

COUNTY OF SANTA CRUZ

County Executive Office | Board of Supervisors

FY 2026-27 Proposed Budget

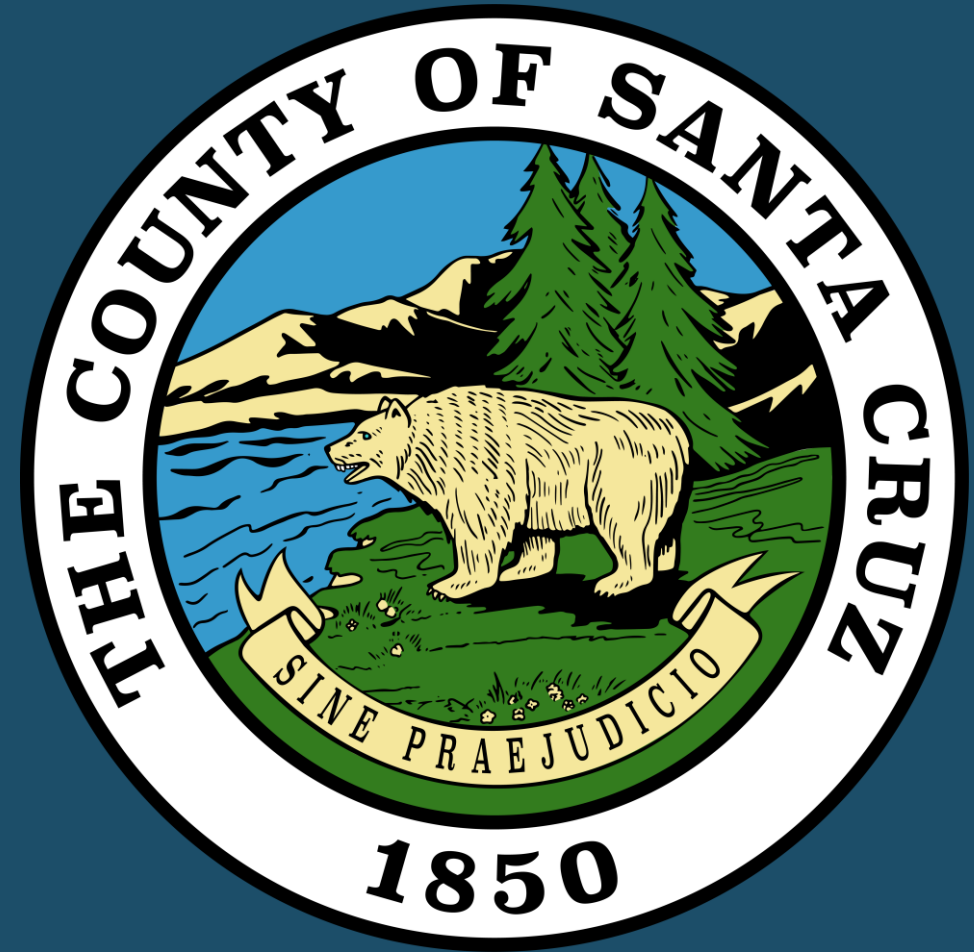
A balanced budget that protects services and the
County workforce

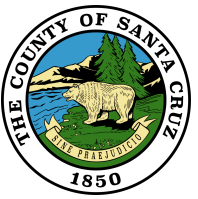
Presented by

Nicole D. Coburn, County Executive Officer

Marcus Pimentel, County Budget Manager

Board of Supervisors | Budget Hearings | May 5, 2026





Presentation Overview

1

Setting the Stage

How we got here and the Board-adopted principles

CEO

2

Budget Overview

At a glance, revenues, expenses, and workforce

Budget Manager

3

How the Budget Is Balanced

Closing the \$23.2M structural gap while preserving investments & priorities

Budget Manager

4

Risks & Path Forward

H.R. 1, FEMA, May Revision, and the structural imbalance

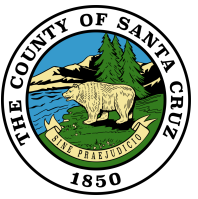
CEO

5

Recommended Action

Accept and file; continue hearings to June 10

CEO



How We Got Here

FEBRUARY 24, 2026

Mid-Year Report

Board accepted the FY 2025-26 Mid-Year report.

Forecast revealed a \$5.4M current-year gap, \$23.2M projected deficit for FY 2026-27, and long-term outlook reaching \$67.5M by FY 2028-29.

MARCH 10, 2026

Budgeting Principles

Board considered four foundational principles to guide budget development. Staff directed to engage labor partners, notify community partners, and analyze a fiscal emergency declaration.

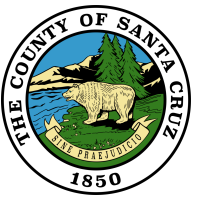
MAY 5, 2026 – TODAY

Proposed Budget

Balanced \$1.29B All Funds Budget delivered.

Closes the \$23.2M gap through shared restraint, targeted revenue actions, and \$43.0M in one-time resources. No layoffs.

The structural imbalance is the defining fiscal reality of this moment. The work to address it begins in earnest now.



Board-Adopted Budgeting Principles

Four foundational principles considered by the Board on March 10, 2026 guided every decision in this budget.

1 Maintain Mandates & Generate Revenue

Fund mandated services first.

Positions and services that generate offsetting revenue are protected where return justifies investment.

2 Balance Impacts

Protect direct services and the safety net.

Each department absorbed their budget increases with specific uses of one-time funds to protect key services.

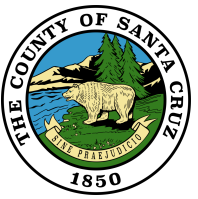
3 Workload & Cost Shifts

Where discretionary services must continue, identify alternative funding:

- Grants
- Fee adjustments
- Cost recovery
- Inter-agency cost-sharing

4 Build Ongoing Capacity

Closing the structural gap requires both expense restraint and deliberate revenue strategy. Short-term measures alone cannot address a \$67.5M deficit.



Budget Development Timeline

Today's hearing opens the public review phase. The Board will hear departmental presentations, take public comment, and continue hearings through June Hearings and Approval.

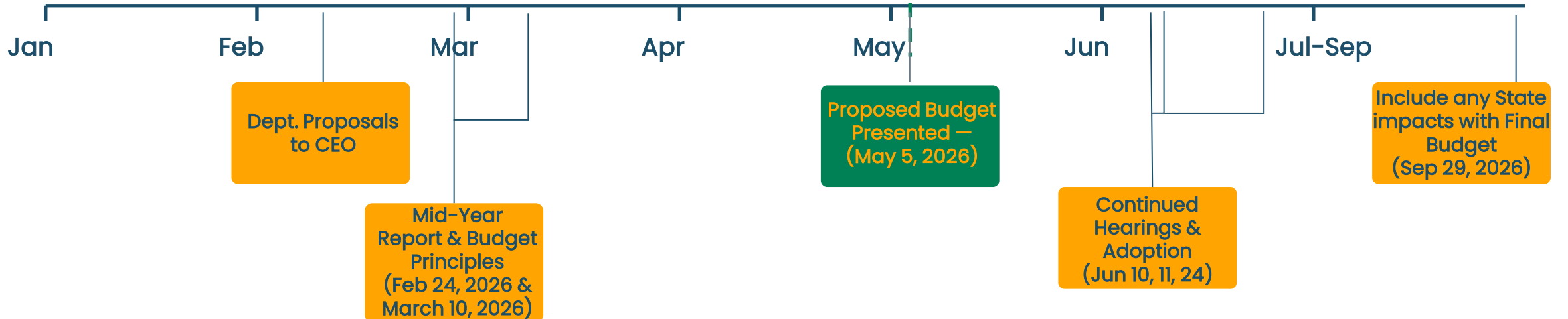
State Budget impacts would be included in the Final Budget presentation on September 29, 2026.

Preliminary Budget Development

Proposed Budget Development

Public Review & Hearings

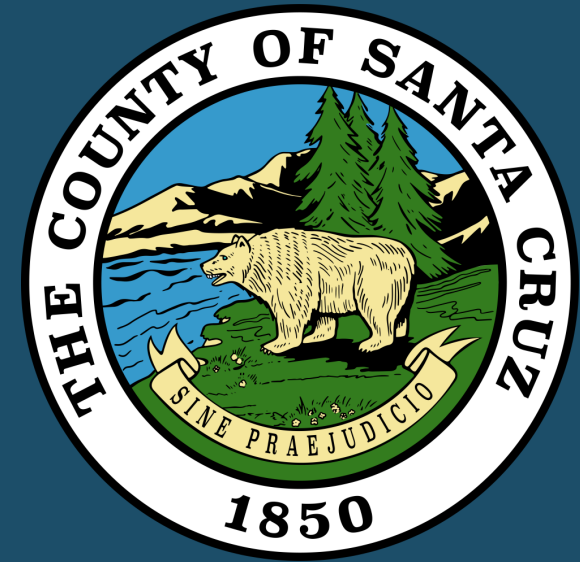
Final Refinement & Adoption

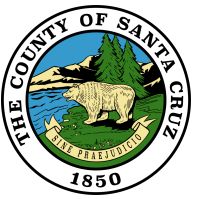


SECTION 2

Budget Overview

At a glance, revenues, expenses, and workforce





The Budget in Four Numbers

A balanced \$1.29 billion All Funds budget. Closes the \$23.2M gap. Avoids layoffs. Reserves draw down from 12.5% to 10.4%.

ALL FUNDS BUDGET

\$1.29B

FY 2026-27 Proposed

GENERAL FUND

\$844.1M

Expenses (revenues \$812.9M)

FUNDED FTE

2,682.28

Net -57.88 vs. FY 25-26
(vacant only)

GF RESERVE LEVEL

10.4%

Down from 12.5%; Board target
15%

BALANCED

\$844.1M expenses funded by
\$812.9M revenues.

Includes \$30.8M planned use of
reserves & 12.2M* of trust funds.

NO LAYOFFS

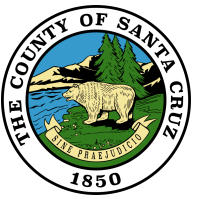
All position eliminations target
vacant positions.

ONE-TIME RELIANT

\$43.1M in one-time funds buffer
H.R. 1 and labor impacts.

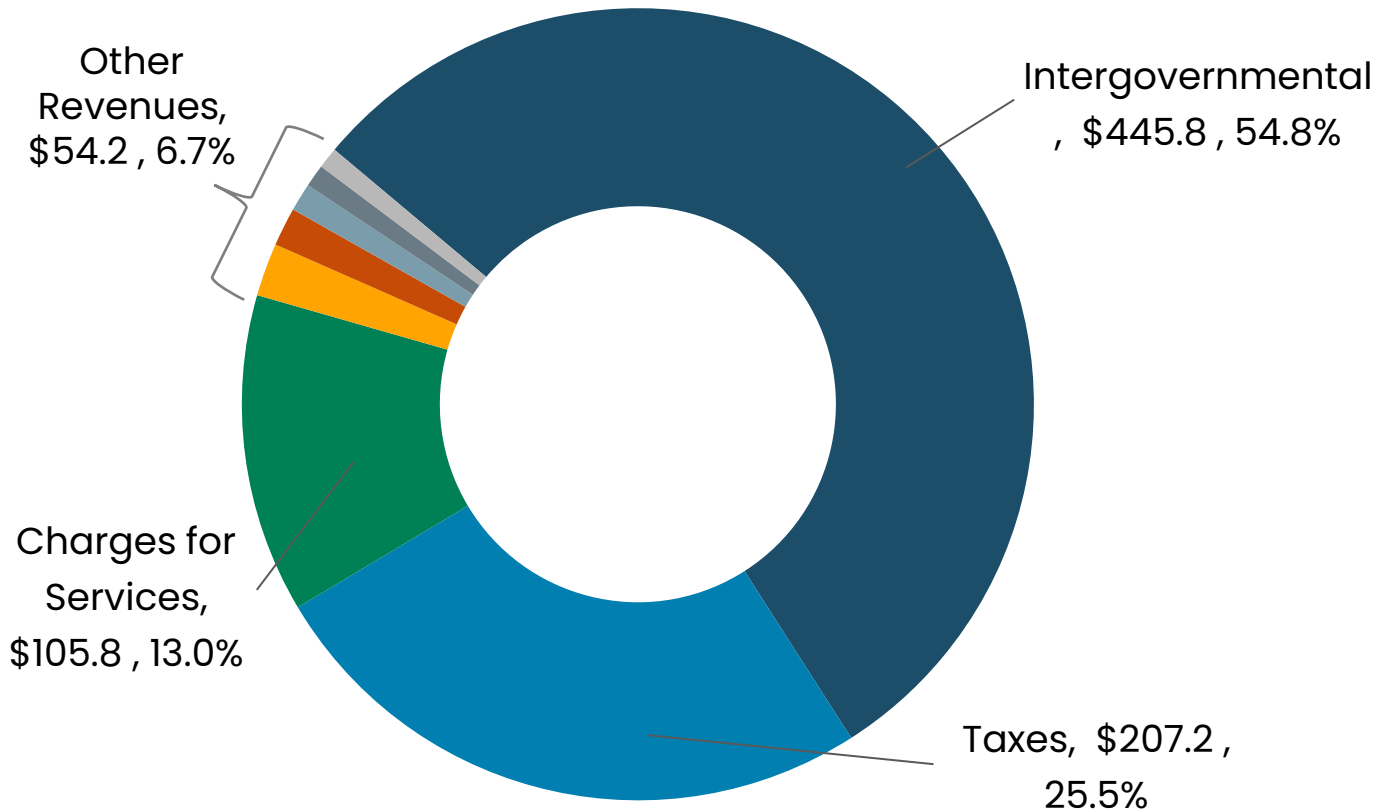
These resources will not be
available in FY 2027-28.

* The use of the trust funds is included in total revenues (transfer in)



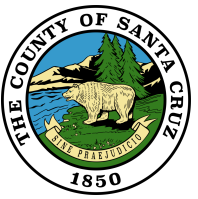
General Fund Revenues — \$812.9M

Revenues decline \$3.3M (-0.4%) vs. FY 2025-26 Adopted. Tax growth of \$8.9M is offset by a \$13.1M intergovernmental decline driven by federal pressures and a one-time grant budgeting practice change.



Key Takeaways

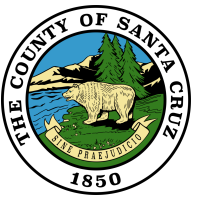
- \$13.1M Intergovernmental**
 \$9.3M is OR3 grant recognition change; balance is federal pressure
- +\$8.9M Tax Revenue**
 Property tax assessed value growth; sales tax softening
- \$5.0M Use of Money & Property**
 Lower interest earnings as rate environment normalizes and cash reserves shrink
- \$3.3M Total Net Change**
 \$816.2M → \$812.9M (-0.4%)



Measure G & Measure K – FY 2026–27 Allocations

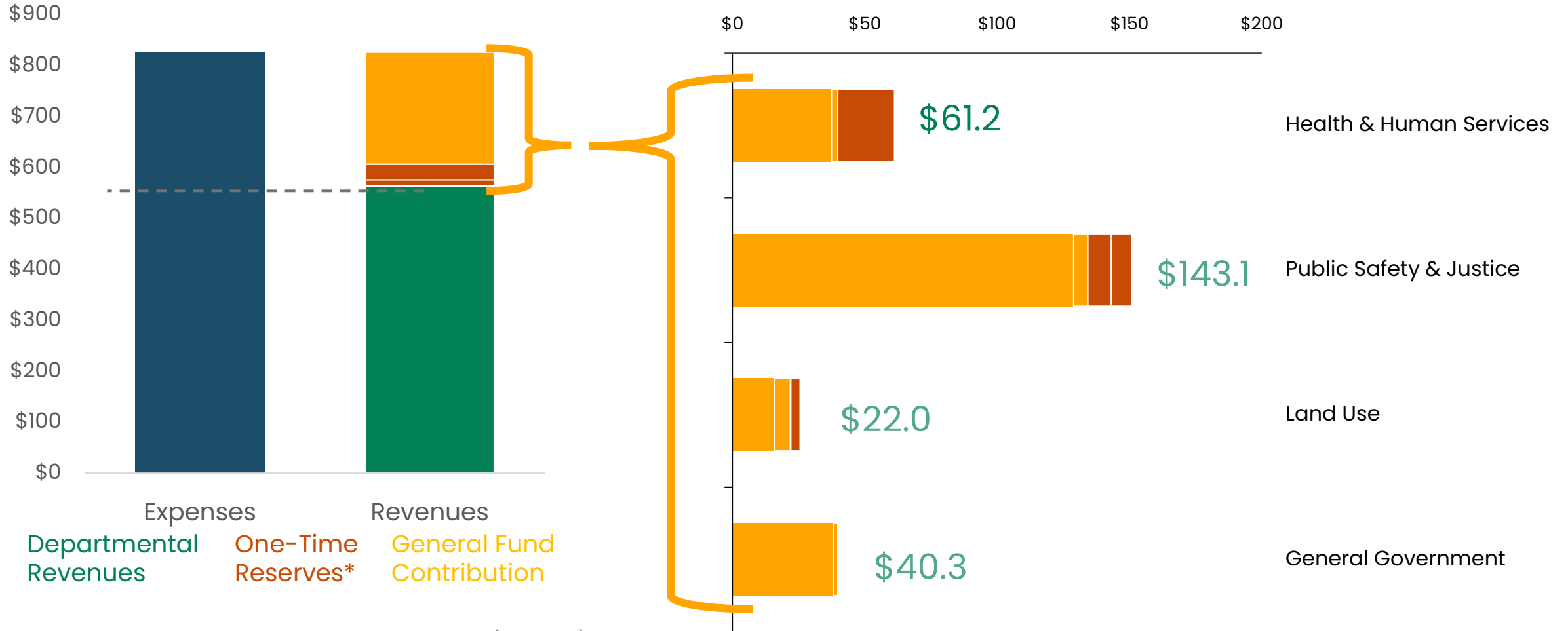
Two voter-approved local sales tax measures provide \$20.7 million for County priorities.

District Sales Tax		
\$20.74M General Allocations		
Measure G General Fund Support		\$10.37M
Measure K	Measure K General Fund Support	\$5.37M
	Community Dev. & Infrastructure Roads	\$2.0M
	Parks and Environmental Projects	\$1.0M
	Human Services Dept. Homelessness	\$1.0M
	Housing-Related Projects	\$0.60M
	Health Services Dept. Behavioral Health	\$0.40M

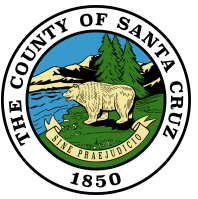


General Fund Support— by Service Area

Public Safety & Justice require General Fund support equivalent to 62-cents of every dollar spent



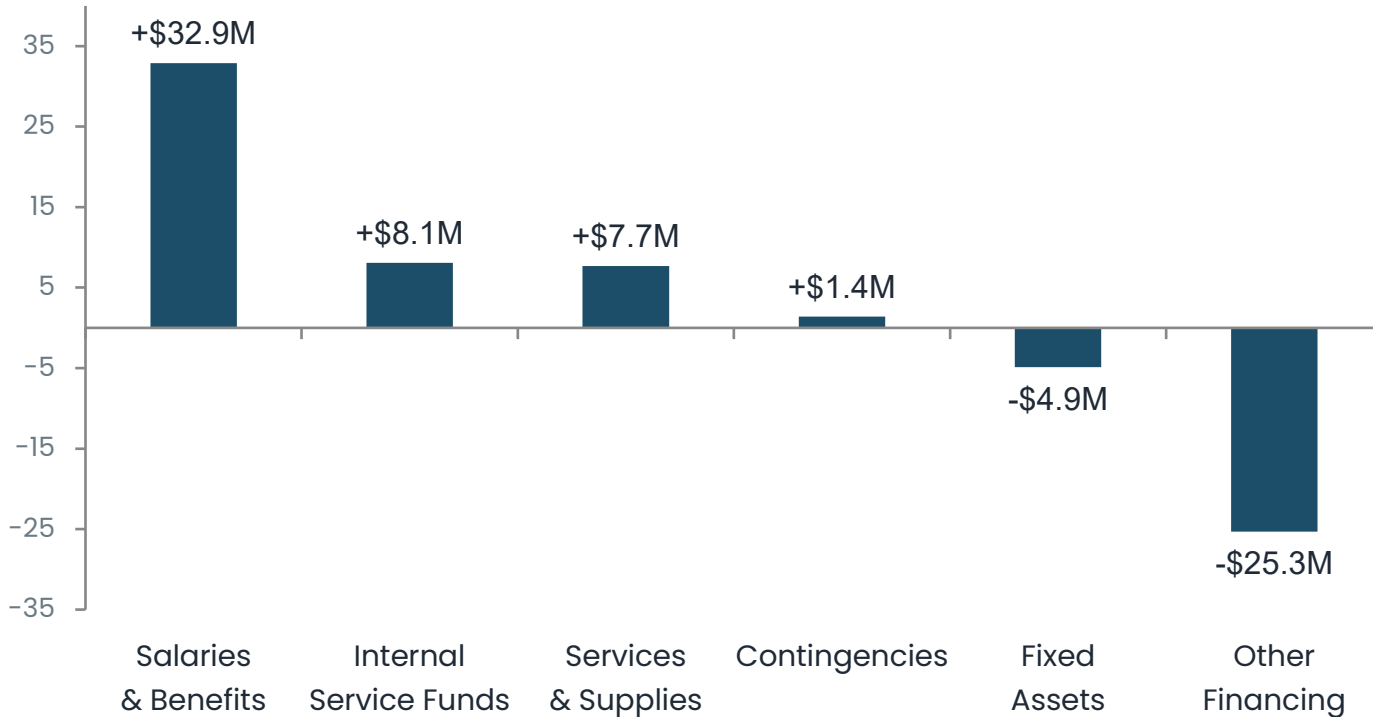
* The use of trust funds are recorded and included in revenues (transfer in)



General Fund Expenses — \$844.1M

Expenses grow \$19.8M (+2.4%) vs. FY 2025-26 Adopted. Salaries and benefits drive the increase: \$32.9M (+8.0%), now 52.9% of General Fund expenses. This is the structural challenge.

Year-over-Year Change by Category (\$M)



Labor — The Structural Driver

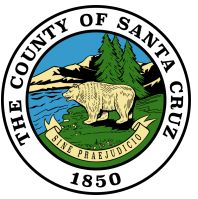
\$32.9M (+8.0%) growth from negotiated COLAs (\$9.5M GF), step increases, health premiums, and CalPERS rate increases.

Internal Service Funds

\$8.1M (+27%) — risk management & insurance (\$3.5M), Workday HCM, financial systems, facility maintenance.

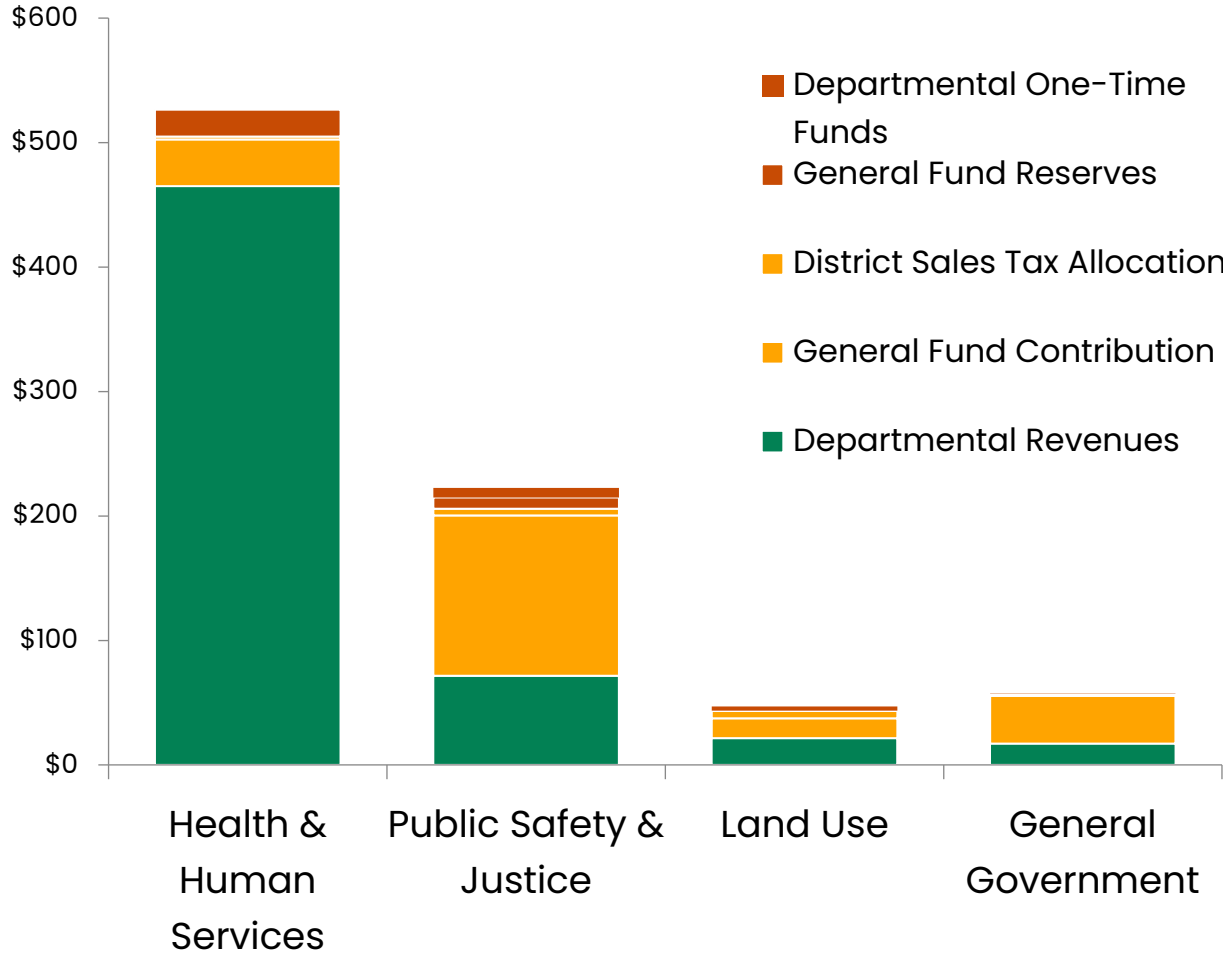
Other Financing Uses

\$25.3M decrease reflects completion and payoff of prior-year financing transactions.



Where the Money Goes — by Service Area

Health & Human Services and Public Safety & Justice together account for 88% of General Fund expenses. But they bring far different levels of federal and state funding to our community.



Public Safety & Justice

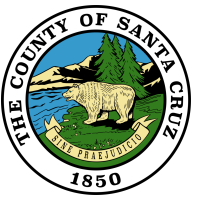
\$59.7 million leveraged

Public Safety & Justice services receive 28-cents of every dollar from State and Federal funding (\$59.7 million). Remainder is largely from General Fund support; 62-cents of every dollar.

HSA & HSD Federal and State Funding

\$450.2 million leveraged

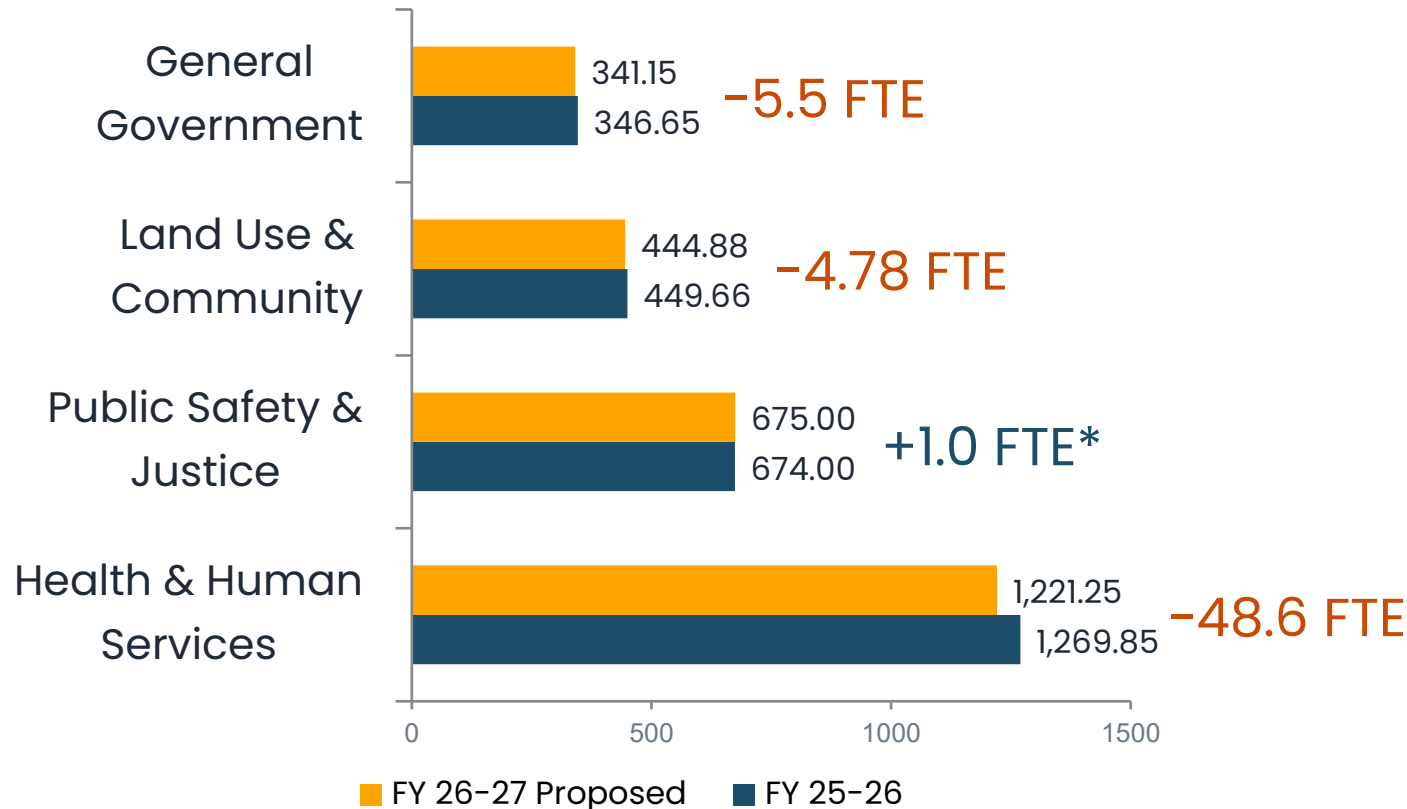
Health and Human Services receive 86-cents of every dollar from State and Federal funding (\$450.2 million); with only 7-cents on the dollar from General Fund support.



Workforce – 2,682.28 Funded Positions

Net reduction of 57.88 FTE – entirely vacant positions.

Funded FTE by Service Area



H S A

-23.1 FTE

Health Services Agency – federal funding cuts to behavioral health, public health, Medi-Cal-supported programs.

H S D

-25.5 FTE

Human Services Department – federal cost-share and eligibility changes to CalFresh, CalWORKs.

P O L I C Y

Hiring Freeze

Countywide freeze on vacant General Fund positions; limited exceptions for public safety and direct services.

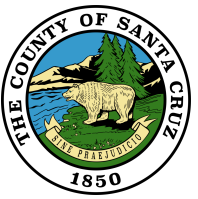
* Includes adding 2.0 FTE in Sheriff-Coroner for DNA lab and a net of 5.0 FTE in Public Defender to establish the Alternate Public Defender's Office

SECTION 3

How the Budget Is Balanced

Closing the \$23.2M structural gap while preserving
priorities & Investments





Three Levers Closed the Gap

The County entered FY 2026–27 development with a projected \$23.2M deficit. Federal pressure from H.R. 1 added \$25.6M of additional fiscal distress. Balance was achieved through three coordinated levers.

1 Cost Reductions

- Net reduction of 57.88 FTE vacant positions
- Countywide hiring and travel freeze (with exceptions for mandates and advocacy)
- Targeted services and supplies cuts
- Realigned salary savings

Principle: Balanced Impacts

2 Revenue Actions

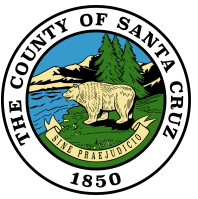
- Updated reimbursement rates at Health Centers
- Parking fee pilot program at County Parks
- Planning fee study rate changes
- Enhanced revenue projections

Principle 3: Workload & Cost Shifts

3 One-Time Resources

- \$30.8M from General Fund reserves
- \$12.2M from department trust funds and other funds
- Largely directed at H.R. 1 impacts
- One-time funds not available in FY 2027–28

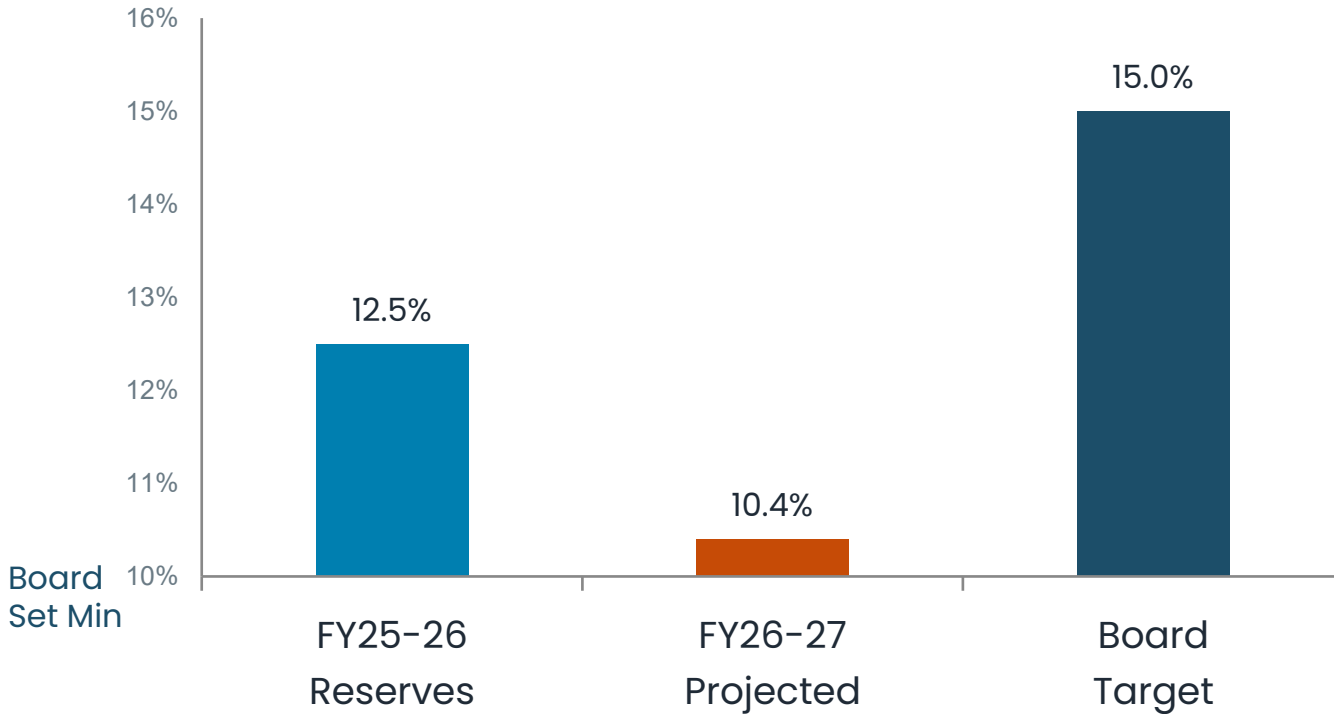
Principle: Maintain Mandates



Reserves — A Deliberate Drawdown

Reserves draw down from 12.5% to 10.4% of General Fund expenses — just above the Board's 10% policy minimum, well below the 15% target

Reserves as % of General Fund Expenses



\$30.8M

General Fund reserves used

\$9.5M Board-Directed + \$21.4M Department Assigned

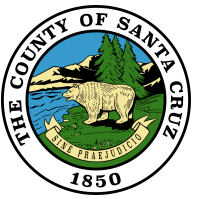
\$12.2M

Department trust funds & other

Restricted/dedicated funding sources outside the General Fund.

PRINCIPLE 4 — BUILD CAPACITY

Drawing reserves to 10.4% is a deliberate, Board-authorized choice but cannot be repeated at this scale.



Four Pillars Preserved

Despite fiscal constraints, this budget preserves and advances core priorities aligned to the Board's strategic direction.

AI & Organization Modernization

- Implement AI Elevation and Standardization Workplan 2026
- Further Streamline Santa Cruz County Workplan – County Code update for objective standards
- Establish Alternate Public Defender's Office

Roads, Parks & Other Infrastructure

- \$2.0M Measure K – road paving, culverts, striping
- \$1.0M Measure K – environment & parks (\$200K/district)
- Explore Enhanced Infrastructure Financing District (EIFD) in unincorporated area

Housing & Homelessness

- Fund 701 Ocean Street Housing Viability Study
- \$1.0M Measure K for housing-related uses
- \$1.0M Measure K for homelessness reduction
- Preserve all CORE Investments contracts

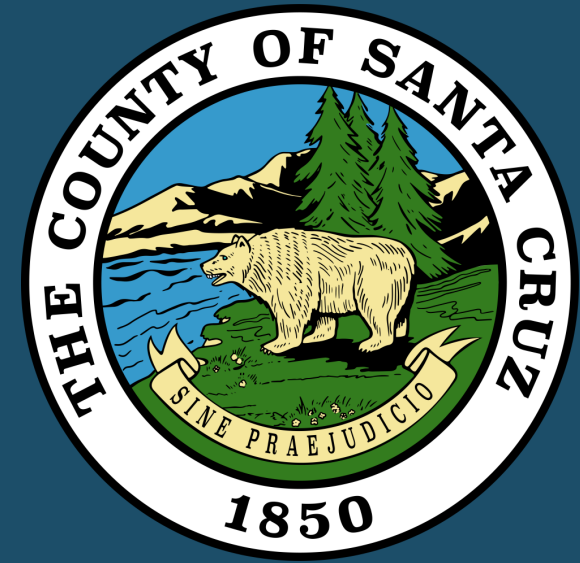
Public Safety & Justice

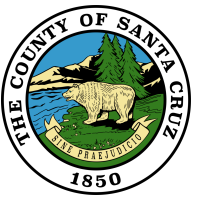
- Sustain Public Safety and Justice services at \$216.6M – flat year over year
- Establish Alternate Public Defender's Office
- Reduce reliance on outside counsel over time

SECTION 4

Risks & Path Forward

External pressures and the structural work ahead





Material Risks Embedded in This Budget

Three external pressures shape FY 2026-27 and beyond.

HIGH IMPACT

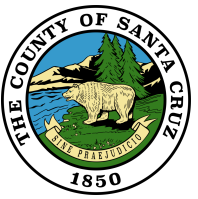
H.R. 1 — Federal Funding Pressure Will Deepen

Reductions flow through State programs into Medi-Cal, public health, behavioral health, and social services. HSA and HSD absorb the greatest share. Impacts are expected to grow materially in FY 2027-28 and beyond.

PENDING

State May Revision — Downward Pressure on Revenues

The Governor's May Revision is expected to reflect continued tightening — enrollment freezes, premium implementations, and benefit adjustments to Medi-Cal. Staff will update the forecast for the June Budget Hearings.



Disaster Recovery Reimbursements

Source: Auditor-Controller Continuous Monitoring Report – As of February 28, 2026

\$243.7M

Total Submitted & Documented

FEMA + FHWA claims across 4 disaster events

\$190.6M

Total Received (incl. Advances)

78% recovery rate (as of Feb 28, 2026)

\$53.1M

Outstanding Balance

Not yet received or obligated

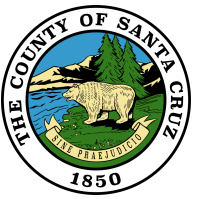
Detail by Program | All amounts in millions

Program	Submitted	Received (incl. Adv.)	% Received	Outstanding	Potentially Denied
FEMA	\$156.5M	\$106.5M	68%	\$50.0M	\$10.3M
FHWA	\$87.1M	\$84.1M	97%	\$3.1M	—
TOTAL	\$243.7M	\$190.6M	78%	\$53.1M	\$10.3M

Key Risks

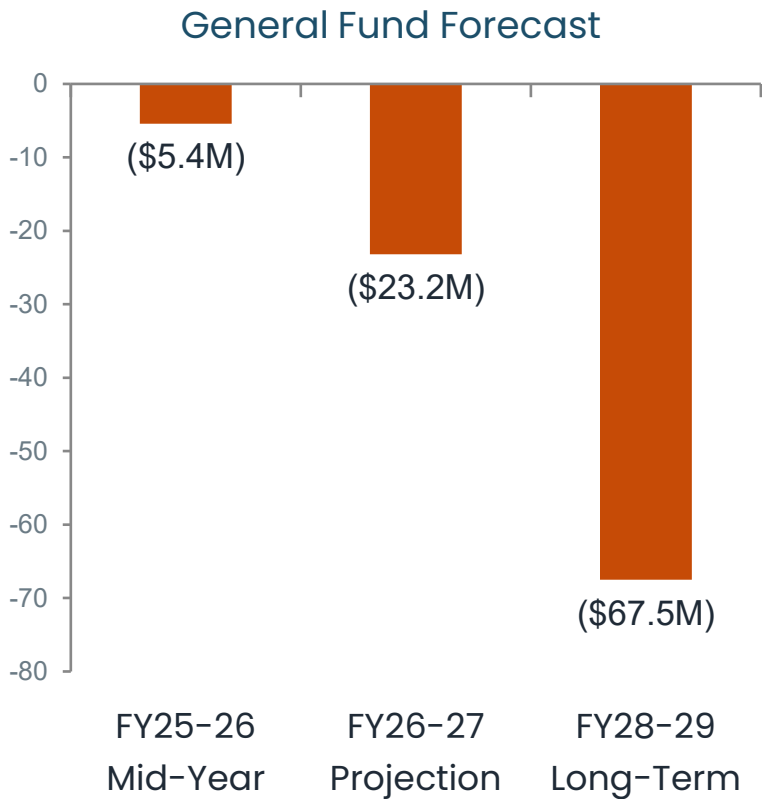
- \$9.0M CalOES advance reconciliation unconfirmed; offset classification disputed.
- \$10.3M potentially denied across 9 determination memos (CZU Fires).
- 4 open disaster declarations still active; reimbursement timelines uncertain.

Includes FEMA DR-4301, DR-4305, DR-4308, DR-4558, DR-4683, DR-4699, DR-4769 and FHWA claims. COVID-19 (\$53.4M) and Dec 2024 Coastal Storms closed out.



Addressing Structural Imbalance

The forecast gap reaches \$67.5M by FY 2028-29 absent permanent corrective action. Closing it requires sustained effort across short, medium, and long-term horizons.



SHORT TERM

Current cycle

Hiring freeze (active) • Travel freeze (active) • Service & staffing reductions (proposed) • Defer capital (proposed)

MEDIUM TERM

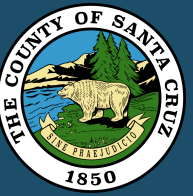
1-2 budget cycles

State advocacy on H.R. 1 (active) • Organizational restructurings (pending) • Revenue enhancements (pending) • Sales tax allocation reform

LONG TERM

2+ budget cycles

Rebuild reserves • Address deferred maintenance • Pension strategy • Property tax base • Disaster financing advocacy



Recommended Action

Accept and file the County's Proposed FY 2026-27 Budget, including:

- All Funds Budget of \$1.29 billion
- General Fund Revenues of \$812.9 million
- General Fund Expenses of \$844.1 million
- Use of \$43.1 million in one-time resources to balance the General Fund
- Funded Staffing of 2,682.28 FTE — a net reduction of 57.88 FTE vacant positions

Conduct a public hearing and continue the budget public hearing to June 10, 2026.

Budget approval scheduled for June 24, 2026, and final budget presented on September 29, 2026.



LEADING IN A DIFFICULT MOMENT

Closing

- The fiscal situation is real, and it is expected to worsen.
- External risks remain elevated and will deepen.
- We are acting early — restraint, transparency, and shared sacrifice.
- The County has navigated difficult periods before.
- Working with the Board, our workforce, and the community, we will stabilize and adapt.

Questions & Discussion