



BOARD OF SUPERVISORS **Agenda Number:**

AGENDA LETTER

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:	March 3, 2026
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 2026-27 Preliminary Budget Outlook Update

DocuSigned by:

 41846F5C725B460...

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

That the Board of Supervisors:

- 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.

Summary Text:

Staff is preparing the FY 2026-27 Preliminary Budget for presentation at April Workshops (April 13, 15, and 17). Unlike recent years, the County faces significant deficits driven by State and federal policy changes, revenue shortfalls, and structural operating gaps. Departments have submitted proposed reductions, which are under review and subject to change. This update does not request final decisions but rather seeks clarity from the Board on priorities, tolerances, and preferences so that departments and the County Executive Office may further refine proposals prior to the April workshops.

Key objectives of this report:

- Provide an early overview of the FY 2026-27 budget and proposed reductions.
- Review projected FY 2027-28 deficits.
- Request Board guidance on eight policy questions:
 1. Multi-year strategy for addressing deficits.
 2. Use of one-time funds.
 3. Priority service areas for preservation.
 4. Backfilling State/federal safety net programs.
 5. Tolerance for program elimination or consolidation.
 6. Approach to vacant positions and non-employee costs.
 7. Potential labor concessions.
 8. Temporary reallocation of deferred maintenance funding.

Discussion:**FY 2026-27 Preliminary Budget Preview**

In December 2025, staff presented a five-year forecast that showed the General Fund in deficit, but able to balance next year using prior year ongoing set-asides. Safety Net Departments were projected to face significant shortfalls. The December 2025 forecast projected a combined \$23 million deficit for the General Fund and health and human services programs next year, growing by an additional \$29 million in FY 2027-28 and totaling a cumulative \$66.4 million over five years. Updated FY 2026-27 figures show slightly higher General Fund revenue and lower costs, but FY 2027-28 deficits remain unchanged, with continued uncertainty around safety net funding.

The budget strategy to balance the budget includes these approaches:

- Hold General Fund contributions flat; avoid across-the-board cuts.
- Require non-General Fund programs to balance within allocations.
- Increase funding only for mandated obligations (e.g., jail medical contract, indigent care, in-home supportive services).
- Adjust special revenue funds for reduced State and federal allocations.

As a result, departments have proposed \$69 million in reductions (4.1% of FY 2025-26 operating budget): \$9 million from flat General Fund contributions and \$60 million from other revenues not keeping up with costs, in both General Fund and non-General Fund programs. These reduction measures include cutting contracts, training, travel, overtime; right-sizing operations for better efficiency; deferring capital projects and equipment replacement; unfunding ~400 positions (including vacant roles); and increasing fee revenue where possible.

The impacts range from efficiency gains to slower and reduced service, reduced public hours, and elimination of non-mandated services and reduction of service levels in mandated programs. Departments identified priorities for potential restoration if funding allows, including parks, juvenile services, public safety, child welfare, CalFresh administration, animal services, and health clinics.

The County Executive Office is still in the process of reviewing and evaluating departments' proposals. As such, the CEO's office has not developed recommendations as to proposed reductions or restorations, which may still change between now and April Workshops.

A summary of proposed Service Reductions and Restoration Requests are described below.

Health and Human Services

- **Social Services:** Reduction of \$28.2 million (12.6% on an operating budget of \$225 million) including \$11.2 million in CalFresh administration; \$11.4 million in Child Welfare services, and various other programs. The department is seeking restoration of \$4.2 million to leverage State and federal dollars to partially mitigate reductions in CalFresh and Child Welfare services.
- **County Health:** Reduction of \$24.8 million (25.1% on an operating budget of \$98.7 million), with the majority in health care center costs. The significant reductions in Health Care Centers of \$21.7 million is partly from rightsizing for efficient level of service. Other reductions are proposed in public health, community wellness, animal services, and administration programs. The department is requesting restoration of \$2 million largely in Health Care services and Animal Services.

Criminal Justice services

- **Sheriff:** Reduction of \$6.6 million (2.9% on an operating budget of \$223.6 million) in administrative and sworn duties from custody records, Isla Vista Foot Patrol, dispatch, and other areas. Of this, \$5.7 million is requested for restoration.
- **Probation:** Reduction of \$2 million (2.8% on an operating budget of \$74 million) in administration and support, adult and juvenile services; requesting \$902 thousand be restored.
- **District Attorney:** Reduction of \$864 thousand (2.3% on an operating budget of \$37.1 million) in criminal prosecution and investigations, for which they are requesting \$581 thousand in restoration.

Community and Municipal Services

- **Community Services:** Reduction in Parks of \$2 million (5.0% on a General Fund operating budget of \$39.7 million) including Park services, Sheriff holiday patrols, trail maintenance and shifting 18% deferred maintenance funding to regular maintenance staff. They are seeking \$830 thousand in restorations.
- **Planning and Development:** Reduction of \$381 thousand (1.4% on an operating budget of \$27.3 million) in Long Range Planning and petroleum permitting for which they are seeking partial restoration of \$134 thousand in Long Range Planning.
- **Fire, Office of Emergency Management:** Reduction of \$191 thousand (5.4% on a General Fund operating budget of \$2.8 million) for emergency management services; requesting full restoration.

Many departments proposed budget reductions but are not requesting restoration.

While all reductions will have some level of impact, many departments are seeking to absorb the reduction and do not foresee significant impacts to current operations next year. Many caution, however, that it will reduce flexibility and may impact ability to address workload in the future.

- **County Executive Office:** Reduction of \$731 thousand (7.4% on a General Fund operating budget of \$9.9 million) in contracts, other services and supplies, and the unfunding of three vacant positions.

- Information Technology: Reduction of \$638 thousand (1.7% on an operating budget of \$36.8 million) in historically underspent contract appropriations; using retained earnings to offset rate increases to departments.
- Child Support Services: Reduction of \$492 thousand (4.5% on an operating budget of \$10.8 million) through unfunding vacant positions; awaiting final state allocation.
- Auditor Controller: Reduction of \$458 thousand (3.6% on an operating budget of \$12.9 million) in accounting services and administration through unfunding three vacant positions.
- Agricultural Commissioner: Reduction of \$399 thousand (5.2% on an operating budget of \$7.7 million) through unfunding three vacant positions.
- Public Defender: Reduction of \$389 thousand (1.5% on an operating budget of \$26 million) in adult legal services and administration through vacant positions and attrition due to retirements.
- General Services: Reduction of \$380 thousand (0.7% on an operating budget of \$56.2 million) contracted services, software, extra help and other costs.
- Human Resources: Reduction of \$153 thousand (1.4% on an operating budget of \$11.2 million) through unfunding a benefits and wellness position through attrition.
- County Counsel: Reduction of \$141 thousand (1% on an operating budget of \$13.9 million) through unfunding a position through attrition.
- Clerk Recorder Assessor: Reduction of \$65 thousand (0.3% on an operating budget of \$22.2 million) in extra help, overtime, training and travel.
- Treasurer-Tax Collector: Reduction of \$88 thousand (0.8% on an operating budget of \$11.2 million) in veteran's services through unfunding a position that has been vacant since 2023.

A few departments are largely status quo next year and have no service level reductions.

Stable revenue, planned uses of fund balance and decreased internal service costs resulted in largely status quo budgets with no reductions for the following departments.

- Behavioral Wellness: No reductions largely due to greater Medi-Cal revenue generated through operational improvements across the outpatient system of care, and anticipated increases in Behavioral Health Services Act funding.
- Public Works: No reductions largely due to stable funding for transportation, resource management, and flood control services.
- First Five: No reductions; using a planned release of fund balance to sustain community investment.
- BOS: No reductions due to a decrease in liability insurance rates related to the smoothing out of \$284 thousand in claim costs from FY 2017-18.

Approximately \$415.3 million of ongoing discretionary General Fund revenue is used to balance department requested budgets (before considering restorations), which leaves approximately \$16 million in unallocated discretionary General Fund revenue that can be saved and applied to the deficit anticipated next fiscal year or used to restore some proposed reductions of critical Board priorities. If applied to next year's General Fund deficit, it would largely eliminate the forecasted General Fund deficit in FY 2027-28; however, the deficit in the health and human service programs would remain.

Ongoing General Fund and Countywide Deficit

In the December 2025 forecast presentation, the forecast showed a large General Fund deficit in FY 2027-28 of approximately \$17.5 million, growing to \$26 million by 2030-31. For non-General Fund programs in FY 2026-27, a deficit of \$23 million was projected in safety net service costs next year. Taken together, the deficit in the General Fund and these health and humans service funds was projected to grow by an additional \$29 million in FY 2027-28 and total \$66.4 million over the five-year period. While the projections have improved for FY 2026-27 in the General Fund during development of the preliminary budget, the forecast continues to indicate a large deficit in FY 2027-28. A summary of the December Five Year Forecast is shown in the following chart:

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
GF Deficit	(8.61)	(18.37)	(3.75)	(1.04)	(3.89)
Use of Set Aside	8.61	0.858	0	0	0
Net Annual GF Deficit	0	(17.52)	(3.75)	(1.04)	(3.89)
Non-GF Safety Net Cost Increase	23.01	11.50	5.75		
Combined Net Annual Deficit	(23.01)	(29.03)	(9.47)	(1.05)	(3.89)

Given the uncertainty in the second year of the forecast – with a looming \$17.5 Million deficit in the General Fund alone – consideration must be given to how FY 2026-27 budget actions will help or hurt future year deficits. Budget restorations therefore should consider the impacts on the more challenging FY 2027-28 fiscal year.

As mentioned above, departments have already eliminated many funded positions and reduced other costs in order to arrive at the initial FY 2026-27 budget. However, given the fiscal outlook in FY 2027-28, more reductions will likely be needed. Therefore, strategies need to be developed to prepare for the additional deficits in that year.

Policy Guidance from the Board

Prior to April Workshops. Staff is seeking greater clarity of the Board’s priorities, tolerances, and preferences to better inform and refine proposals prior to the April workshops. Proposals may still change as emerging issues are identified.

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

Addressing the next two years of operating cost growth and funding shortfalls will require resources that exceed the General Fund’s current capacity. Therefore, pursuing a two-year funding strategy that avoids short-term FY 2026-27 solutions that may compound deficits in FY 2027-28 is recommended. With Board direction, the strategy could include: preserve ongoing discretionary revenue in FY 2026-27 to address forecasted GF shortfalls in FY 2027-28 (i.e., establish new ongoing set asides); pursue labor concessions in FY 2026-27 and FY 2027-28 (e.g., wage freezes, furloughs, hiring freeze); reallocate ongoing 18% maintenance funding on a temporary basis with a plan for

restoration in FY 2031-32; and establish three to five-year downsizing plans to address structural deficits and minimize reliance on General Fund dollars in safety net departments.

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?*

To ensure structurally balanced budgets, it is Board policy to use one-time revenues only for one-time expenditures, except when easing the transition to downsized or reorganized operations. In the FY 2026-27 preliminary budget, \$50 million in one-time dollars has been earmarked for the Northern Branch Jail expansion project, which is expected to save the General Fund \$3.7 million in annual debt service over 20 years - \$74.7 million in total savings. If all or a portion of these one-time funds were redirected toward the ongoing General Fund deficit in lieu of reducing ongoing costs, they could defer the FY 2027-28 forecasted deficit, but without reductions in operating costs, would leave the General Fund with a compounded structural imbalance to address in future years, as well as a higher debt service on the 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.

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

Identifying priority service areas for protection now, if there are any, will be an important step in guiding how staff develop a strategy for addressing current year restorations and future year reductions. In the past, the Board has allocated resources to specific non-mandated services or projects important to each district.

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

In the past, the County has generally opted not to backfill State or federal safety net programs in the event of funding shortfalls for many reasons, but mainly due to discretionary funding limitations. However, in recent months, Board members have expressed a desire to ensure child welfare services were preserved to a level to ensure child safety. If there is a desire to backfill funding losses for specific State and federal safety net programs, direction on that course change and priority areas of focus are requested.

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

As noted, some departments have already proposed the elimination or consolidation of specific non-mandated programs to balance the FY 2026-27 preliminary budget. Are there additional programs that the Board would like considered for elimination or consolidation?

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

In other words, should vacant positions be eliminated despite the urgency or priority of the program served, and 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?

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. The County could not enter into concession bargaining with all labor groups right now, as many have closed contracts.

8) Future Year Budget Strategy: Deferred maintenance funding: 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 General Fund allocates \$16.5 million (including \$1.5 million from cannabis revenue) ongoing toward deferred maintenance in Public Works, General Services and Community Services. Some of these departments use these funds for staff who perform deferred maintenance functions. The County created this dedicated funding by redirecting General Fund based on a formula beginning in FY 2015-16 to try to address the growing backlog of deferred maintenance (currently \$608 million). Without this funding, the backlog will grow; however, the Board could temporarily reallocate this funding with a commitment to restore it using expected retirement savings that will materialize in FY 2031-32.

Staff will continue to evaluate other countywide measures, such as greater consolidation or centralization of services; outsourcing where appropriate and legally feasible; collaboration with other agencies or government organizations; and intensified use of technology and AI, where appropriate.

Next Steps

In the coming weeks, CEO staff will continue to review and analyze requested budgets, while working with departments to prepare for the April Workshops, which will be held April 13, 15, and 17. Specifics on each departments' balancing measures, as well as CEO recommendations on restorations, will be presented at the Workshops. Following Workshops, the CEO will take Board feedback and develop the final Recommended Budget, to be presented for adoption by the Board in June.

Contact Information:

Paul Clementi, Budget Director
CEO Budget & Research
PClementi@countyofsb.org