

7. Hold public hearing to consider, accept and file the County's Proposed Fiscal Year 2026-27 Budget and continue the budget public hearing to June 10, 2026, and take related actions ()



## County of Santa Cruz Board of Supervisors

### Agenda Item Submittal

**From:** County Executive Office

**Subject:** Proposed Budget for Fiscal Year 2026-27

**Meeting Date:** May 5, 2026

**Formal Title:** Hold public hearing to consider, accept and file the County's Proposed Fiscal Year 2026-27 Budget and continue the budget public hearing to June 10, 2026, and take related actions

### Recommended Actions

1. Accept and file the County's Proposed Fiscal Year (FY) 2026-27 Budget;
2. Conduct a public hearing to begin the Proposed FY 2026-27 Budget hearings to hear and consider information to approve the Proposed FY 2026-27 Budget on June 24, 2026; and
3. Continue the budget public hearing to June 10, 2026.

### Executive Summary

The Proposed Fiscal Year (FY) 2026-27 Budget was released to the Board on April 30, 2026, to begin the budget hearings on May 5, 2026. This \$1.29 billion recommended budget, including an \$844.1 million General Fund, is a balanced budget that supports the County's 2,682 position workforce, maintains essential services, and continues targeted investments in artificial intelligence, organizational modernization, roads, housing, and homelessness reduction. It arrives under one of the more challenging fiscal conditions the County has faced.

The County entered FY 2026-27 budget development facing a projected General Fund deficit of \$23.2 million along with additional cost pressures including federal policy changes such as H.R. 1, with forecasted deficits exceeding \$67 million in subsequent years absent corrective action. Balance is achieved through shared departmental restraint, a countywide hiring freeze, the elimination of a net 57.88 vacant positions, targeted revenue increases, and the strategic use of \$43.0 million in one-time resources from General Fund reserves and department trust funds. There are no proposed reductions in force resulting in the layoff of current employees.

The single largest fiscal pressure is the accelerating impact of H.R. 1 on County health and human services programs, largely from increases in unfunded mandated services. The overwhelming share of one-time funds in this budget is directed at sustaining safety net services. Those federal funding reductions will deepen in FY 2027-28 and beyond, and the one-time resources used here will not be available in the next fiscal year.

General Fund reserves are projected to decline from 12.5 percent to 10.4 percent of expenses, just above the Board-adopted 10 percent minimum level, but below the 15 percent target set by the Board and the 28 percent California peer county average. This budget buys time to address the H.R. 1 impacts and structural deficit and will be informed by the California Governor's May Revise for 2026-27. The structural imbalance between the County's growing cost base and its sustainable revenue base is the defining fiscal reality of this moment, and the work to address it begins in earnest now.

## **Discussion**

The FY 2026-27 Proposed Budget reflects both genuine progress and significant constraint. Unprecedented federal policy changes under H.R. 1 are reducing the federal funding that flows through State programs while increasing unfunded, mandated services for County health and human services, impacting programs serving thousands of Santa Cruz County families and individuals. Those reductions will deepen in coming years, presenting steeper challenges for local government as community needs grow and resources decline.

Labor costs growth to retain a trained and skilled workforce and remain competitive in the job market continue to outpace revenue growth. Disaster-related debt obligations are placing additional pressure on both the General Fund and the Roads Fund. The State budget faces its own fiscal tightening, with the Governor's May Revision expected to reflect continued enrollment freezes and benefit adjustments that will reduce County program funding further. The structural imbalance between the County's ongoing costs and its sustainable revenue base (a gap that has been widening for years, exacerbated by inflation, disaster recovery costs, and unfunded State mandates) cannot be closed with one-time measures alone.

Despite these pressures, the County presents a balanced budget. That balance was achieved through shared restraint and expenditure reductions across every department, targeted revenue actions, and the deliberate use of available reserves and department trust funds. These were necessary and appropriate steps, but they are not a long-term solution. The County Executive Office, Board of Supervisors, County staff, community partners, and the public will need to work together on the structural reforms required over the coming years.

### ***The County's Call to the State***

Counties cannot absorb the fiscal consequences of federal policy changes alone. The State of California must step up. Santa Cruz County will continue to advocate alongside our various county associations for direct State funding to offset current H.R. 1 impacts and the escalation of impacts in FY 2026-27 and every subsequent year. This represents a major realignment of funding and costs that requires the State to participate in the solution. The County will pursue every responsible mechanism available to align revenues with community expectations.

### ***Summary of Major Budget Changes***

Following are the major changes in the Proposed 2026-27 Budget as compared to the Adopted 2025-26 Budget. These changes would:

#### **Staffing & Labor Costs**

- *Continue a countywide hiring freeze*, with limited exceptions for critical public safety and direct-service roles as well as revenue-generating positions.
- *Eliminate a net 57.88 full-time equivalent (FTE) positions* across departments, reducing the County's funded workforce from 2,740.16 to 2,682.28 FTE positions, a reduction of more than 2 percent. No employees are laid off. Many of these position reductions are within HSA and HSD:

- Reduce Health Services Agency funded staffing by a net 23.10 FTE positions, reflecting fiscal pressures from H.R. 1 reductions in federal funding for Medi-Cal, behavioral health, and public health programs.
- Reduce Human Services Department funded staffing by a net 25.50 FTE positions, reflecting both departmental scale and the disproportionate fiscal pressure created by federal funding reductions.
- *Budget negotiated salary and benefit costs consistent with agreements with the County's labor partners, including cost-of-living adjustments across all bargaining units (\$9.5 million in General Fund) and annual step increases for eligible employees generally at 5% per year.*

### Use of One-Time Funds

- *Use \$30.8 million in one-time General Fund reserves (Board Directed and Department Assigned) to sustain safety net services, with the overwhelming share directed at Health and Human Services programs. This action reduces projected reserves to 10.4%, just above the 10% minimum level.*
- *Draw on \$12.2 million in department trust funds and other non-General Fund one-time sources. Combined with the use of General Fund reserves, a total of \$43.0 million in non-recurring resources were required to balance the budget.*

### New Revenue Sources

- *Implement a reimbursement rate increase at County Health Centers, aligning charges for services with actual costs and improving revenue recovery.*
- *Launch a parking fee pilot at select regional County Parks, creating a new, modest revenue source while managing visitor demand.*

### Organizational Improvements

- *Fund the County's AI Elevation and Standardization Workplan 2026, including enterprise licensing, staff training, technical support, and pilot projects.*
- *Continue the Streamline Santa Cruz County Workplan, including a major update to the County Code to implement objective standards and reduce peer reviews, fostering housing and economic development.*
- *Create the Alternate Public Defender's Office within the Public Defender's Office, a structural change expected to reduce reliance on costly outside counsel over time.*

### Community & Grant Funding

- *Preserve all Collective of Results and Evidence-Based (CORE) Investments contracts, maintaining the County's commitment to data-driven community services.*
- *Funds \$2.7 million for County-administered grant programs within Measure Q, formally titled the Santa Cruz County Safe Drinking Water, Clean Beaches,*

Wildfire Risk Reduction, and Wildlife Protection Act, as well as \$1.4 million in County-directed programs including \$500,000 for Board-directed investments (\$100,000 per supervisorial district).

Measure K Spending Plan

- Maintain \$2 million for roads improvements.
- Maintain \$1 million for environment and parks projects.
- Maintain \$1 million for housing-related uses.
- Maintain \$1 million for homelessness programs.

Housing & Economic Development

- *Fund the 701 Ocean Street Housing Viability Study*, advancing work on one of the County’s most significant affordable housing sites.
- *Advance formation of an Enhanced Infrastructure Financing District (EIFD)* in the unincorporated area, providing a long-term mechanism to capture value from growth and direct it toward public infrastructure, including affordable housing.

Additional discussion of budget changes, including all position changes, is provided in the Proposed 2026-27 Budget under each department’s “Budget” section at [www.SCCBudget.us](http://www.SCCBudget.us).

**Budget Financial Summary**

As shown in Table 1 below, the Proposed FY 2026-27 General Fund Budget reflects revenues of \$812.9 million and expenses of \$844.1 million. The \$31.2 million difference between revenues and expenses is funded through planned use of General Fund reserves and department trust funds. This is a Board-authorized strategy, not structural deficit spending, but it reduces available reserves and cannot be repeated at this scale.

**Table 1 — Proposed 2026-27 Budget: General Fund Summary**

	<b>FY 2024-25 Actuals</b>	<b>FY 2025-26 Adopted</b>	<b>FY 2025-26 Est. Actuals</b>	<b>FY 2026-27 Proposed</b>
Revenues	\$738.2M	\$816.2M	\$809.0M	\$812.9M
Expenses	\$771.9M	\$824.3M	\$825.2M	\$844.1M
<b>Revenue Less Expenses</b>	<b>(\$33.7M)</b>	<b>(\$8.1M)</b>	<b>(\$16.2M)</b>	<b>(\$31.2M)</b>

For FY 2024-25 actuals, a portion of the \$33.7 million in excess expenses reflect the structural cost pressures including increased labor costs and efforts to fill vacant positions faster, resulting in substantially lower salary savings, while the remaining amounts reflect planned, one-time events. For FY 2024-25, \$21.3 million of the excess represented the planned use of \$14.6 million of fund balance for roads, housing projects and federal disaster debt support, and \$6.7 million in uncollected federal disaster reimbursements.

For FY 2025-26 estimated actuals, the \$16.2 million in forecasted excess expenses exceed prior forecasts as the result of labor costs that are higher than expected and shortfalls in planned salary savings. With the County’s ongoing hiring and travel freeze,

final FY 2025-26 actual results are expected to perform better than the estimates, which were calculated based on dated trends through February 2026. For the FY 2026-27 Adjusted Budget, budget changes from the annual realignment and year-end close processes will ensure the County does not exceed its budget authority.

### General Fund Revenue by Major Source

General Fund revenues are budgeted at \$812.9 million in the Proposed FY 2026-27 Budget, a decrease of \$3.3 million, or 0.4 percent, from the FY 2025-26 Adopted Budget. The revenue forecast reflects an economy that is still functioning but growing more slowly, with limited upside and increasing sensitivity to downside risk. Intergovernmental revenues, the General Fund’s single largest source at 54.8 percent of total revenues, decline by \$13.1 million, or 2.9 percent, reflecting a \$9.3 million change in grant budgeting practice for the Office of Response, Recovery, and Resilience to recognize grants as awarded. This decline is partially offset by \$8.9 million in tax revenue growth, driven by property tax assessed value increases, as well as modest gains in charges for services and fines.

Use of Money and Property revenues decrease by \$5.0 million, primarily reflecting lower interest earnings as the interest rate environment normalizes. Other Financing Sources increase by \$3.0 million, reflecting updated transfer and loan repayment projections.

**Table 2 — Proposed 2026-27 Budget: General Fund Revenue by Source**

<b>Revenue Source</b>	<b>FY 2025-26 Adopted</b>	<b>FY 2026-27 Proposed</b>	<b>Change (\$)</b>	<b>Change (%)</b>
Intergovernmental Revenues	\$458.9M	\$445.8M	(\$13.1M)	-2.9%
Taxes	\$198.3M	\$207.2M	\$8.9M	+4.5%
Charges for Services	\$104.7M	\$105.8M	\$1.1M	+1.0%
Other Financing Sources	\$9.8M	\$12.8M	\$3.0M	+30.6%
Licenses, Permits, and Franchise Fees	\$17.5M	\$17.6M	\$0.1M	+0.6%
Fines, Forfeitures, and Assessments	\$8.6M	\$9.3M	\$0.7M	+8.1%
Miscellaneous Revenues	\$6.0M	\$7.0M	\$1.0M	+16.7%
Use of Money and Property	\$12.5M	\$7.5M	(\$5.0M)	-40.0%
<b>Total General Fund Revenues</b>	<b>\$816.2M</b>	<b>\$812.9M</b>	<b>(\$3.3M)</b>	<b>-0.4%</b>

### General Fund Expenses by Major Category

General Fund expenses total \$844.1 million in the Proposed FY 2026-27 Budget, an increase of \$19.8 million (2.4 percent) over the FY 2025-26 Adopted Budget.

Salaries and Employee Benefits are the dominant cost driver, accounting for 52.9 percent of total General Fund expenses. Growth of \$32.9 million (8.0 percent) reflects negotiated cost-of-living adjustments across all bargaining units (\$9.5 million in General Fund COLA costs), step increases for eligible employees, rising health insurance premiums, and increased CalPERS retirement contribution rates. Labor costs are growing faster than the County’s revenue base can sustainably support in the current year, for FY 2026-27 and subsequent years, and this dynamic represents the core of

the County's structural challenge with a growing impact from H.R. 1.

Internal Service Fund (ISF) charges increase by \$8.1 million (27 percent) as departments absorb \$3.5 million in higher costs related to risk management increases in liability claims and insurance costs. The remainder represents cost increases allocated to departments for the new Human Capital Management system, Workday, for other county-wide financial systems, and from the facility maintenance and support costs stemming from the County's recent facility expansions. Other increases represent normal operating cost increases such as software licensing and utilities.

Services and Supplies grow modestly by \$7.7 million (3.4 percent). Other Financing Uses decrease by \$25.3 million, reflecting the completion and payoff of prior-year financing transactions.

Contingencies are budgeted at \$11.0 million, representing 1.3 percent of General Fund expenses.

**Table 3 — Proposed 2026-27 Budget: General Fund Expenses by Category**

<b>Expense Category</b>	<b>FY 2025-26 Adopted</b>	<b>FY 2026-27 Proposed</b>	<b>Change (\$)</b>	<b>Change (%)</b>
Salaries and Employee Benefits	\$413.8M	\$446.7M	\$32.9M	+8.0%
Services and Supplies	\$224.5M	\$232.2M	\$7.7M	+3.4%
Internal Service Funds charges	\$30.0M	\$38.1M	\$8.1M	+27.0%
Contingencies	\$9.6M	\$11.0M	\$1.4M	+14.6%
Fixed Assets	\$1.0M	\$1.0M	\$0.0M	-2.0%
Other Charges	\$116.0M	\$112.0M	(\$4.0M)	-3.5%
Other Financing Uses	\$44.3M	\$19.0M	(\$25.3M)	-57.1%
Intrafund Transfers	(\$14.9M)	(\$15.9M)	(\$1.0M)	+6.7%
<b>Total General Fund Expenses</b>	<b>\$824.3M</b>	<b>\$844.1M</b>	<b>\$19.8M</b>	<b>+2.4%</b>

General Fund Expenses by Service Area

Health and Human Services accounts for 62.4 percent of all General Fund expenses and is the area most directly affected by federal policy changes and the deletion of 48.60 FTE vacant positions. Expenses in this service area increase by \$11.3 million, as the County sustains mandated safety net services despite reductions in federal pass-through funding. All the one-time reserve used in this budget are directed at sustaining these programs.

Public Safety and Justice expenses are essentially flat year-over-year. Land Use and Community Service decreases modestly, reflecting position reductions and operational savings. General Government increases modestly due to salary and benefits costs even with the deletion of 5.5 FTE vacant positions.

County Financing expenses increase by \$9.0 million due to debt service payments on the 2024 Lease Revenue Bonds, increases in Contingencies to maintain at least 1 percent of expenses, and the Measure K allocations for environment and parks projects, housing-related uses, and roads improvements.

**Table 4 — Proposed 2026-27 Budget: General Fund Expenses by Service Area**

<b>Service Area</b>	<b>FY 2025-26 Adopted</b>	<b>FY 2026-27 Proposed</b>	<b>Change (\$)</b>	<b>Change (%)</b>	<b>Share of GF</b>
Health and Human Services	\$515.0M	\$526.3M	\$11.3M	+2.2%	62.4%
Public Safety and Justice	\$216.5M	\$216.6M	\$0.1M	+0.05%	25.7%
Land Use and Community Service	\$44.3M	\$41.8M	(\$2.5M)	-5.6%	5.0%
General Government	\$39.6M	\$41.5M	\$1.9M	+4.8%	4.9%
County Financing (Debt, Contingency, GCR)	\$8.9M	\$17.9M	\$9.0M	+101.1%	2.1%
<b>Total</b>	<b>\$824.3M</b>	<b>\$844.1M</b>	<b>\$19.8M</b>	<b>+2.4%</b>	<b>100%</b>

Staffing

The Proposed FY 2026-27 Budget funds 2,682 full-time equivalent (FTE) positions, a net reduction of 57.88 FTE positions, or 2.1 percent, from the current year. All position deletions target vacant positions. No employees are laid off. The staffing reductions are concentrated in Health and Human Services, where the Health Services Agency eliminates 23.1 FTE positions and the Human Services Department eliminates 26.2 FTE positions, with filled positions absorbed through attrition, reassignment, or program restructuring.

**Table 5 — Proposed 2026-27 Budget: Funded FTE Positions by Service Area**

<b>Service Area</b>	<b>FY 2025-26 Funded FTE*</b>	<b>FY 2026-27 Proposed FTE</b>	<b>Net Change</b>
Health and Human Services	1,269.85	1,221.25	-48.6
Public Safety and Justice	674.00	675.00	+1.00
Land Use and Community Service	449.66	444.88	-4.78
General Government	346.65	341.15	-5.50
<b>Total</b>	<b>2,740.16</b>	<b>2,682.28</b>	<b>-57.88</b>

*Note: FY 2025-26 Funded FTE totals reflect the adjusted staffing through February 13, 2026.*

How the Budget Is Balanced

The County entered the FY 2026-27 budget development cycle facing a projected General Fund deficit of \$23.2 million. Through a combination of departmental restraint, targeted revenue increases, and the strategic use of one-time resources, the budget before the Board is balanced. The use of one-time resources reduces General Fund reserves from 12.5 percent to a projected 10.4 percent of expenses, a deliberate strategy that buys time, but one that cannot be repeated at this scale.

The following three actions closed the gap:

- *Cost Reductions:* A countywide hiring and travel freeze, elimination of a net

57.88 vacant FTE positions, targeted line-item reductions in services and supplies and professional services, and realigned salary savings rates in departments to more accurately reflect projected salary savings.

- *Revenue Actions:* Submission of increased Medicare Prospective Payment System (PPS) rate for County Health and Behavioral Health centers to align charges with costs, a parking fee pilot at County Parks, implementation of rate changes from planning fee studies, and enhanced revenue projections where supported by current-year performance.
- *One-Time Resources:* \$30.8 million in General Fund reserves and \$12.2 million in department trust funds and other non-General Fund sources, for a total of \$43.0 million. The overwhelming share is directed at Health and Human Services programs facing the most acute H.R. 1 pressure.

**Table 6 — Proposed 2026-27 Budget: One-Time Resources Used to Balance**

<b>Component</b>	<b>FY 2025-26 Adopted Balance<sup>1</sup></b>	<b>Proposed Use of One-Time Funds</b>	<b>Projected FY 2026-27 Increases</b>	<b>FY 2026-27 Ending Balance</b>
Board Directed Reserves	\$45.3M	(\$9.5M)	\$0.0M	\$35.8M
Department Assigned Reserves	\$62.5M	(\$21.4M)	\$10.3M <sup>2</sup>	\$51.5M
<b>Subtotal — General Fund Reserves</b>	<b>\$107.8M</b>	<b>(\$30.8M)</b>	<b>\$10.3M</b>	<b>\$87.3M</b>
Other Departmental Funds <sup>3</sup>	N/A	(\$12.2M)	N/A	N/A
<b>Total One-Time Funds Used</b>	<b>N/A</b>	<b>(\$43.0M)</b>	<b>N/A</b>	<b>N/A</b>

<sup>1</sup> FY 2025-26 adopted balances reflect post-ACFR adjustments from the FY 2024-25 year-end true-up. <sup>2</sup> Reflects projected FY 2026-27 deposits to the Federally Qualified Health Center (FQHC) program reserve. <sup>3</sup> Department trust funds are non-General Fund balances tracked at the department level; they are not consolidated as General Fund reserves but are used as one-time funding sources to support General Fund activities.

### General Fund Reserves

General Fund reserves are the County’s principal fiscal cushion against economic downturns, natural disasters, and unanticipated expenses. The Board has set the minimum reserve level at 10% with a target funded level of 15 percent, a level the County has not yet achieved. The Proposed FY 2026-27 Budget would draw reserves down from 12.5 percent to 10.4 percent of General Fund expenses, further widening the gap to target.

At 10.4 percent, the County’s projected reserve level falls well below the Board-adopted 15 percent target (\$126.6 million at FY 2026-27 expense levels). In addition, when compared to our peer counties, the County is well below the average reserve level of 28 percent average achieved by our peers. Reserves serve three critical functions: cash

flow management within the fiscal year, absorption of unexpected costs such as FEMA reimbursement delays or mid-year federal and State actions, and a signal to credit rating agencies and financial partners that the County is managing for sustainability. The gap between the County's projected reserve level and both benchmarks constrains all three of these functions.

Rebuilding reserves to the 15 percent target will require a combination of revenue growth, cost restraint, and structural fiscal alignment beginning in FY 2027-28 and beyond. The County Executive Office is developing a multi-year plan to restore reserves to the Board-adopted target while managing the concurrent structural imbalance described in the Risks and Path Forward section of this report.

### Federal Policy and Budget Impacts (H.R. 1)

Santa Cruz County relies on federal funding, flowing largely through State programs, to provide essential services that protect public health, support vulnerable residents, and maintain infrastructure. The passage of H.R. 1 represents the most significant federal policy realignment affecting County finances in recent history.

The most immediate and material impacts fall in Health and Human Services. Reductions in federal funding flow directly into Medi-Cal, public health, behavioral health, and social services including CalFresh; deeply impacting the social safety net programs serving the County's most vulnerable residents. The Health Services Agency and Human Services Department together absorb the greatest share of H.R. 1 impacts.

#### *Current Impacts*

- Reductions in federal Medi-Cal funding are reducing the financial basis for behavioral health, health center, and public health programs operated by the Health Services Agency.
- Federal cost-share and eligibility changes in programs including CalFresh and CalWORKs are increasing County administrative workload and reducing effective funding levels for Human Services Department programs.
- Federal housing voucher funding is not keeping pace with local housing costs, increasing administrative costs for the County's housing programs.
- FEMA reimbursement delays continue for prior disaster events. The County carries significant outstanding claims, and any further delays or denials of reimbursement would place additional pressure on the General Fund and Roads Fund.

#### *Anticipated Impacts*

The impacts of H.R. 1 are expected to grow materially in FY 2027-28 and beyond. The County anticipates:

- Continued and deepening reductions in federal funding flowing through Medi-Cal, behavioral health realignment, and public health programs.
- Additional cost shifts to counties from potential eligibility changes in public assistance programs, with increased workload and no commensurate increase in administrative funding.
- Continued FEMA uncertainty, including possible changes to cost-share policies and public assistance eligibility criteria that would increase the County's local match requirements for disaster recovery.
- Downward pressure from the Governor's May Revision, which is expected to reflect continued fiscal tightening including enrollment freezes and benefit

adjustments for Medi-Cal populations.

The one-time resources proposed to buffer H.R. 1 impacts in this budget will not be available next year.

### Key Investments and Priorities

Despite the fiscal constraints, the Proposed FY 2026-27 Budget preserves and advances several key priorities:

#### *Artificial Intelligence & Organization Modernization*

The budget funds the County's AI Elevation and Standardization Workplan 2026, including enterprise licensing, staff training, technical support, and pilot projects. These investments will allow the County to make the best and highest use of its staff, focusing on solving problems and improving service delivery. The Streamline Santa Cruz County initiative continues permitting process improvements, including a major update to the County Code to implement objective standards and reduce peer reviews, advancing both housing production and economic development.

#### *Roads, Parks & Other Infrastructure*

The budget maintains the Measure K investment of \$2 million in road paving, culvert repair, and striping in the unincorporated area, essential quality-of-life services for residents throughout the County. Board-directed Measure K investments of \$1 million (\$200,000 per district) continue for environmental and parks capital projects. Formation of an Enhanced Infrastructure Financing District (EIFD) in the unincorporated area moves forward, providing the County a long-term mechanism to capture value from growth, direct it toward public infrastructure, and foster economic development.

#### *Housing, Homelessness & Essential Services*

The 701 Ocean Street Housing Viability Study, funded by Measure K, advances work on one of the County's most significant affordable housing sites. Alongside the County's Housing Element commitments, the budget also includes \$1 million from Measure K for housing-related uses, reflecting the County's continued commitment to housing investment even in a difficult fiscal year. The budget continues the \$1 million Measure K investment in programs to reduce homelessness through new facilities and services, an investment that has contributed to a significant reduction in the number of unhoused individuals. Collective of Results and Evidence-Based (CORE) Investments contracts are preserved in full.

#### *Public Safety & Justice*

Public Safety and Justice expenses are sustained at \$216.6 million, essentially flat year-over-year. The creation of the Alternate Public Defender's Office, a new division in the Public Defender's Office, is a structural change expected to reduce the County's reliance on costly outside counsel over time, improving both service quality and long-term fiscal sustainability in the justice system.

### General Fund Multi-Year Forecast

The multi-year General Fund forecast reflects a structural imbalance that will require sustained corrective action. The County entered FY 2026-27 budget development with a projected gap of \$23.2 million; that gap is forecast to exceed \$67 million in FY 2027-28 absent permanent corrective measures. This budget will not materially reduce the

structural imbalance due to the reliance on one-time resources, that will not be available next year.

Key assumptions driving the forecast:

- *Labor costs*: Personnel cost pressures have added approximately \$22.1 million more than previously projected for FY 2026-27 and escalate annually through FY 2028-29.
- *Property Tax and Vehicle License Fees*: Growth from 3.6% to 5.2% over the forecast period, supported by high assessed values and limited housing supply.
- *Sales Tax*: Growth from 2.0% to 4.4%, with performance softening as consumer spending moderates and elevated living costs constrain retail activity.
- *Transient Occupancy Tax*: Growth from 2% to 6%, benefiting from resilient visitor demand but sensitive to broader economic trends.
- *H.R. 1 Revenue Loss*: Estimated \$5 million to \$17.5 million in federal funding loss over the forecast period, with the range reflecting uncertainty in how reductions flow through State programs to County budgets.
- *Operating Costs*: Growth from 3.9% to 5.8% annually, inclusive of major capital investments and maintenance.
- *Infrastructure and Facility Capital Maintenance*: \$10.7 million to \$15.6 million in annual investments required to address aging County buildings and facilities.
- *Recent Mandated Increases*: \$2.7 million to \$3.6 million annually in costs from unfunded State mandates.
- *CalPERS*: Investment returns of 11.6% reported in FY 2024-25; the effect on employer contribution rates lags by several years and provides only modest near-term relief.

The forecast does not yet fully capture the extent of the headwinds the County faces, including the full scope of H.R. 1 impacts, potential significant State budget cuts anticipated in the Governor's May Revision, or the cost consequences of FEMA reimbursement delays. The County Executive Office will update the forecast for the June Budget Hearings.

### **Financial Impact**

The Proposed FY 2026-27 Budget provides for a \$1.29 billion total All Funds budget. The General Fund is balanced, with \$844.1 million in expenses funded by \$812.9 million in revenues and \$31.2 million in planned use of reserves and department trust funds.

The budget reduces the County's funded workforce by a net 57.88 FTE positions to 2,682.28 FTE positions. No employees are laid off.

General Fund reserves are projected to decline from 12.5 percent to 10.4 percent of General Fund expenses, a level below both the Board-adopted 15 percent target and significantly below the 28 percent California peer county average. The total one-time resources used to achieve balance in this budget, \$43.0 million, will not be available in FY 2027-28.

The most significant ongoing fiscal risks are the labor costs growth to retain a trained and skilled workforce and remain competitive in the job market along with the escalating impacts of H.R. 1 on County health and human services programs and the community.

Those impacts are expected to deepen materially in FY 2027-28 and beyond. At such a time when additional response to State and/or federal actions is required, staff will

return to the Board either during the scheduled budget hearings or leading up to the September 29, 2026, Board action to finalize the 2026-27 budget.

**Strategic Initiatives**

Equity Framework - County Facilities & Infrastructure, Plans, Policies & Budgets, Workplace & Workforce, Leadership, Operations & Services, Communications & Education, Community Voices & Partnership  
Operational Plan - Comprehensive Health & Safety, Attainable Housing, Reliable Transportation, Sustainable Environment, Dynamic Economy, Operational Excellence  
Climate Action - Energy, Transportation, Water, Waste, Natural & Working Lands, Wildfire Prevention, Government Operations

**Submitted By:**

Nicole D. Coburn, County Executive Officer

**Recommended By:**

Nicole D. Coburn, County Executive Officer

**Artificial Intelligence Acknowledgment:**

Claude, an Artificial Intelligence (AI) large language model tool, significantly contributed to the development of this agenda item, including Staff Report, in compliance with the County of Santa Cruz AI Appropriate Use Policy.