



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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- a. Receive an update on budget development as part of the Board of Supervisors' Fiscal Year 2026-27 Budget Workshop; and
- b. Provide direction to staff.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive an update on budget development as part of the Board of Supervisors' Fiscal Year 2026-27 Budget Workshop; and
- b. Provide direction to staff.

SUMMARY/DISCUSSION:

The County Administrative Office (CAO) prepared the FY 2026-29 Countywide Financial Forecast; the forecast continues to show structural fiscal pressure resulting from expenditure growth outpacing available financing. While discretionary revenues are projected to continue growing modestly, they are not sufficient to cover substantial increases in labor, pension, health insurance, internal service charges, and formula-based funding commitments. According to the updated March 2026 forecast, the General Fund faces projected deficits of:

- \$118.9 million in FY 2026-27
- \$143.3 million in FY 2027-28
- \$162.0 million in FY 2028-29

These projected deficits reflect current service levels, fully staffed operations, and all known labor agreement costs. The forecast does not assume new service enhancements, economic downturns, or additional wage adjustments beyond negotiated MOUs.

Current Year Fiscal Performance (FY 2025-26)

The County is currently projected to end FY 2025-26 with an estimated \$8.4 Million positive year-end result, driven by improved non-program revenue and department-level cost controls. However, significant volatility remains due to federal funding uncertainties and rising salary and benefit costs. Eleven General Fund departments project surpluses, while twelve project deficits totaling \$11.9 million, including pressures in the Sheriff's Office, CAO, and Public Works, Facilities & Parks.

Drivers of the Structural Budget Gap

The FY 2026-29 forecast identifies the following major cost drivers:

- Salary and benefit growth from negotiated labor agreements and compensation studies. FY 2025-26 wage increases and adjustments total \$45.3 million in added General Fund cost, growing to \$150.8 million by FY 2027-28.
- PERS retirement contributions continue to rise due to demographic assumptions and lower-than-assumed investment returns. FY 2026-27 General Fund PERS costs increase roughly \$5 million, rising to \$93 million next year.
- Employee health insurance costs grow from \$79.7 million to \$94.7 million in FY 2026-27, tied to premium increases and the phasing-out of lower-cost plans.
- Workers' compensation and general liability charges continue increasing, with Workers' Compensation projected at \$22.6 million in FY 2026-27, rising 10% annually thereafter.

General Fund Revenue Conditions

Modest growth in discretionary revenues is forecast, especially in property taxes, which are projected to grow 3.8% next year. However, this revenue growth does not offset the much faster growth in expenditures. Key revenue insights include:

- FY 2026-27 non-program revenue is forecast to increase by \$7.6 million.
- Property tax revenues increase by approximately \$10 million, assuming 3.8% assessed value growth.
- TOT remains stable at roughly \$39 million with modest growth in out years.
- Cannabis revenues remain low at \$3.0 million, reflecting prior Board-approved rate reductions.

Department Budget Development

Departments have submitted their FY 2026-27 budget requests. Consistent with Board direction, all ongoing discretionary revenue has already been allocated to departments as part of baseline General Fund Contribution (GFC) estimates. As such:

- There is no new ongoing discretionary revenue available to fund departmental augmentation requests.
- Forecasted departmental deficits are primarily driven by salary, benefit, and internal service cost increases.
- Vacancy levels will strongly influence actual year-end results; however, forecasted costs assume departments are fully staffed.

Fund Balance and Reserves

The General Fund ending balance for FY 2025-26 is currently projected at \$343.6 million, including a Strategic Reserve of \$68.7 million, representing 7.2% of General Fund estimated revenue. The Board's reserve policy target of 10% (\$94.8 million) leaves a \$26.1 million reserve gap that must be restored within five years.

Recent years' natural disasters have significantly stressed reserves; since 2019, the County has incurred \$97 million in disaster-related costs, with \$31.4 million still outstanding in reimbursements.

FY 2026-27 Budget Development Focus

Given the updated forecast, the FY 2026-27 Recommended Budget will focus on:

- Aligning expenditures to available ongoing revenues
- Prioritizing core services and statutory obligations
- Limiting new ongoing commitments
- Managing workforce growth through vacancy and hiring controls
- Protecting and rebuilding reserves
- Ensuring responsiveness to State and Federal funding changes

During this workshop, the Board will receive presentations from Department Heads outlining operational needs, cost pressures, and potential strategies for addressing service impacts under baseline funding constraints.

Direction from today's workshop will inform development of the Recommended FY 2026-27 Budget, which will be presented during the annual budget hearings beginning May 27, 2026.

OTHER AGENCY INVOLVEMENT:

Development of the Recommended Budget is a collaborative effort between the CAO and all County departments, with overall direction provided by the Board of Supervisors. Staff conducted a Department Head Workshop on March 20, 2026, to support this effort.

FINANCING:

Receipt of this report does not directly impact the budget. However, Board feedback during the workshop will guide development of a balanced FY 2026-27 Recommended Budget in the context of significant structural deficits.

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:

This workshop supports the Board's strategic plan goals to practice efficient and effective resource management, promote accountability, and maintain transparency. Achieving a structurally balanced budget that sustains core services while preserving long-term fiscal stability remains a primary strategic objective.

Administration

Well-Being and Quality of Life

Sustainable Infrastructure for the Present and Future

Safe and Resilient Communities

Diverse and Thriving Economy

Link to the Strategic Plan:

<https://www.countyofmonterey.gov/home/showdocument?id=139569>

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Attachments:

FY 2025-26 to FY 2028-29 Financial Forecast

Budget Workshop Presentation