Clerk of the Board of Supervisors
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BOARD OF SUPERVISORS AGENDA LETTER

Department Name: County Executive Office	**Estimated Time:** 20 minutes
Department Number: 012	**Continued Item:** No
Agenda Date: August 18, 2026	**If Yes, date from:**
Placement: Departmental Agenda	**Vote Required:** Majority

TO: Board of Supervisors

FROM: Department Director: Mona Miyasato, County Executive Officer

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CONTACT: Brittany Odermann, Deputy County Executive Officer
Clare Tobin, Legislative Analyst

SUBJECT: **State Budget FY 2026-27 Summary and County Impacts**

Concurrences:

County Counsel Concurrence:
As to form: Yes

Auditor-Controller Concurrence:
As to form: N/A

Other Concurrence:
As to form: N/A

Recommended Actions:
That the Board of Supervisors:

a) Receive and file a report on the state budget for fiscal year (FY) 2026-27 and potential future impacts to the County's budget; and
b) Find that the proposed action is not a "project" under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(5) as it involves organizational and

administrative activities of government that will not result in direct or indirect physical changes to the environment.

Summary Text:

The California state budget for fiscal year (FY) 2026-27 was enacted on June 29, 2026. The budget will have notable impacts for the County, including potential changes to the County's adopted FY 2026-27 budget. However, several elements of the budget remain unresolved, including trailer bills, ballot propositions, and county-specific allocation announcements. This board letter provides an overview of major items in the state budget and an initial assessment of potential impacts to the County's budget. At this time, staff do not recommend any modifications to the adopted budget.

Discussion:

State Budget Overview

On June 29, 2026, the Legislature and Governor finalized the state budget for fiscal year (FY) 2026-27. Minor changes in the form of trailer bills may occur prior to the Legislature's adjournment on August 31 and the Governor's deadline to sign legislation on September 30. The specific allocation that the County of Santa Barbara will receive from each funding item is typically not announced until the fall. Additionally, numerous ballot propositions will be considered by voters on November 3, several of which may impact state and local budgets. Given these uncertainties, this board letter highlights elements of the state budget and potential impacts to the County for informational purposes; staff are not proposing any changes to the adopted budget.

Key Items Included in the State Budget

The FY 2026-27 state budget incorporates measures to mitigate the impact of the federal H.R. 1 legislation, which significantly reduced federal funding for health and human services programs. The budget includes policy changes, temporary delays of policy changes, and rejections of policy changes proposed by the Governor, primarily aimed at managing costs, especially within Medi-Cal. It provides new investments in homelessness, behavioral health, and public safety programs. Most funding is one-time in FY 2026-27 or one-time to be spent over two to three years. Key items include:

- $420 million in one-time funding to support eligibility work for Medi-Cal and CalFresh, meeting the request put forward by counties.
- Delay of the elimination of Medi-Cal Prospective Payment System (PPS) payments for individuals with unsatisfactory immigration status (UIS) to July 1, 2027.
- Continuation of the Medi-Cal mobile crisis benefit, rejecting the Governor's proposal to shift costs to counties.
- One year delay of the Medi-Cal asset test change to July 1, 2027, with new limits of $21,000 for an individual and $31,000 for a couple.
- Inclusion of a CalFresh local match waiver until FY 2029-30, reducing match costs to counties.
- One-time funding of $20 million for CalFresh Able Bodied Adults Without Dependents (ABAWD) administrative readiness, without the 30 percent county match requirement.
- No changes to the In-Home Supportive Services (IHSS) program, rejecting the Governor's proposal to shift costs to counties.

- No changes to the Adult Protective Services eligibility age limit, which remains at age 60, rejecting the Governor's proposal to raise the age to 65.
- Homeless Housing, Assistance and Prevention (HHAP) Round 7 funding at $900 million one-time, increased from the $500 million that was allocated in the previous budget cycle.
- Housing and homelessness services funding totaling $110 million one-time.
- One-time Proposition 36 funding of $30 million: $20 million for county behavioral health departments and $10 million for state courts.
- Restoration of $20 million for pretrial services.
- Victims of Crime Act (VOCA) funding to backfill declines in the federal allocation, at $50 million one-time.
- Child Protective Services emergency response funding of $20 million one-time through June 30, 2028.
- Funding for a behavioral health anosognosia pilot program in Central Coast counties, at $5 million one-time.
- Addition of sales tax to prewritten software products, passed in Senate Bill 122 and effective January 1, 2027, which is expected to increase revenue to local governments by $1.1 billion by FY 2027-28, but will also increase the cost of these products for counties.

Key Items Missing from the State Budget

The Legislature did not fulfill all county requests for H.R. 1-related funding and did not meet certain other pressing needs for counties:

- Indigent health care funding for individuals who lose Medi-Cal due to federal work requirements. The full request from counties was $50 million for FY 2026-27 and $462 million for FY 2027-28.
- Local law enforcement funding requested to implement Proposition 36.

Items Still Pending

Several components of the state budget remain unresolved and are expected to be addressed in upcoming trailer bills before August 31. Ballot propositions will be considered by voters on November 3.

Pending trailer bills:

- Sustainable Aviation Fuel (SAF) Tax Credit, which would reduce local infrastructure funding.
- Proposition 4 funding, with allocation decisions deferred to August. The Governor proposed $2.1 billion in spending for one year to support water, wildfire, coastal, biodiversity, clean energy, and climate adaptation projects.
- Appropriation of the majority of Greenhouse Gas Reduction Fund (GGRF) revenues, including discretionary funding and state operations.

Ballot Propositions:

- Proposition 1: Veterans and Affordable Housing Bond Act of 2026. Authorizes the issuance of bonds in the amount of $11.25 billion: $10 billion for programs to fund affordable rental housing and home ownership programs and $1.25 billion for the Department of Veteran Affairs (CalVet) Home Loan Program.
- Proposition 2: Save for California's Future Act. Increases the Budget Stabilization Account (BSA) cap from 10% of General Fund revenues to 20% of General Fund revenues.
- Proposition 3: Provides permanent funding for schools and healthcare by extending existing tax on high incomes.

- Proposition 39: Establishes additional voter identification and citizenship verification requirements.
- Proposition 43: Prohibits local government from imposing a special tax until that tax is approved by a two-thirds vote of the electorate. Prohibits most ad valorem taxes on real property.
- Proposition 44: Requires community health clinics to spend 90% of revenue on program services.
- Proposition 45: Modifies environmental review requirements for certain projects.

Impact on County Budget

The state budget has implications for the County's FY 2026-27 adopted budget. One change has already been adopted by the Board:

- The delay of eliminating Medi-Cal PPS payments for individuals with UIS enabled the County to reverse $6.6 million in planned clinic reductions and restore 15 full-time equivalent positions to County Health, which was approved by the Board on July 7.

Further impacts from the state budget to the County's adopted budget will become clearer when official allocations are announced in the fall, particularly for Social Services (DSS). Of note, new funding is primarily one-time in FY 2026-27 or one-time over two to three years, which limits the County's ability to make substantive redistributions in the budget. Anticipated impacts include:

- For increased Medi-Cal eligibility workload, DSS estimates that up to $3 million will be available to the County in FY 2026-27, to be used for overtime; at least $1 million is expected to be spent. Unused funding may remain available in FY 2027-28, but actual carryover amounts will not be known until later this fall. This funding may expand service capacity and mitigate the impact of H.R. 1 on the timeliness of benefit application determinations, but does not increase General Fund availability for other purposes.
- For increased CalFresh eligibility workload, DSS estimates up to $2 million will be available to the County over three years, to be used for overtime rather than position restoration.
  - Of the $2 million for CalFresh eligibility, $195,000 is allocated for ABAWD administrative readiness, available one-time in FY 2026-27 and not requiring increased local match.
  - DSS could access the remaining $1.8 million over three years. Claiming $600,000 in each fiscal year would require additional local match of $133,000 each year, which could be reallocated from savings (see next item).
- The three-year CalFresh match waiver reduces the required county match by an estimated $1.4 million in FY 2026-27, from $6.3 million to $4.9 million. Unused local dollars could fund the additional $133,000 to maximize the CalFresh administrative allocation and reestablish a minimum fund balance to reduce negative interest costs from General Fund borrowing (approximately $250,000 per year). The limited-term nature of this waiver makes it difficult for the County to reallocate General Fund for use elsewhere.
- Child Protective Services will likely receive $200,000 in one-time funding for emergency response, to be used for overtime. Increased expenditures in emergency response contributed to the DSS budget deficit in FY 2025-26.
- Four housing and homelessness programs administered by DSS are expected to receive one-time funding of $1.1 million, primarily as pass-through financial assistance for housing.
- The behavioral health anosognosia pilot program will provide $5 million one-time for CenCal, in partnership with San Luis Obispo County and Santa Barbara County behavioral health

departments, and will support training, enhanced family support services, crisis response improvements, and emergency behavioral health treatment.

- Other new funding items listed above in the section *Key Items Included in the State Budget* will result in increased dollars for the County, but amounts are not yet known. Examples include Proposition 36 and VOCA funding.
- The County will receive new revenue from the software sales tax and will also incur increased expenditures on software beginning in 2027. The California State Association of Counties (CSAC) estimates that the tax will raise $42.4 million in general purpose tax revenue annually by FY 2027-28, to be spread across 58 counties. This amount is not sufficient to address H.R. 1 impacts and does not account for increased tax expenditures. Staff are working to estimate both potential revenue and cost impacts for Santa Barbara County.

County budget staff and department staff will continue to monitor changes to the state budget and further information on specific allocations. As necessary changes to the County's adopted budget are identified, staff will bring budget revisions for the Board's consideration.

Fiscal and Facilities Impacts:

Fiscal impacts are described in the report, and there is no recommended fiscal action at this time.

Special Instructions:

None

Attachments:

Attachment A - State Budget Summary - Hurst Brooks Espinosa

Contact Information:

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