

COUNTY OF SANTA CRUZ

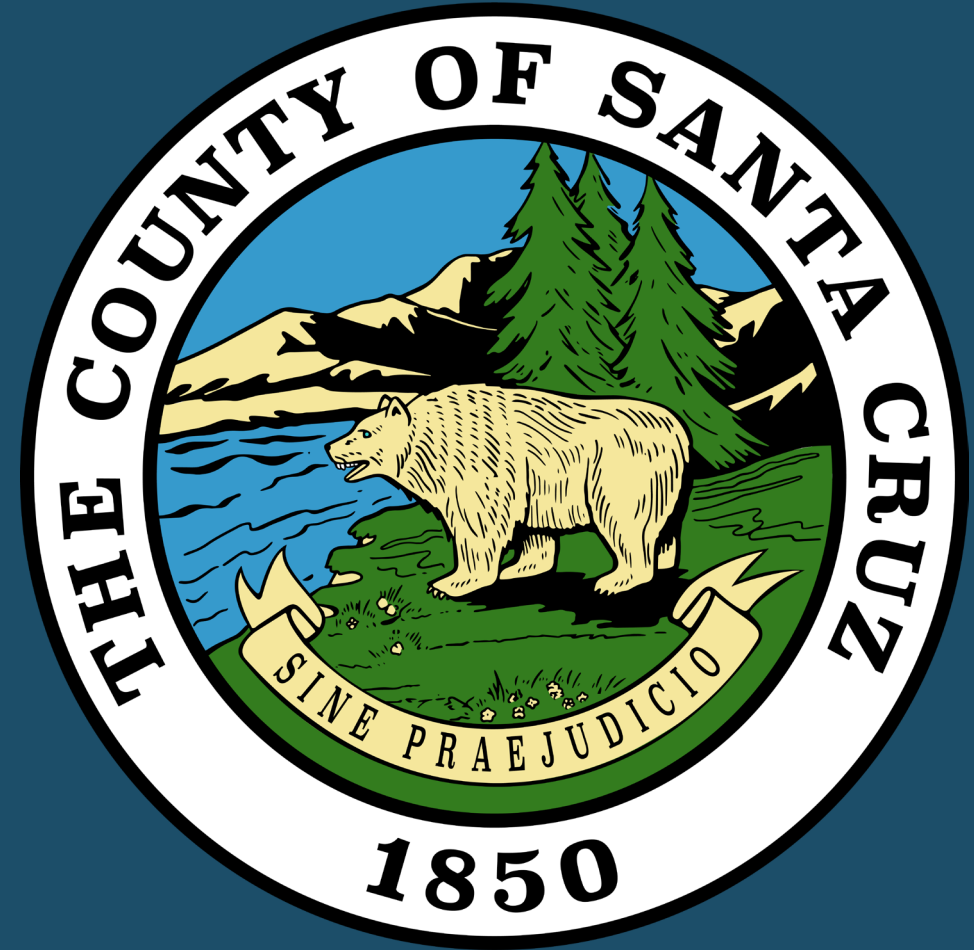
County Executive Office

State of the County

Presented by

Nicole D. Coburn, County Executive Officer

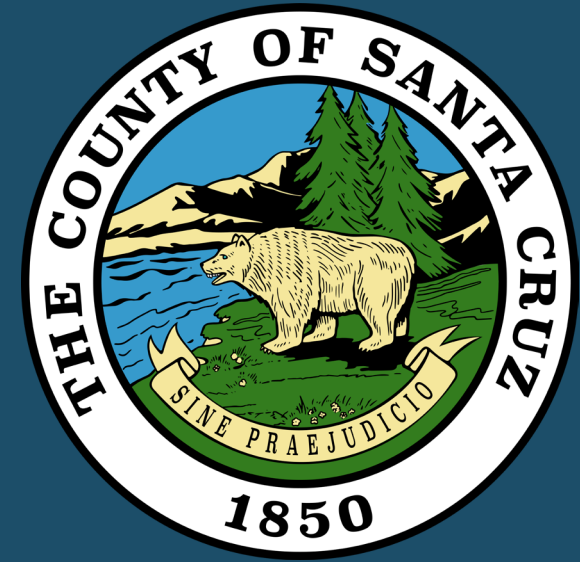
League of Women Voters | June 28, 2026



SECTION 1

County & Budget 101

What you must know about California Counties





California Counties: Agents of the State

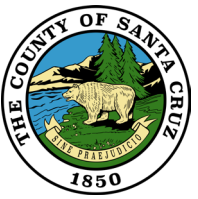
What Counties Are Required to Do

- Public safety & corrections
- Prosecution & indigent defense
- Health & mental health services
- Social services & public assistance
- Elections & voter registration
- Property assessment & tax collection

What Counties Choose to Do

- Animal services
- Parks & recreation services
- Libraries
- Land use planning & building permits
- Roads & sanitation
- Community programs & local initiatives

Mandated services are #1 funding priority. Discretionary services compete for remaining funds.



California Finance: A Brief History

1978 — Prop 13

Capped property taxes at 1% of assessed value — cut local revenues by ~50% overnight. Counties lost fiscal autonomy.

1979 — AB 8

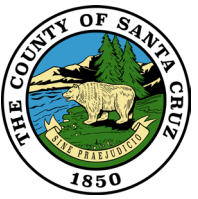
State stepped in to distribute property taxes. Fixed each county's share (AB 8 factor) — Santa Cruz's factor is permanently locked.

1991–92 — Realignment & ERAF

State shifted health/social services to counties (with sales tax funding) then shifted 25% of property tax to schools — net loss for counties.

2011+ — Realignment II & Beyond

More responsibilities shifted to counties — corrections, IST hospitalizations, unfunded mandates — without full cost recovery.



Budget Development Timeline

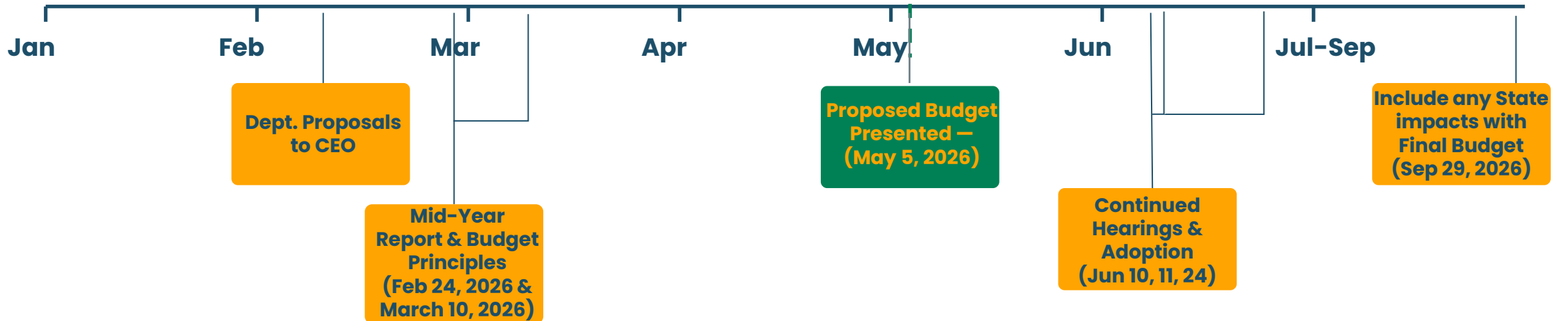
The Proposed Budget was presented May 5, 2026. Budget hearings took place June 10, 11 and 24, 2026. State Budget impacts will be included in the Final Budget presentation on September 29, 2026.

Preliminary Budget Development

Proposed Budget Development

Public Review & Hearings

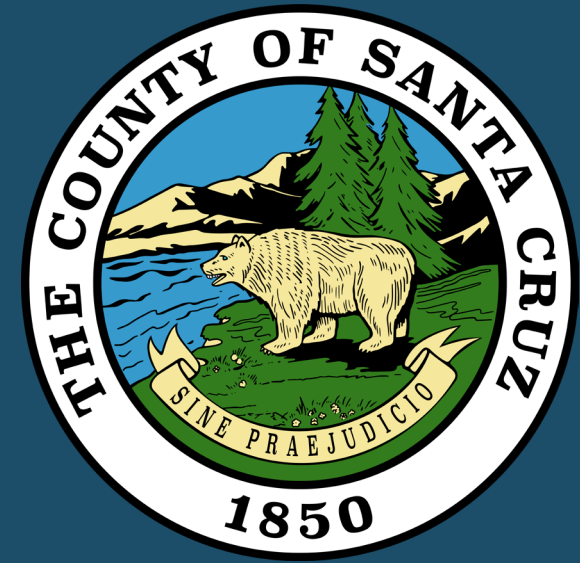
Final Refinement & Adoption

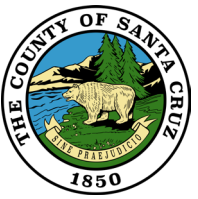


SECTION 2

Budget Overview

Revenues, expenses, and workforce





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.

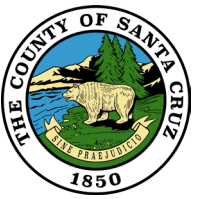
MAY 5, 2026

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.



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.

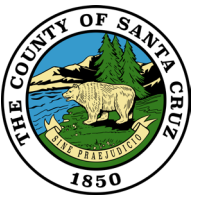
3 Workload & Cost Shifts

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.



The Budget in Four Numbers

A balanced \$1.3 billion All Funds budget. Closes the \$23.2M gap. Avoids layoffs. Reserves at 12.7% to 10.3%.

ALL FUNDS BUDGET

\$1.3B

FY 2026-27 Proposed

GENERAL FUND

\$851.4M

Expenses (revenues \$812.9M)

FUNDED FTE

2,677.28

Net -62.88 vs. FY 25-26
Adjusted (vacant only)

GF RESERVE LEVEL

12.7% to 10.3%

Up from 12.5%; Board target
15%; 10.3% after debt paydown

BALANCED

\$851.4M expenses funded by
\$820.4M revenues.

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

NO LAYOFFS

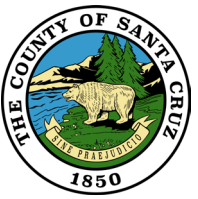
All position eliminations target
vacant positions.

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.

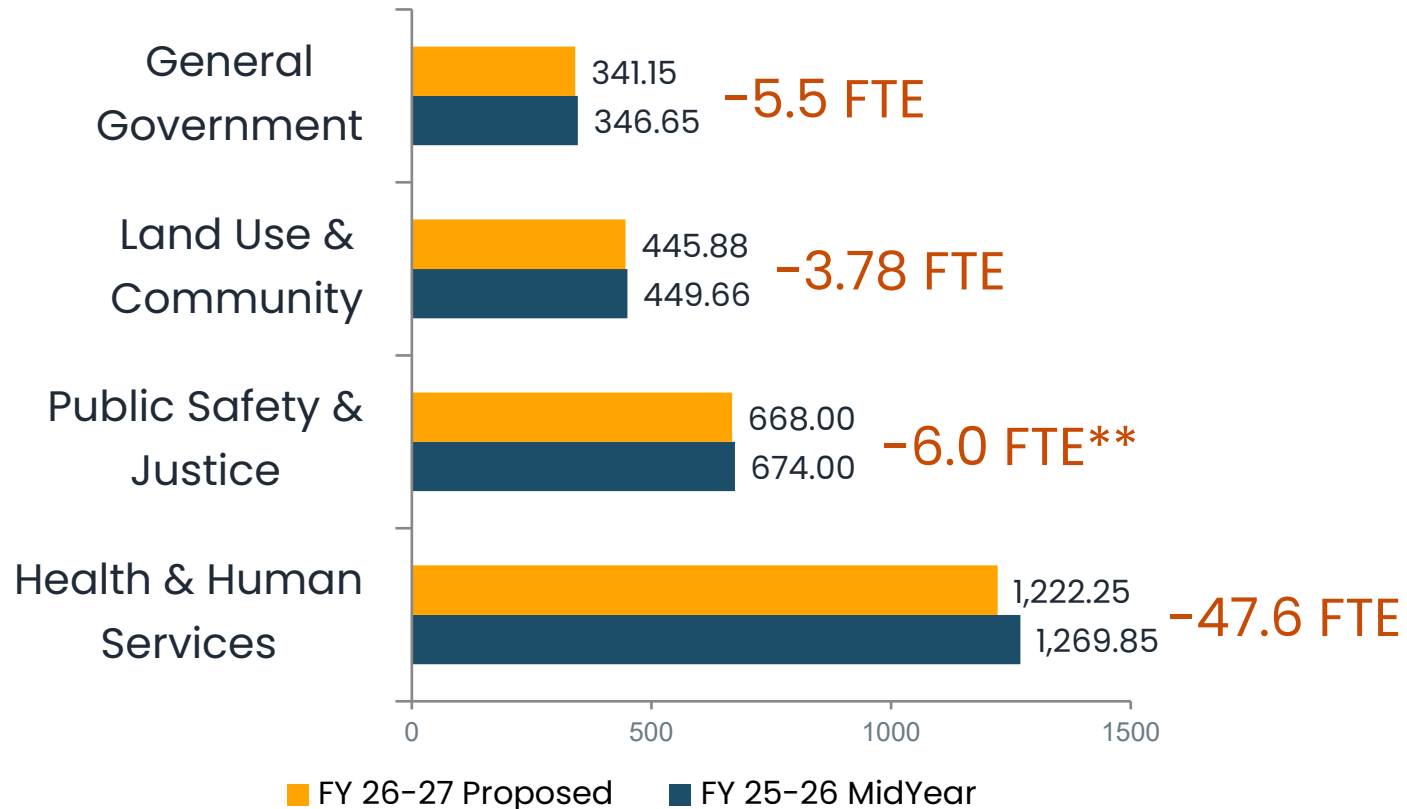
* The use of the trust funds is included in total revenues (transfer in)



Workforce — 2,677.28 Funded Positions

Net reduction of 62.88 FTE from Mid-Year*— 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

-24.5 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.

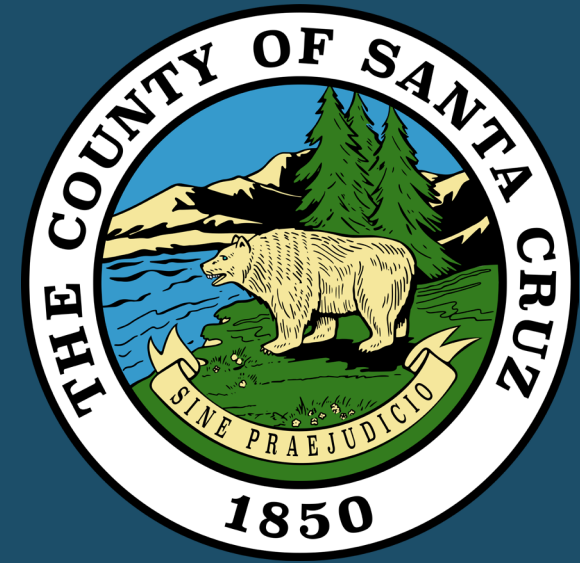
* Change from February 2026 Mid-Year Budget

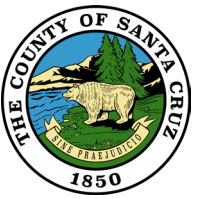
** Includes adding 2.0 FTE in Sheriff-Coroner for DNA lab

SECTION 3

A Balanced Budget

Closing the \$23.2M structural gap





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 62.88 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

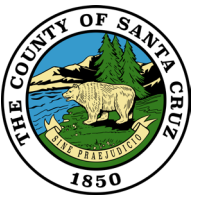
- Updated reimbursement rates at Health Centers
- Planning fee study rate changes
- Department fee increases to recovery costs
- Enhanced revenue projections

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

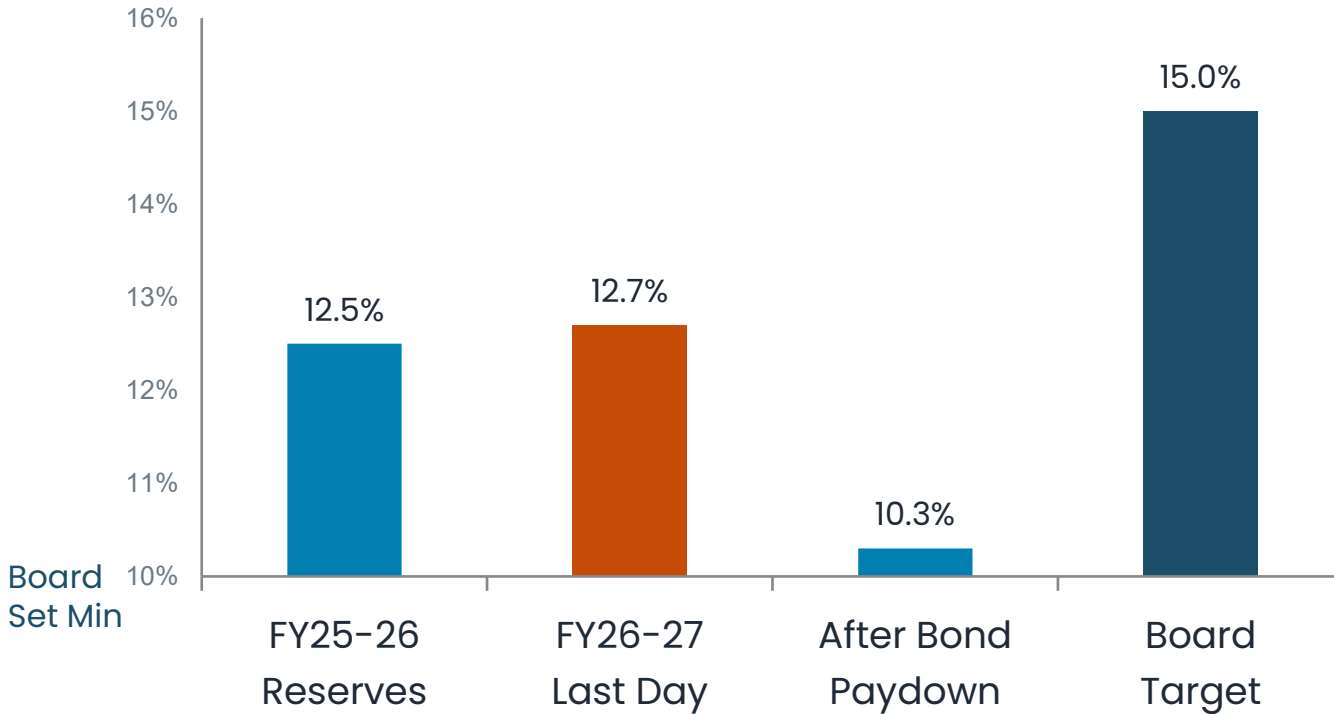
Principle: Maintain Mandates



Reserves – A Deliberate Drawdown

With temporary addition of funds for bond paydown, reserves are at 12.7%. After bond paydown, reserves drop to 10.3% funded level – just about 10% minimum. Once used, they limit future options.

Reserves as % of General Fund Expenses



\$30.8M

General Fund reserves used

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

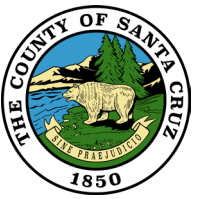
\$12.2M

Department trust funds & other

Restricted/dedicated funding sources outside the General Fund.

PRINCIPLE 4 – BUILD CAPACITY

Payrolls covered by Board reserves drops from 3.3 to 2.1 after 2026-27 bond paydown. It is imperative to rebuild reserve capacity.



Four Pillars Preserved

Despite fiscal constraints, this budget preserves and advances core priorities.

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

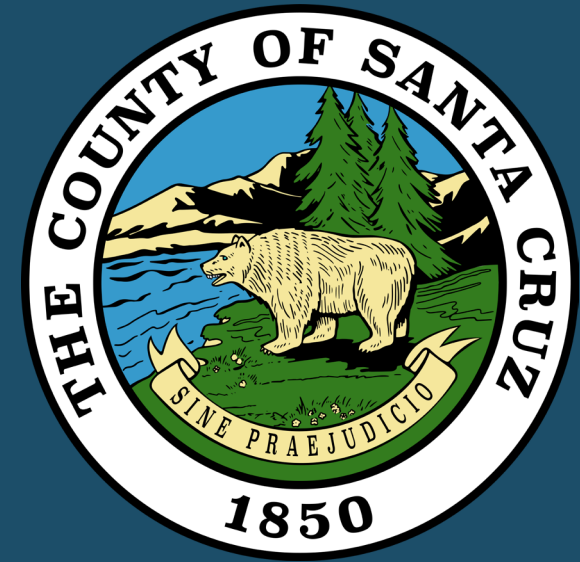
Public Safety & Justice

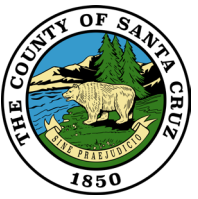
- Sustain Public Safety and Justice services at \$216.6M – flat year over year
- Establish Alternate Public Defender's Office
- Reduce reliance on outside counsel over time

SECTION 4

Risks & Path Forward

External pressures and the structural work ahead





Material Risks Embedded in This Budget

External pressures shape FY 2026-27 and beyond.

HIGH IMPACT

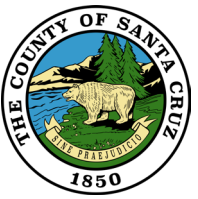
H.R. 1 — Federal Funding Pressure Will Deepen

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

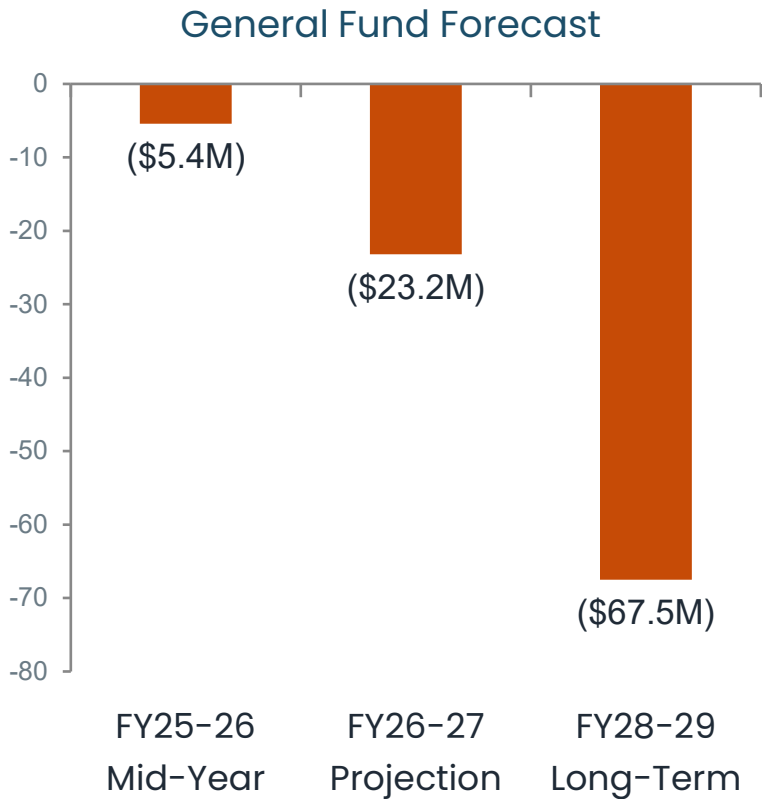
State Budget — Mixed News for Counties

The State Budget is pending, and staff will update the final County Budget based on the budget act and trailer bills. The budget plan agreed upon by legislative leadership and the Governor assumes less General Fund revenue, leading to reduced investments, particularly in H.R. 1 priorities.



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

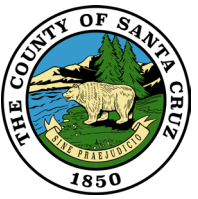
1-2 budget cycles

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



Key Resources & Links

Board of Supervisors

<https://www.santacruzcountyca.gov/government/boardofsupervisors.aspx>

County Executive Office

<https://www.santacruzcountyca.gov/Departments/CountyExecutiveOffice.aspx>

County Budget

www.SCCBudget.us

Strategic Initiatives

www.SCCVision.us



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