anticipated impacts would be reductions in discovery capacity and disruptions to the network of criminal justice partners in the Specialty Courts system.	2.00	1,318,200
Fire Reduced one Emergency Manager position Impact. Decreased capacity to fulfill emergency response mandates and sustain core operations; potential impacts to disaster response, community alert systems, and legislative compliance	1.00	190,942
First 5, Children & Families - Status Quo Budget	-	-
General Services Reduced contracted services, software, extra help and other appropriations Impact. Payment and service delays within the Finance, Real Property, and Facilities divisions; restricted use of temporary staffing and external expertise may affect vendor relations, internal project support, and specialty service delivery	-	379,500
Human Resources Unfunded one vacant benefits and wellness position Impact. Minimal impact anticipated as position was partially filled in the current year; wellness activities will be eliminated or absorbed by other staff	1.00	153,266
Information Technology Rightsized contract appropriations and used retained earnings to fund operations and offset rate increases to departments Impact. No material service impact anticipated	-	633,800
Planning & Development Unfunded three vacant positions in permitting and long-range planning; reduced training, travel, food, and furniture appropriations; and delayed capital replacement Impact. Delayed work on non-mandated projects, slower permit revisions in petroleum, less in-person training for staff, and fewer vehicle replacements	3.00	658,816
Probation Unfunded 7.0 vacant adult and programmatic support positions, unfunded 3.5 filled juvenile services positions and restored with one-time funds; reduced contract appropriations and eliminated afterhours standby pay Impact. Minimal impacts as positions were intentionally held vacant. The 3.5 FTE restored with one-time funding will be sustainable only for an estimated three years before being exhausted.	10.50	2,046,050
Public Defender Unfunded four recently vacated adult legal services and administration positions. Impact. Elimination of positions will exacerbate challenges in managing attorney caseloads, slowing the resolution of cases, particularly complex and severe cases.	4.00	759,720

Department Balancing Measure & Impact	Reduced FTE	Reduction Amount
Public Works Reduced service contracts for Project Clean Water; consolidated Surveyor customer service activities Impact. No material service impact anticipated for Project Clean Water as projects have been brought in house; Surveyor anticipates reduced staff time at public counter	-	132,000
Sheriff Unfunded a total of 30 positions covering services to Isla Vista Foot Patrol, custody records, cooks, custodian services, computer and crime scene support, dispatch, administration, and other areas. Impact. The primary anticipated impact involves diminished patrol coverage in Isla Vista and increased response times in South County patrol areas. Additionally, administrative reductions department-wide would affect both internal Sheriff's Office operations and collaborative functions with County partners.	30.00	5,044,794
Social Services Unfunded positions in administration, food assistance and child welfare programs; eliminated preventative service contracts in protective services; reduced welfare fraud funding to the District Attorney; eliminated family resource center funding; and delayed equipment replacement. Impact. The largest anticipated impacts of these measures include a potential decrease in response timeframes for child welfare cases and slower application and renewal processing for CalFresh benefits.	197.00	30,863,031
Treasurer-Tax Collector-Public Guardian Unfunded one vacant veteran's service position Impact. No service level impact as position has never been filled.	1.00	87,865
Total	396.9	70,900,644

Restoration Requests by Department

Department Restoration Request & Impact	Requested FTE	Requested Amount
Community Services	4.00	522,500*
4.0 FTE Parks Maintenance Workers - The restoration of four Parks maintenance staff would allow the department to continue to address the significant backlog of maintenance needs, including cabins, yurts, machines, equipment, buildings. CEO Recommended	4.00	522,500
County Health	18.50	2,027,799
16.0 FTE Medical Assistants - The restoration of 16 FTE Medical Assistants in the Health Care Centers would ensure a one to one and a half Physician to Medical Assistant (rather than one to one) to ensure coverage for complex patient management, coverage for leave and overlapping shifts. CEO Recommended	16.00	1,802,799
2.5 FTE Animal Shelter Attendants - The restoration of 2.5 FTE Animal Shelter Attendants within Animal Services would ensure that the three regional animal shelters stay open six days a week (rather than four). CEO Recommended	2.50	225,000
District Attorney	2.00	345,500
1.0 FTE Legal Office Professional Senior - The restoration of this position could have impacts on case processing times, especially related to delays in processing digital evidence (including body-worn camera footage, surveillance video, cell phone data, and other large-format digital files) and higher risk of legal noncompliance.	1.0	121,900
1.0 FTE Deputy District Attorney - Restoration of this position could have impacts on the ability to review, screen, and transfer eligible cases from traditional criminal courts into treatment-oriented programs.	1.0	223,600

* Requesting use of 18% maintenance funding

Department Restoration Request & Impact	Requested FTE	Requested Amount
Planning & Development	1.00	134,000
1.0 FTE Long Range Planner to support completion of non-mandated work including process improvements (ministerial permit streamlining, special events ordinance, zoning ordinance clean-up packages), zoning ordinance projects (equestrian facilities, farmworker housing, short-term rentals, Phase II Oil and Gas phase-out), Recreation Master Plan support, and Climate Action Plan support	1.0	134,400
Sheriff	25.00	4,145,690
12.0 FTE IV Foot Patrol - This restoration would increase the ability to staff and provide patrol coverage in Isla Vista, thereby decreasing response times in South County. Staffing would alleviate demand for University of California Santa Barbara Police Department and California Highway Patrol to help respond to in-progress calls for our unincorporated area until SBSO deputies can arrive.	12.00	2,608,894
1.0 FTE Behavioral Science Unit Manager - This restoration would reduce the workload for the divisional Sheriff's Commander and bureau Sheriff's Sergeant and help maintain relationships with the mental wellness community.	1.00	238,766
3.0 FTE Law Enforcement Administration - The restoration of these office professionals will have a positive impact on workload for current staff and the timeliness in processing reports, arrest paperwork and other law branch station clerical work.	3.00	295,289
1.0 FTE Computer Systems Specialist - This restoration would have a positive impact on response and resolution times, mitigate risk against prolonged outages and delays to user assistance, and increase the capacity to deploy, maintain, and train staff on countywide technologies.	1.00	165,962
1.0 FTE Forensic Crime Scene Technician – This restoration would have a positive impact on the timeliness in processing of crime scenes, evidence and other tasks currently done by CSI staff.	1.00	144,935
1.0 FTE Criminal Records Administration - The restoration of these office professionals will have a positive impact on workload for current staff and the timeliness in processing of reports, arrest paperwork and other law branch station clerical work.	1.00	107,703
3.0 FTE Custody Administration - These restorations would have a positive impact in processing bookings, releases or other administrative processes, including customer service via the jail facilities lobbies and via telephone/email.	3.00	263,595
2.0 FTE Custody Cooks - This restoration will have a positive impact on the workload of food service staff prepping meals for the incarcerated population at both jails, which are required to have three meals a day delivered.	2.00	215,529
1.0 FTE Custodian - This restoration would result in locker rooms and restrooms being maintained at current levels in the main headquarters of the Sheriff's Office.	1.00	105,017
Social Services	125.00	4,942,900
47.0 FTE Child Welfare Services positions - The restoration of Child Welfare Services positions would allow DSS to maintain a minimally functional program, ensuring emergency response timeframes are met. If approved this restoration request will leverage \$3.7M in State/Federal funds. CEO Recommended	47.00	2,910,300
78.0 FTE CalFresh positions - The restoration of CalFresh positions would allow DSS to maintain a minimally functional program, ensuring applications and renewals are processed timely to meet state standards. If approved this restoration request could leverage \$7.4M in State/Federal funds. CEO Recommended	78.00	2,032,600
Total	175.50	12,118,389

County Fiscal Plan

Revised forecast with budget reductions reflects increased General Fund capacity to address two years of forecasted deficits; revenue shortfalls for safety net services persist in years two through five.

The County utilizes long-term financial planning as a tool to ensure fiscal stability beyond the annual budget horizon. A five-year operating forecast of ongoing expenditures funded with ongoing General Fund discretionary revenue provides important insights and information needed to establish multi-year budget solutions, fiscal policies, and a framework for decision-making that maintains good fiscal health. It is not a budget and does not establish policy or priorities; it simply summarizes fiscal capacity based on key factors that affect the County’s fiscal outlook and assesses how difficult balancing the budget may be in the future. The forecast assumes status quo operations and does not include any department expansion requests. Changes in cannabis tax revenue is excluded as an ongoing source in accordance with Board approved policy.

The December 2025 forecast anticipated a \$26.1 million General Fund deficit over the next five years after the depletion of \$9.5 million in set-asides, and an additional \$40.3 million of discretionary funding needed to preserve the safety net services at current service levels. The FY 2026-27 through FY 2030-31 five-year forecast presented to the Board in on December 16, 2025 showed a large General Fund deficit starting at \$17.5 million in FY 2027-28 and growing to \$26.1 million by 2030-31. For non-General Fund safety programs facing revenue shortfalls a deficit of \$23 million was projected to materialize in FY 2026-27 and grow to \$40.3 million by year five. Taken together, the deficit in the General Fund and health and humans service funds was projected to grow from \$23 million in FY 2026-27 to \$29 million in FY 2027-28 and total \$66.4 million over the five-year period.

DECEMBER 2025 FIVE-YEAR FORECAST

INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS

<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>
	\$ 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
<i>Salary Increases</i>	<i>6,215,104</i>	<i>6,857,929</i>	<i>6,278,943</i>	<i>5,858,727</i>	<i>6,710,566</i>
<i>Pension Costs</i>	<i>(17,236)</i>	<i>5,176,341</i>	<i>1,370,481</i>	<i>(272,896)</i>	<i>3,849,299</i>
<i>OPEB Policy Change</i>	<i>(4,179,747)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Health Benefits</i>	<i>4,536,666</i>	<i>4,714,762</i>	<i>3,343,812</i>	<i>3,308,653</i>	<i>4,120,996</i>
<i>Internal Service Rate Increases</i>	<i>2,034,330</i>	<i>3,470,689</i>	<i>3,977,026</i>	<i>4,526,074</i>	<i>4,354,322</i>
<i>Strategic Reserve</i>	<i>408,200</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>18% Deferred Maintenance</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Safety Net Costs	\$ 5,544,772	\$ 1,445,822	\$ 565,091	\$ 260,871	\$ 189,410
<i>In-Home Supportive Services MOE Increases</i>	<i>1,522,172</i>	<i>258,972</i>	<i>565,091</i>	<i>260,871</i>	<i>189,410</i>
<i>Homelessness Services Costs</i>	<i>3,515,000</i>	<i>180,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Co-Response Teams</i>	<i>507,600</i>	<i>1,006,850</i>	<i>-</i>	<i>-</i>	<i>-</i>
New Safety Net Costs (GF Responsibility)	\$ 7,421,444	\$ 11,121,444	\$ 3,100,000	\$ 1,000,000	\$ 1,100,000
<i>Indigent Care Program</i>	<i>5,721,444</i>	<i>5,721,444</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Categorical Aid, Foster Care + Adoptions Assi</i>	<i>1,700,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Mental Health Beds (IMD)</i>	<i>-</i>	<i>5,400,000</i>	<i>3,100,000</i>	<i>1,000,000</i>	<i>1,100,000</i>
Criminal Justice Costs	\$ 5,344,000	\$ 7,730,000	\$ 2,100,000	\$ 4,200,000	\$ 1,900,000
<i>AB 1869 Backfill Sunset</i>	<i>850,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Jail Healthcare New Costs & Annual Increases</i>	<i>1,600,000</i>	<i>1,700,000</i>	<i>1,900,000</i>	<i>1,800,000</i>	<i>1,900,000</i>
<i>911 Public Safety Answering Point Funding G</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>	<i>-</i>
<i>NBJ 384 Bed Construction Debt Svc</i>	<i>2,694,000</i>	<i>5,830,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Systemwide Custody Operating Costs Increas</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>5,000,000</i>	<i>-</i>
<i>Potential Cost Savings in Main Jail</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(2,800,000)</i>	<i>-</i>
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)

GENERAL FUND FORECAST TABLE INCLUDING PRESERVATION OF FY 2025-26 SAFETY NET SERVICE LEVELS

<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
Ongoing Cost Changes:					
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 L	\$ 23,005,000	\$ 11,504,800	\$ 5,751,000	\$ -	\$ -
Structural Operating Deficits					
<i>County Health Structural Deficit</i>	<i>1,300,000</i>	<i>6,000,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
Realignment Revenue Shortfall					
<i>Adult Social Services Programs</i>	<i>500,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Children's Social Services Programs</i>	<i>7,500,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
H.R.1 and State Budget Impacts					
<i>CalFresh Education</i>	<i>623,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>CalFresh Administration</i>	<i>3,000,000</i>	<i>850,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Medi-Cal Revenue Loss, Mental Health Servic</i>	<i>685,000</i>	<i>712,800</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Medi-Cal Revenue Loss, SUD Services</i>	<i>-</i>	<i>1,500,000</i>	<i>5,000,000</i>	<i>-</i>	<i>-</i>
<i>Medi-Cal Revenue Loss, Clinics</i>	<i>9,397,000</i>	<i>2,442,000</i>	<i>751,000</i>	<i>-</i>	<i>-</i>
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)

Updated forecast shows a cumulative General Fund operating deficit of \$6.7 million over five years after the release of a \$9.5 million set aside in FY 2026-27, and an additional \$14.9 million safety net program revenue shortfall over the same period. An updated General Fund forecast with estimates from the significantly reduced FY 2026-27 preliminary budget shows a \$7.4 million unallocated balance of General Fund revenue next fiscal year and a largely reduced \$3 million deficit in FY 2027-28 after the release of a \$9.5 million prior year set aside. Forecasted deficits for safety net programs were resolved in FY 2026-27 through \$23 million in balancing measures take by Social Services and County Health.

The County would need an additional \$6.6 million of discretionary funding in FY 2027-28 to preserve even the reduced safety net service levels. Impacts of recent state and federal policy changes, state revenue shortfalls, and structural operating deficits are anticipated to persist although there is considerable uncertainty in timing and scope of these changes. Federal House Resolution 1 (H.R. 1) and the 2025 State Budget Act will have significant impacts on Medi-Cal, CalFresh, and In-Home Supportive Services funding and eligibility that are anticipated to reduce benefits to the community, increase redetermination workload for the County, reduce Medi-Cal revenue, and increase local costs associated with indigent health care and in-home supportive services. For the County as a whole, the fiscal impact of these changes are compounded by the budgetary pressure of expiring grants and rising costs in indigent care, homelessness services, and criminal justice programs. The updated forecast anticipates that absent a new source of funding, an additional \$6.6 million in local funding would be needed to maintain even reduced safety net services levels in FY 2027-28.

Efforts to secure additional state funding are underway in the form of a multi-year budget request from counties (via the California State Association of Counties (CSAC)) to the state legislature of \$1.9 billion in 2026-27 and \$4.5 billion in 2027-28 and ongoing to provide resources for indigent care programs, public hospital systems, the county eligibility workforce and behavioral health. CSAC estimates that this funding will help maximize the number of individuals who retain Medi-Cal and CalFresh benefits, rebuild state-mandated county indigent care programs to serve individuals who lose health coverage, and help prevent cuts to other health and human services programs. The result of these efforts should be known better when the Governor's revised budget is released in May.

**APRIL 2026 FIVE-YEAR FORECAST
INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS**

Ongoing Revenue Sources:	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Discretionary Revenue (moderate growth)	\$ 24,590,400	\$ 22,588,600	\$ 14,791,400	\$ 17,799,000	\$ 18,161,000
Ongoing Set Asides	\$ -	\$ 9,459,500	\$ -	\$ -	\$ -
<i>Release Prior Year Set Aside</i>	-	9,459,500	-	-	-
	\$ 24,590,400	\$ 32,048,100	\$ 14,791,400	\$ 17,799,000	\$ 18,161,000
Ongoing Cost Changes:					
Salaries + Rates + Reserves + Deferred Maint.	\$ 9,400	\$ 20,219,122	\$ 14,970,263	\$ 13,420,557	\$ 19,035,183
<i>Salary Increases</i>	-	6,857,683	6,278,943	5,858,727	6,710,566
<i>Pension Costs</i>	-	5,176,155	1,370,481	(272,896)	3,849,299
<i>OPEB Policy Change</i>	-	-	-	-	-
<i>Health Benefits</i>	-	4,714,594	3,343,812	3,308,653	4,120,996
<i>Internal Service Rate Increases</i>	(389,900)	3,470,689	3,977,026	4,526,074	4,354,322
<i>Strategic Reserve</i>	399,300	-	-	-	-
<i>18% Deferred Maintenance</i>	-	-	-	-	-
Safety Net Costs	\$ 2,326,500	\$ 1,810,822	\$ 565,091	\$ 260,871	\$ 189,410
<i>In-Home Supportive Services MOE Increases</i>	2,326,500	258,972	565,091	260,871	189,410
<i>Homelessness Services Costs</i>	-	545,000	-	-	-
<i>Co-Response Teams</i>	-	1,006,850	-	-	-
New Safety Net Costs (GF Responsibility)	\$ 5,725,000	\$ 11,121,444	\$ 3,100,000	\$ 1,000,000	\$ 1,100,000
<i>Indigent Care Program</i>	5,725,000	5,721,444	-	-	-
<i>Categorical Aid, Foster Care + Adoptions Assis</i>	-	-	-	-	-
<i>Mental Health Beds (IMD)</i>	-	5,400,000	3,100,000	1,000,000	1,100,000
Criminal Justice Costs	\$ 9,178,300	\$ 1,900,000	\$ 2,100,000	\$ 4,200,000	\$ 1,900,000
<i>AB 1869 Backfill Sunset</i>	-	-	-	-	-
<i>Jail Healthcare New Costs & Annual Increases</i>	221,300	1,700,000	1,900,000	1,800,000	1,900,000
<i>911 Public Safety Answering Point Funding Ga</i>	-	200,000	200,000	200,000	-
<i>NBJ 384 Bed Construction Debt Svc</i>	8,957,000	-	-	-	-
<i>Systemwide Custody Operating Costs Increase</i>	-	-	-	5,000,000	-
<i>Potential Cost Savings in Main Jail</i>	-	-	-	(2,800,000)	-
Total Change in Costs	\$ 17,239,200	\$ 35,051,388	\$ 20,735,354	\$ 18,881,428	\$ 22,224,593
Annual (Deficit)/Surplus	\$ 7,351,200	\$ (3,003,288)	\$ (5,943,954)	\$ (1,082,428)	\$ (4,063,593)
Cumulative (Deficit)/Surplus	\$ 7,351,200	\$ 4,347,912	\$ (1,596,042)	\$ (2,678,470)	\$ (6,742,063)

GENERAL FUND FORECAST TABLE INCLUDING PRESERVATION OF REDUCED SAFETY NET SERVICE LEVELS

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Additional Cost to Maintain Current Service Lev	\$ -	\$ 6,618,000	\$ 8,251,000	\$ -	\$ -
Structural Operating Deficits					
<i>County Health Structural Deficit</i>	1,300,000	6,000,000	2,000,000	-	-
<i>County Health Balancing Measures - Structura</i>	(1,300,000)	(4,200,000)	-	-	-
Realignment Revenue Shortfall					
<i>Adult Social Services Programs</i>	500,000	-	-	-	-
<i>Adult Social Services Balancing Measures</i>	(500,000)	-	-	-	-
<i>Children's Social Services Programs</i>	7,500,000	-	-	-	-
<i>Children's Social Services Balancing Measures</i>	(7,500,000)	-	-	-	-
H.R.1 and State Budget Impacts					
<i>CalFresh Education</i>	623,000	-	-	-	-
<i>County Health Balancing Measures - CalFresh</i>	(623,000)	-	-	-	-
<i>CalFresh Administration</i>	2,400,000	600,000	-	-	-
<i>CalFresh Administration Balancing Measures</i>	(2,400,000)	-	-	-	-
<i>Medi-Cal Revenue Loss, Mental Health Service</i>	-	1,286,000	-	-	-
<i>Medi-Cal Revenue Loss, SUD Services</i>	-	1,000,000	5,500,000	-	-
<i>Medi-Cal Revenue Loss, Clinics</i>	9,907,000	1,932,000	751,000	-	-
<i>County Health Balancing Measures - Clinics</i>	(9,907,000)	-	-	-	-
Total Change in Costs	\$ 17,239,200	\$ 41,669,388	\$ 28,986,354	\$ 18,881,428	\$ 22,224,593
Annual (Deficit)/Surplus	\$ 7,351,200	\$ (9,621,288)	\$ (14,194,954)	\$ (1,082,428)	\$ (4,063,593)
Cumulative (Deficit)/Surplus	\$ 7,351,200	\$ (2,270,088)	\$ (16,465,042)	\$ (17,547,470)	\$ (21,611,063)

Key changes to the updated forecast include the following:

Revenue Estimates

- **Revenue estimates increased by \$5.9 million** from \$18.7 million to \$24.5 million in FY 2026-27 largely due to greater anticipated growth in cost allocation plan revenue than forecast in December (\$3.8 million). However, the preliminary budget assumes a slight 0.5% year-over-year decrease in cost growth compared to the FY 2025-26 Adopted Budget. Other significant revenue increases from the forecast to preliminary budget include interest income (\$867 thousand), sales tax (\$737 thousand), and transient occupancy (\$519 thousand).

Salaries, Rates, Reserves, and Deferred Maintenance

- **Salaries and benefits and internal service rate costs decreased by \$9 million** as a result of holding General Fund Contributions flat. And approximately \$390 thousand in cost savings from departments that saw a reduction in FY 2026-27 internal service rates (largely general liability premium decreases) was returned to the General Fund.

Safety Net Costs

- **In-Home Support Services costs increased by \$804 thousand** due to updated locally negotiated wage increases and reduction in the amount of 1991 Realignment available to support the program's maintenance of effort - the county share of costs is comprised of locally negotiated wage and benefit costs for individual providers and an annual 4% inflation factor.
- **Homelessness services costs decreased by \$3.2 million over two years** due to changes in anticipated federal restrictions on Continuum of Care (CoC). Since December, the Department of Housing and Urban Development has suspended a proposed 30% cap on permanent housing activities within the CoC programs that will allow current permanent supportive housing and rapid re-housing programs to maintain their current funding and service level.
- **Co-Response costs decreased by \$508 thousand** due to new grant funding from the Board of State and Community Corrections that will provide one year of funding for two out of an original three Co-Response teams that were previously funded with a combination of American Rescue Plan Act dollars, Proposition 47 Cohort III grant dollars, Mental Health Services Act funds, and limited Medi-Cal service reimbursement. The third team will be discontinued in FY 2026-27 due to the expiration of current-year funding sources and a fourth team is anticipated to continue being funded through the Community Corrections Partnership.

New Safety Net Costs (General Fund Responsibility)

- **Categorical aid costs for Foster Care and Adoptions Assistance decreased by \$1.7 million** due to significant balancing measures taken by Social Services to reduce costs in other locally funded programs and fund a \$6 million increase in cash assistance payments compared to the FY 2025-26 Adopted Budget.

Criminal Justice Costs

- **AB 1869 Backfill Sunset costs decreased by \$850 thousand** due to balancing measures taken by Probation and the Sheriff to absorb this revenue decrease within the preliminary operating budget.
- **Jail medical costs decreased by \$1.4 million** from \$1.6 million to \$221 thousand due to anticipated Wellpath contract credits based on historical actuals and a \$350 thousand increase in utilization of Opioid Settlement Fund to cover eligible pharmaceutical costs.

- **911 Public Safety Answering Point funding decreased by \$200 thousand** due to balancing measures taken by the Sheriff to rightsize dispatch operations since the Fire Department’s Regional Fire Communication Center (RFCC) went live in Spring 2025.
- **Annual debt service for Northern Branch Jail construction costs increased by \$6.3 million** as a result of setting aside the total anticipated debt service amount of \$8.9 million in FY 2026-27. The December forecast anticipated debt service payments beginning in the summer of 2027 and split the annual cost across two fiscal years.

Health & Human Service Fund Costs

- **Costs decreased by \$23 million** in FY 2026-27 due to significant balancing measures taken by Social Services and County Health to address structural operating deficits, state realignment funding shortfalls, and the financial impacts of H.R.1 and the State budget. Out-year costs decrease another \$4.9 million primarily due to the rightsizing of county health clinics that will minimize the funding needed to address the structural deficit.
 - **Rightsized health clinics reduce reliance on fund balance and decrease total funding shortfall from \$6 million to \$3.8 million over the next three years.** Balancing measures taken by County Health in FY 2026-27 have helped reduce reliance on reserves to balance Health Care Center budgets from an estimated \$7.5 million in December to \$3.8 million budgeted in FY 2026-27 budget. The reduced draw from fund balance will leave \$2 million remaining to partially fund the structural deficit through FY 2027-28. Absent new sources of revenue or General Fund support, clinics will need to find additional efficiencies or reduce operating costs by approximately \$1.8 million in FY 2027-28 and an additional \$2 million in FY 2028-29.
 - **Social Services balances State Realignment funding shortfalls with \$8 million in reductions to protective services in FY 2026-27.** In December, Social Services projected a local funding gap of \$7.5 million in children’s programs and \$500 thousand in adult programs in FY 2026-27. Both programs are now balanced in the preliminary budget with reductions to staffing and support service contracts.
 - **Departments cut \$12.9 million in CalFresh and health clinic programs to address impacts of federal and state policy changes to CalFresh and Medi-Cal eligibility and reimbursement in FY 2026-27.** Changes to eligibility requirements, reduced reimbursement, and growing uncompensated care costs primarily impact programs housed in the County Health and Social Services budgets. Balancing measures taken by both departments are largely staffing reductions.

One-Time General Fund Allocations

One-time funding of \$12.5 million is recommended to fund critical infrastructure projects, activities related to sustaining safety-net services for the community, and other Board priorities in FY 2026-27

As part of budget development, the Board considers uses of one-time fund balances. This year available one-time funds total \$12.5 million generated by ongoing set-asides not needed until FY 2027-28. The availability of these funds in FY 2026-27 is largely contingent on preserving the \$9.5 million ongoing set aside to address the General Fund deficit in FY 2027-28. Staff recommend the following uses of these one-time dollars:

- **Allocate \$10 million to Capital Improvement Projects.** This investment maintains progress on critical County infrastructure, staves off growth in the deferred maintenance backlog, and avoids future cost escalation. However, given the variance in cost between the Northern Branch Jail expansion options, it is recommended that this allocation is not finalized until after the Northern Branch Jail costs are known in case further one-time funding toward that project is needed.

- **Allocate \$2.5 million toward safety-net stabilization initiatives, additional capital projects, deferred maintenance, or other Board priorities.** Further Board direction is requested regarding the allocation of these remaining funds. These funds could be allocated in support of general categories such as ensuring continued Medi-Cal eligibility and sustaining child and adult welfare prevention services for an additional year.

Responsible Stewardship Today, Resilient, Sustainable Tomorrow

The FY 2026-27 preliminary budget reflects the Boards continued commitment to prudent fiscal management in a challenging and rapidly changing environment. While the County faces significant budget reductions in the coming year, most can be responsibly absorbed within departmental operations without compromising core functions. For the reductions that threaten essential social safety net services, staff are recommending targeted restorations to protect the community's most vulnerable residents. By making disciplined choices now, rather than postponing them until tradeoffs become more difficult, the County strengthens its long-term fiscal position and lays the groundwork for a more resilient, sustainable future.