

FISCAL YEAR 2026-27 FIVE-YEAR FORECAST

Board of Supervisors
December 16, 2025

County Executive Office



TODAY'S REPORT

- Context
- General Fund Five-Year Forecast
- Budget Balancing Framework
- New Budget Development Policies
- Next Steps



CONTEXT

Budget has been stable but under pressure

- Board's prudence has allowed us to address budget gaps in recent past
- Property tax set-asides were created and used post-COVID
- Growth in expenditures have exceeded growth in revenues in recent years
- State mandates and jail settlement have added to fiscal pressure



Deficits have started to emerge

- Health and human services budgets are depleting their fund balances
- Federal and State policy and fiscal actions are creating significant cost impacts
- State mandates and insufficient State revenue to cover program costs continue to be an issue



Safety Net Impacts

- The safety net is shrinking
- This experience is not just a Santa Barbara County issue
- Widespread State and county concern
- Significant uncertainty among California counties
- August CSAC letter to Governor warned of strain on safety net services, urged State support to mitigate impacts



CENTRAL CHALLENGE

- We are in a deficit situation; ongoing reserves will be depleted next year
- The new State and federal policy changes have created significant uncertainty that will deepen the deficit beyond General Fund capacity
- Board has indicated a desire to preserve some level of safety net services despite external funding losses
- Departments will be asked to build efficiencies and cost reductions into the FY 2026-27 budget

SUMMARY: FORECAST – GENERAL FUND DISCRETIONARY

	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)

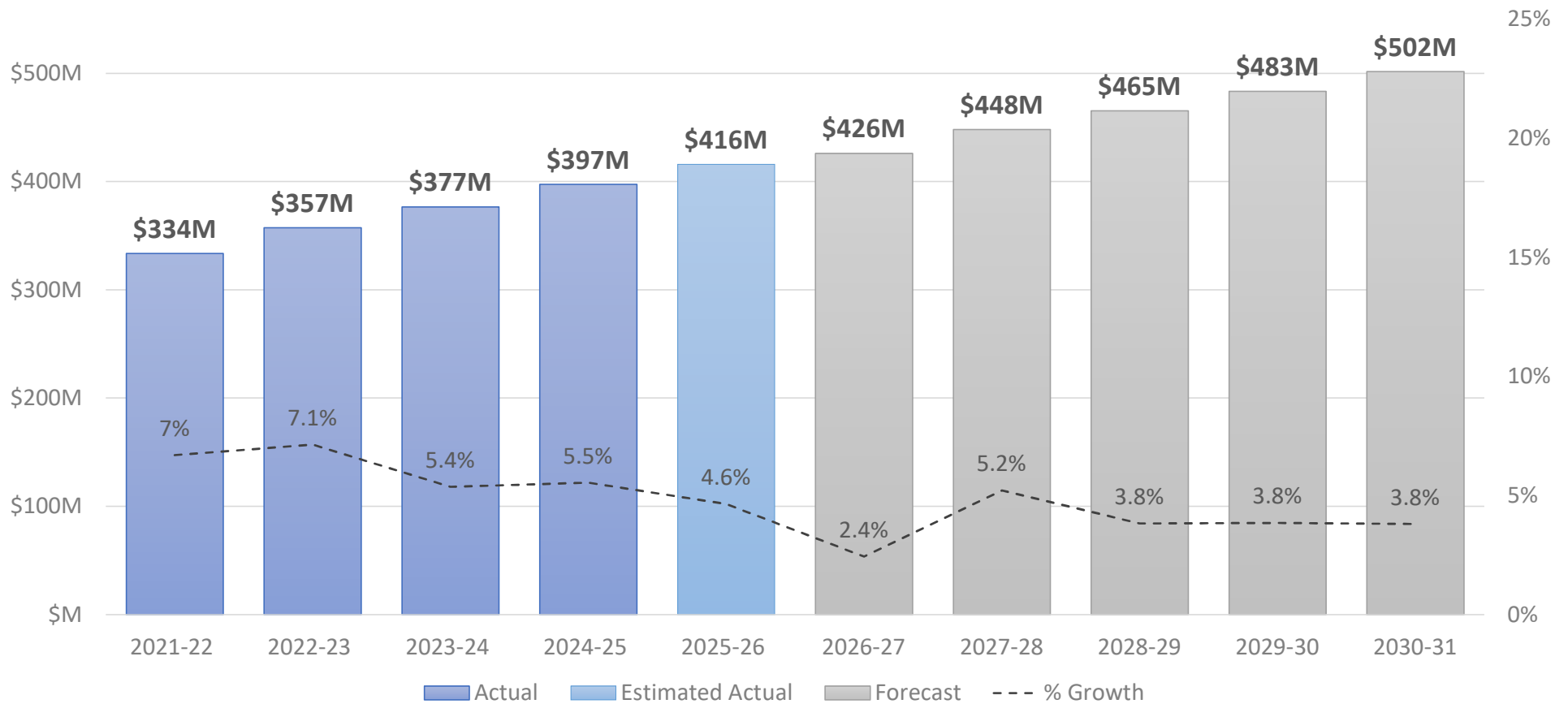


GENERAL FUND FORECAST OVERVIEW



REVENUES

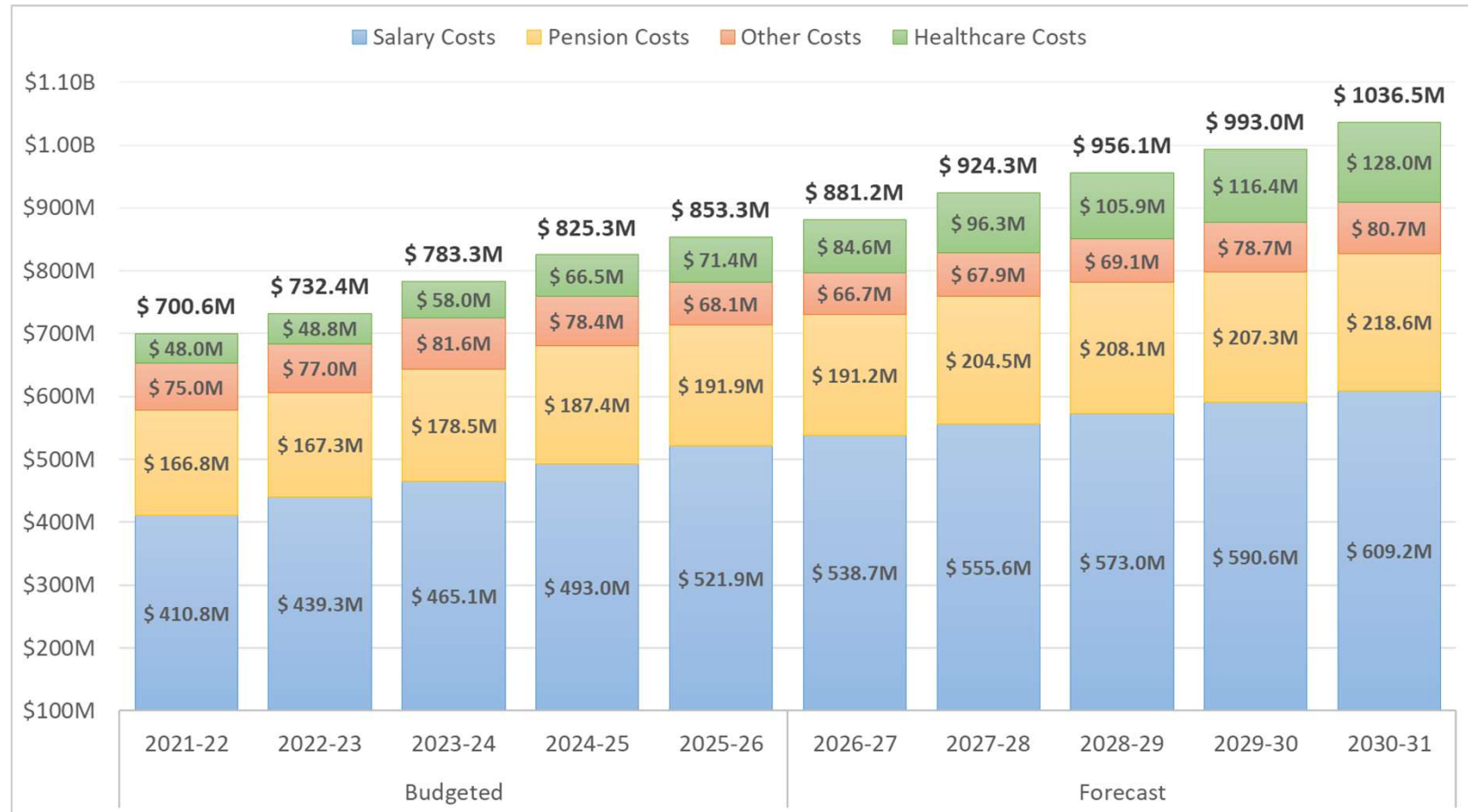
DISCRETIONARY REVENUE GROWTH SLOWING



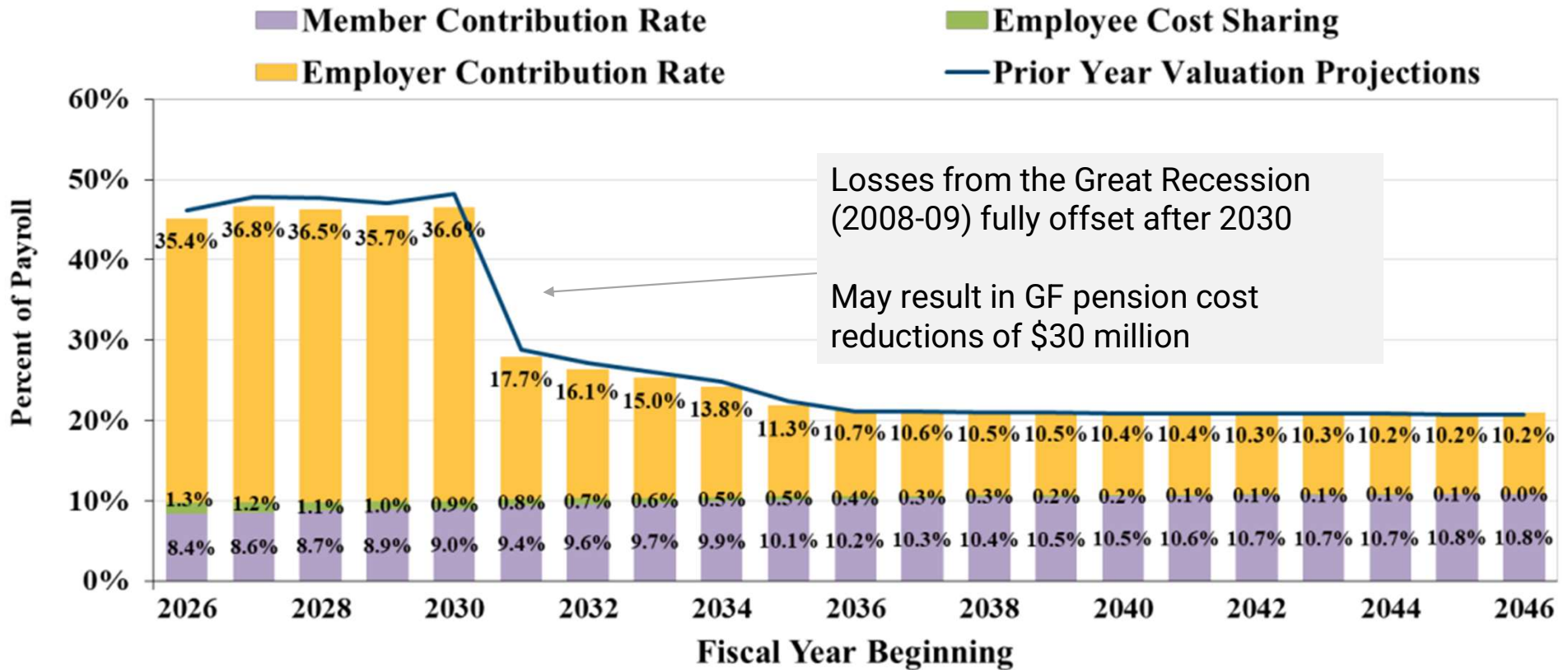


COSTS

SALARY AND BENEFIT GROWTH LOWER THAN PRIOR YEARS *IF* SALARY INCREASES AROUND 3%



RETIREMENT CONTRIBUTION PROJECTIONS



* Projections assume all actuarial assumptions are met. Employee offsets decline over time as attrition occurs and "legacy" tier membership is reduced. Employees hired after December 31, 2012 have higher base contribution rates and do not pay the offset.

BASE LEVEL FORECAST

- Improved revenue projections compared to last year
- OPEB policy change
- New safety net costs have emerged
- Discretionary costs in blue

Takeaway

- Releasing all \$9.5M in remaining set asides
- Deficits forecasted in years two through five

Ongoing Revenue Sources:	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Discretionary Revenue (moderate growth)	\$ 18,706,100	\$ 22,137,700	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700
Ongoing Set Asides	\$ 8,601,433	\$ 858,067	\$ -	\$ -	\$ -
Release Prior Year Set Aside	8,601,433	858,067	-	-	-
Total Revenue Change	\$ 27,307,533	\$ 22,995,767	\$ 17,019,600	\$ 17,836,400	\$ 18,333,700

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

MAINTAIN SERVICES FORECAST

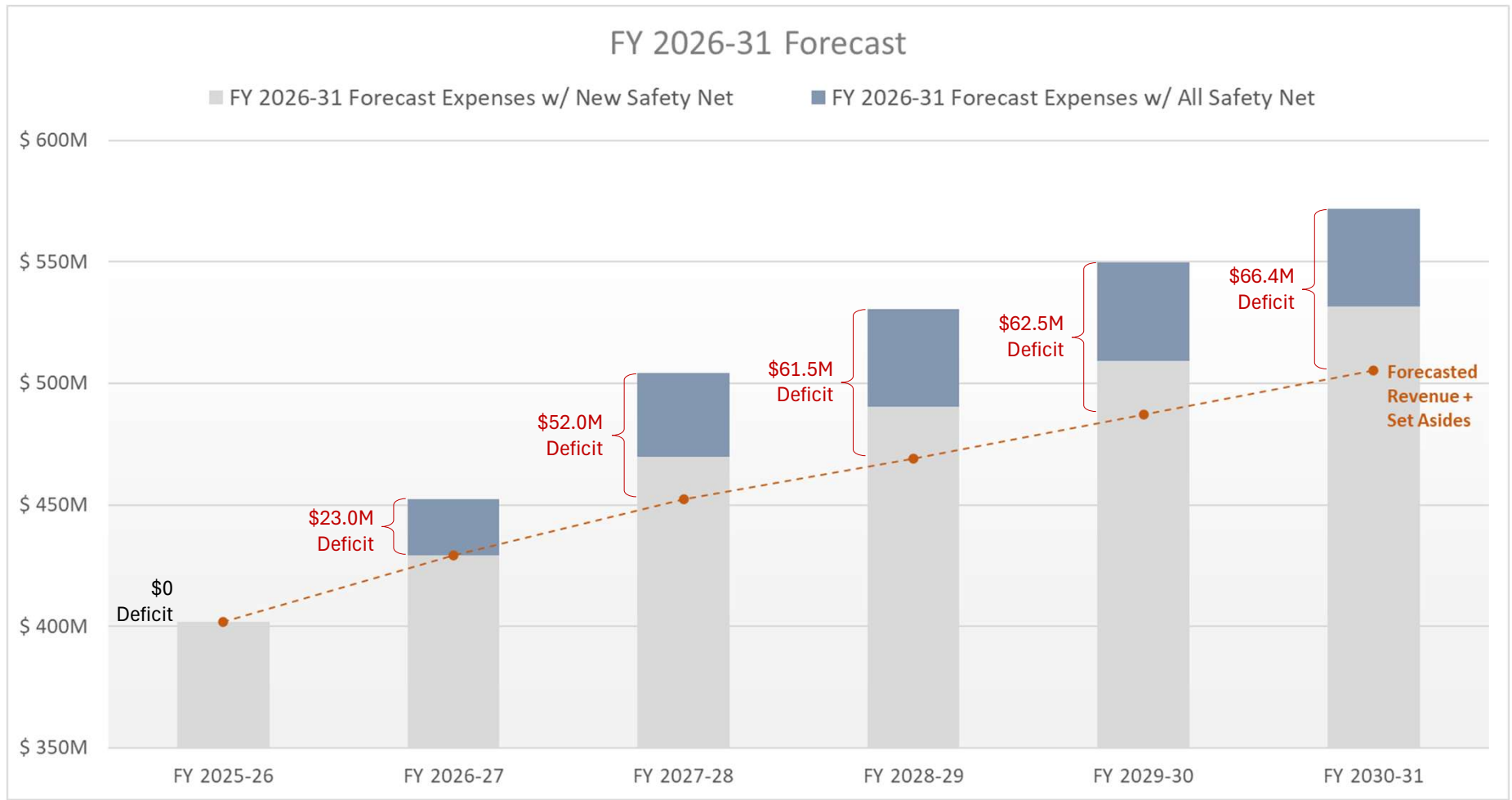
- HHS Departments face structural deficits, revenue shortfalls and policy change impacts
- Costs not anticipated last year, estimates still preliminary

Takeaway

- Year 1 deficit grows to \$23M and more than doubles in Year 2

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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:	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Salaries + Rates + Reserves + Deferred Maint.	\$ 8,997,316	\$ 20,219,722	\$ 14,970,263	\$ 13,420,557	\$ 19,035,183
Safety Net Costs	\$ 5,544,772	\$ 1,445,822	\$ 565,091	\$ 260,871	\$ 189,410
New Safety Net Costs (GF Responsibility)	\$ 7,421,444	\$ 11,121,444	\$ 3,100,000	\$ 1,000,000	\$ 1,100,000
Criminal Justice Costs	\$ 5,344,000	\$ 7,730,000	\$ 2,100,000	\$ 4,200,000	\$ 1,900,000
Additional Cost to Maintain Current Service Level	\$ 23,005,000	\$ 11,504,800	\$ 5,751,000	\$ -	\$ -
Structural Operating Deficits					
<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 Service:</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)



Potential Unknowns

- Economic uncertainty
- State budget worsens, or state funding materializes
- Additional federal changes under current administration
- Litigation impacts, other unforeseen costs
- Estimates for indigent care and other safety net services still being refined



BUDGET STRATEGY & POLICY

BUDGET BALANCING FRAMEWORK

- **Control Personnel Costs**
 - Funded vacancies
 - Soft hiring freeze
 - Limit overtime
 - Other labor concessions (furloughs, salary freezes, etc.)
- **Reduce FY 2026-27 GFC levels as much as \$23M (forecasted deficit)**
 - Start planning for further reductions in FY 2027-28
 - Review GFC reduction scenarios
- **Interim Funding Shifts**
 - Redirect 18% maintenance, Tech Innovation Fund, or other dollars
- **Increase Revenue**
 - Sales Tax Measure
 - Leverage State/federal funding
 - Fee increases
- **Prioritize Essential Services**
 - Identify critical services to be preserved
 - Develop a 3 to 5 year safety net downsizing plan

Proposed budget development policy will help fund annual debt service payments for the NBJ

- Amend Policy 7 to set-aside one-time funds for the Northern Branch Jail expansion
 - In FY 2026-27, one-time funds totaling \$50 million will be set-aside to fund project construction costs; and
 - An ongoing set-aside of \$8.5 million will be recommended to fund annual debt service payments.
 - Having a formal policy will help with rating agencies when the County goes to issue debt next fiscal year

Next Steps

- Preliminary FY 2026-27 reductions briefing to the Board in February/March
- FY 2026-27 Budget Workshops on April 13, 15, 17

RECOMMENDED ACTIONS

- A. Receive and file the Five-Year Forecast for Fiscal Years 2026-27 through 2030-2031;
- B. Adopt the FY 2025-26 Budget Development Policies;
- C. Review funding priorities for Fiscal Year 20256-27 and provide staff additional 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.

County Executive Office

