COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 12/16/2025

To: Board of Supervisors
Department or Agency Name(s): County Administrators Office
Staff Name and Phone Number: Peter Bruland, 565-3086
Vote Requirement: Informational Only
Supervisorial District(s): Countywide

Title:
FY 2026-27 Fiscal Update

Recommended Action:
Receive an update on the County's fiscal position and upcoming challenges

Executive Summary:
Each year the County Administrator's Office provides the Board of Supervisors with updated General Fund projections and an overview of major challenges impacting budget development. Consistent with the approved Financial Policies <https://sonomacounty.ca.gov/administrative-support-and-fiscal-services/county-administrators-office/budget-and-operations/financial-policies>, The Board of Supervisors annually adopts a structurally balanced budget that does not rely on one-time year-end savings to finance ongoing operational costs. Budget development is a months-long multi-department collaboration process that begins in the fall of each fiscal year and culminates with Budget Hearings and the adoption of the budget, which is scheduled to occur in June of 2026.

Based on the current fiscal forecast, the Board's discretionary source, the General Fund is projected to close the current fiscal year 2025-26 essentially at budget. For the next fiscal year 2026-27, staff are currently projecting a deficit of approximately $4.7 million, or 0.6% of total General Fund expenditures. During budget development, staff will look to close this deficit through targeted cost savings and will present the Board with a balanced Recommended Budget in the spring. The level of deficit currently projected is not anticipated to require across the board reductions, although some departments may feel more pressure due to more rapidly increasing costs or declining revenues. Significant impacts from state and federal budgets may also lead to problems outside of the General Fund.

Due to significant ongoing concerns around the overall state of the economy, staff have also prepared a "downturn" scenario that looks at potential impacts of a moderate softening of the economy. This model illustrates that, should there be economic impacts approximately half as severe as were seen in the Great Recession, we could see a deficit of about $17.3 million in FY 2026-27. Should this scenario come to appear more likely, the CEO will work with departments to identify ways to close the deficit.

This item also includes a discussion of state funding, which makes up 24% of the County's budget. Federal funding was discussed in more depth at the October 14 <https://sonoma-county.legistar.com/View.ashx?M=A&ID=1245370&GUID=DA98E791-17B8-4935-A6F9-566DFA6C6A75>, 2025 special meeting of the Board of

Supervisors.

Discussion:
Each year the Board of Supervisors adopts a balanced budget, in line with the state constitution. Over the course of the year, staff monitor revenues and expenditures and develop forecasts for current and future fiscal years. This update is divided into two primary sections. The General Fund projections discuss the County's general-purpose revenue. While constituting only about one-third of the County budget, the General Fund is the area over which the Board of Supervisors has the greatest discretionary authority. The second section examines some of the primary state and federal revenue streams and speaks to risks in these areas.

General Fund Projections

The five-year General Fund fiscal projections (Attachment 1) offer an illustration of how staff expect general fund sources and uses to develop over the current fiscal year, and for each fiscal year from 2026-27 through 2030-31. Table 1 shows a high-level summary of these projections. The Final surplus or deficit for a given year is based on the single-year projections assuming no change to policies impacting revenues or expenditures. For example, if the projected $4.7 million deficit in fiscal year 2026-27 is addressed with ongoing spending reductions, the projected deficits in ensuing fiscal years would fall. Each year staff will present the Board with a balanced budget, including any expenditure reductions necessary for balancing.

Table 1: Projected General Fund Sources (revenues) and Uses (expenditures) in Millions of Dollars

Fiscal Year	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	FY 30-31
Revenues/Sources	$738.9	$745.9	$763.4	$783.4	$804.1	$825.5
Exp./Uses	$738.9	$750.6	$773.1	$798.2	$823.0	$841.0
Total Surplus (Deficit)*	$0.0	($4.7)	($9.6)	($14.8)	($18.9)	($15.5)

*Sources minus uses may not equal total due to rounding

Current projections show a balanced General Fund for FY 2025-26. Both revenues and expenditures are projected to come in above the adopted budget, which included $734.2 million in revenues and expenditures. This increase is largely driven by property taxes, which are estimated to come in $9.3 million above budget based on the final tax roll. Based on Board policy, 40% of this, or $3.7 million, is programmed to go to the County Center Modernization Fund. The increased revenue is partially offset by small decreases in estimates for Sales Tax and Proposition 172 Public Safety funding, which is also based on sales tax, as well as by decreases to fee revenues, particularly in Permit Sonoma. While it is early in the year, it is also notable that Salary and Benefit expenditures are tracking very close to the adopted budget, which includes 4.5% salary savings. This represents a shift from prior years when significant savings were realized, and reflects the decreased overall vacancy rate across the county.

For fiscal year 2026-27, current projections show a $4.7 million deficit. The primary driver of this deficit is increased costs related to insurance. Over the past several years the County has seen increases to its general liability insurance costs that have averaged 24% annually. For 2025-26 the County increased its self-insured retention, which is the amount that the County pays through self-insurance prior to excess liability insurance kicking in, which reduced the cost increase in the current year, however preliminary rates for FY 2026-27 show a 27% increase. The County has also seen a significant increase in the cost of providing health insurance to its employees. Preliminary rates from its providers show a larger than expected increase, which is primarily borne by the County. Other insurance, including workers compensation and property insurance, have also been increasing significantly. Staff will continue to look for ways to minimize impact on county costs, however the increases reflect a hard insurance market nationally, and insurance costs are likely to continue to put pressure on the budget going forward.

In fiscal years 2026-27 through 2027-28, the anticipated deficit is expected to increase and is expected to peak at $18.9 million. Insurance costs continue to be a major driver of cost increases, while non-pension retiree benefits reduce due to the significant progress in funding the trust fund supporting retiree medical contributions, helping mitigate increasing costs. Property tax growth is expected to remain moderate, between 3.5% and 4% annually, in line with normal historical rates but lower than post-pandemic averages. County sales tax, and Proposition 172 Public Safety funding, which is based on sales tax, are expected to see only very slow growth after declining in recent years. Revenue in these areas is being impacted by the decline in the wine industry and the continuing shift toward online sales, which accrues revenue for the jurisdiction from which a product ships rather than the jurisdiction where it is received. Fiscal year 2024-25 sees a decrease in the deficit to $15.5 million, due to the completion of payments on the 2010 Pension Obligation Bonds.

These primary forecast assumes continuation of a relatively low-growth scenario, in line with the state 2026-27 Fiscal Outlook from the 'Legislative Analysts Office <https://lao.ca.gov/Publications/Detail/5091?utm_source=Legislative+Analyst%27s+Office&utm_campaign=fc4f8236e9-RSS_EMAIL_BUDGET&utm_medium=email&utm_term=0_230ef9f9f2-fc4f8236e9-517597571> (LAO). At this time signals related to the economy remain mixed, with the overall economy continuing to grow even as the job market and spending among lower earners begin to show stress. Given the uncertainty, staff also produced a forecast scenario that shows a moderate downturn. (table 2).

Table 2: Downturn Scenario Projected General Fund Sources (revenues) and Uses (expenditures) in Millions of Dollars

Fiscal Year	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	FY 30-31
Total GF Sources	$737.7	$733.9	$751.5	$769.5	$791.5	$811.4
Total GF Expenditures	$738.9	$751.3	$773.7	$798.7	$823.4	$841.3
Total Surplus (Deficit)*	($1.2)	($17.3)	($22.1)	($29.2)	($31.8)	($29.9)

*Sources minus uses may not equal total due to rounding

Under this scenario, which envisions a downturn approximately half as severe as that seen in the Great Recession, the County would see significant reductions in sales tax as well as other taxes such as documentary transfer tax that are reliant on immediate economic activity. Property tax is generally more shielded - even during the Great Recession - a recession driven by collapse of the housing market, the county saw only a slight decrease in property tax, which lagged other impacts.

Several factors dictate caution in interpreting these numbers:

- Current labor agreements with all bargaining units are set to expire in the first half of 2027. Absent new agreements, the forecast assumes 3% growth in line with Sonoma County Employee Retirement Association actuarial assumptions.
- The forecast does not assume any spending on new programs or backfill of programs outside the

General Fund that might see reductions. This means that should the Board decide to mitigate impacts of Federal policies or to continue services that are being cut, other reductions would need to be identified to offset increased General Fund demand.

- Similarly, this forecast does not anticipate items that might impact General Fund revenues such as formation of Enhanced Infrastructure Financing Districts (EIFDs) in Santa Rosa, West County, or elsewhere. Any revenue growth accruing to an EIFD would reduce funding into the General Fund by the same level, and a reduction in fee recovery would have an equivalent impact on the General Fund.

State and Federal Funding

The largest share of Sonoma County's Revenue comes from state and federal sources, making up approximately 38% of the non-transfer revenues in the fiscal year 2025-26 Adopted budget. Of this total, state revenue accounts for $564.3 million, while federal revenue totals $332.8 million. State and federal revenues come from a myriad of programs and impact numerous departments. They range from funding that supports federal programs administered by the County, such as rental assistance distributed by the Community Development Commission, to FEMA funding to reimburse for eligible disaster costs to one-time grant funding for specific projects. Because much of the funding is tied to reimbursements for work performed or specific grants, forecasting is more a matter of estimating future work volume than amounts of payments. While there will be lags, in general less revenue in these areas should be aligned with a reduction of workload. Other funding sources, particularly Proposition 172 and state realignment funding, are driven by state revenues and thus are prone to fluctuation not related to work volume or costs.

Realignment and Proposition 172

Proposition 172 public safety funding is based on a half-cent statewide sales tax. It is distributed roughly proportional to the share of sales tax that is generated in a County. Proposition 172 was passed in 1993 to help backfill agencies that had lost funding to the Educational Realignment Augmentation Fund, which the legislature had previously passed to divert additional property tax revenue to schools. In Sonoma County, 92% of Proposition 172 funding goes to the Sheriff' Office and District Attorney's Office as set by board policy, while 8% goes to the Fire Service Fund to fund agreements with local fire districts. Because of this it is included in the General Fund forecast discussed above. In total the County is projected to receive $56.9 million in Proposition 172 funding in FY 2025-26. Because Sonoma County's share of total sales in the state of California has been dropping, the annual amount of Proposition 172 funding received by Sonoma County has fallen slightly over the past three years, and is expected to see only very minimal growth over the course of the forecast.

Realignment is a term used to broadly describe services formerly provided by the state that have been transferred (realigned) to the Counties, with identified funding sources (a share of state sales tax and vehicle license fees) rather than guaranteed coverage of costs. Generally the term is used to describe the 1991 realignment of various Health and Human Services functions, and the 2011 Public Safety Realignment, which included portions for Behavioral Health and Human Services as well as funding for Criminal Justice departments. In the FY 2025-26 Adopted Budget, 1991 Realignment accounts for $89.1 million, while 2011 Realignment totals $89.6 million. These numbers reflect solid, if not spectacular, post-COVID growth.

Between fiscal year 2018-19 (the last pre-COVID year) and fiscal year 2024-25, actual revenue growth averaged 4.7% and 5.7%, respectively. As statewide sales tax has stalled, however, these trends have not continued at this level. In the State's Budget for fiscal year 2025-26, revenues for realignment are projected to increase by about 2.3% for 1991 realignment and 2.8% for 2011 realignment. While overall impacts will differ in different program areas depending on the state's allocation methodology.

HdL, who perform sales tax analysis for the County and many other jurisdictions in California, provide an overall estimated growth rate for 2011 Realignment funding, shown in Table 2 below.

Table 3: Estimated Growth in Statewide 2011 Realignment Funding

Fiscal Year	2026-27	2027-28	2028-29	2029-30	2030-31
Rate of Growth	2.8%	3.1%	3.4%	3.5%	3.5%

These numbers show a slowing of growth to a rate similar to overall expected growth in General Fund revenues, suggesting a similar trajectory for the health of Realignment-funded programs. Based on the latest 'Legislative Analysts Office projections <https://lao.ca.gov/Publications/Detail/5091?utm_source=Legislative+Analyst%27s+Office&utm_campaign=fc4f8236e9-RSS_EMAIL_BUDGET&utm_medium=email&utm_term=0_230ef9f9f2-fc4f8236e9-517597571>, these may be slightly optimistic. The LAO did not specifically project realignment revenues as part of their 2026-27 Fiscal Outlook, but they peg overall sales tax growth at only 1.2% in fiscal year 2025-26 and less than 1% in fiscal year 2026-27.

Federal Funding

As noted above, the county is budgeted to receive $332.8 million in federal funding in the current fiscal year. Roughly two thirds of this total is associated with safety net programs administered by the county, including public assistance programs, rental assistance, Medi-Cal and other programs. The status of federal funding was discussed in more depth on October 14 <https://sonoma-county.legistar.com/View.ashx?M=A&ID=1245370&GUID=DA98E791-17B8-4935-A6F9-566DFA6C6A75>.

Key H.R.1 Sonoma County Impacts:

- Expanded Work Requirements for SNAP (CalFresh) Able-Bodied Adults Without Dependents (ABAWDs). There are exemptions under certain circumstances. These requirements, affecting almost 13,000 county client were effective upon H.R. 1 enactment, but the state has delayed implementation until guidance and system functionality can be put into place. Counties are on hold.

- Reduced federal contribution for administration of the CalFresh program from 50% to 25%. The remainder is to be borne by a yet to be defined state/county cost sharing ratio effective on Oct. 1, 2026. The Governor's January state budget release may provide additional clarity. At this time, staff estimates the county's increased cost may be approximately $2.8 million.

- Medicaid (Medi-Cal) work requirements for adults ages 19-64. There are exemptions under certain circumstances. The eligibility change for the county's 30,100 clients is effective Jan. 1, 2027, with subsequent more frequent eligibility redeterminations.

Human Services staff will strive to apply all available work requirement exemptions. Currently, staff are exploring ways to meet increased needs for employment services and include volunteer opportunities to meet the requirements. Additionally, the Directors for the Health Services department and the Human Services department through Aliados Health are engaging in federally qualifying health clinics to encourage Medi-Cal enrollment before the end of the year, and coordinate on future medical coverage impacts.

At the state level, funded by the California Health Care Foundation, the California Endowment, the California Wellness Foundation, and the SCAN Foundation the Future of Medi-Cal Commission <https://futureofmedi-cal.org/> has been created. Co-chairs are Dr. Mark Ghaly - former California Health and Human Services Agency Secretary - and Ann O'Leary - former chief of staff to Governor Newsom. Includes four county health and behavioral directors from Stanislaus, Riverside, Orange, and San Francisco. Recommendations for a 10-year plan that can sustain Medi-Cal is expected in early 2027.

Strategic Plan:
N/A

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?
No

Prior Board Actions:
October 14, 2025: Federal Impacts Update
June 10, 2025: Concurrent Resolution Adopting the FY 2025-26 Budget

FISCAL SUMMARY

Narrative Explanation of Fiscal Impacts:
There is no fiscal impact associated with this item.

Narrative Explanation of Staffing Impacts (If Required):
N/A

Attachments:
Attachment 1: General Fund Forecast
Attachment 2: General Fund Forecast - Downturn Scenario
Attachment 3: Presentation

Related Items "On File" with the Clerk of the Board:
N/A