Fiscal Year 2026-27 Budget Adoption

June 23, 2026

Agenda

- City Council priorities
- Summary of budget changes
- Updated five-year General Fund forecast
- Resolutions and actions
- Final City Council direction and adoption


City Council Priorities
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City Council Priorities

- During the annual priority-setting workshop on March 21, the City Council identified the following priorities:
  - Climate action - mitigation, adaptation and resilience
  - Downtown vibrancy
  - Public safety (new)
  - Housing
  - Safe routes

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Proposed Fiscal Year 2026-27 Budget Changes

Changes Since June 9 Public Hearing

- Vehicle license fee (VLF) shortfall backfill of 65% for fiscal year 2024-25 was included in the State budget bill on June 11 and passed in both the senate and assembly on June 15
  - Increasing the General Fund revenues by approximately $1.9 million in fiscal year 2026-27 only
  - VLF backfill revenue is not included in the forecasts for fiscal year 2027-28 through fiscal year 2030-31, as this was a one-time fix and future funds are not guaranteed
  - Continuing to work with partners across the County through advocacy regarding future VLF payments

General Fund changes since June 9 Public Hearing

- Incorporated additional expenditures of $0.2 million:
  - BCJPIA insurance premium true-up
  - AFSCME MOU
  - Downtown development financial feasibility study
- Included City Council directed General Fund reductions in public works of $0.4 million and library and community services of $0.5 million for a total of $0.9 million reduction
- Net $0.7 million ongoing reduction

Reductions since June 9 public hearing

Description	Amount
Reductions to library program offerings, small reductions of materials and contract services	($169,255)
Reductions to contract services for indoor recreation programs, small reductions to materials, staffing efficiencies	($104,400)
Reduction to pool hours after Labor Day	($273,300)
Reduction in consultant services to shift focus from outreach to implementation efforts.	($105,000)
Reduction in Downtown/Santa Cruz median and street tree lighting maintenance contract	($43,000)
Reduction in general non-herbicide weed removal contract	($91,600)
Reduction in mechanical non-herbicide weed removal contract	($50,000)
Reduction in landscape median and right of way maintenance contract	($69,800)
Total	($906,355)

Other potential expenditure reductions

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- Reduce library operating hours by 12 less hours / week, resulting in a reduction in temporary staffing hours, generating $0.2M savings
  - If City Council wishes to proceed, staff would develop a strategy to minimize community impact, potentially staggering reductions to keep one library location open
- Reduce special events scope and frequency to generate $0.08M savings
- Reduce non-safety overtime hours by 33% to generate $0.08M savings
- Increase gymnastics fees by 44% to generate additional revenue of $0.5M
  - Consideration of phasing in increases to reduce impact to participants
- Given structural deficit, an in-depth analysis of which services are offered, at what levels, and the level of General Fund subsidy as outlined in the User Cost Recovery Policy – Long-term process to begin with a study session planned in fall 2026

Proposed Fiscal Year 2026-27 Budget

- The City has over 55 funds with a proposed expenditure budget of $151.1 million
  - General Fund: $89.8 million
  - All other funds: $61.3 million
  - Capital Improvement Plan (CIP):
    - $13 million new funding, $3.1 million from General CIP
    - $60 million in estimated carry-over funding
- The proposed fiscal year 2026-27 budget is now balanced without the use of reserves
- Budget includes General Fund expenditures of $89.8 million and revenues of $89.9 million, resulting in a nominal surplus of $9,296

Path to a balanced budget

Description	Amount (million)
Fiscal year 2026-27 original projected deficit	**($7.9)**
Additional costs (ISF allocation, BCJPIA, AFSCME, etc.)	($0.9)
Update Master Fee Schedule and cost allocation plan	$4.4
Reduce General Fund transfer to CIP	$1
Reduce department budget June 9	$0.7
Reduce department budget per City Council direction after June 9	$0.9
Update VLF backfill	$1.9
New surplus/(deficit)	**$0.01**

*For clarity, negative values reflect actions that increase the deficit, while positive values reflect actions that reduce or offset the deficit.

General Fund Five-Year Forecast

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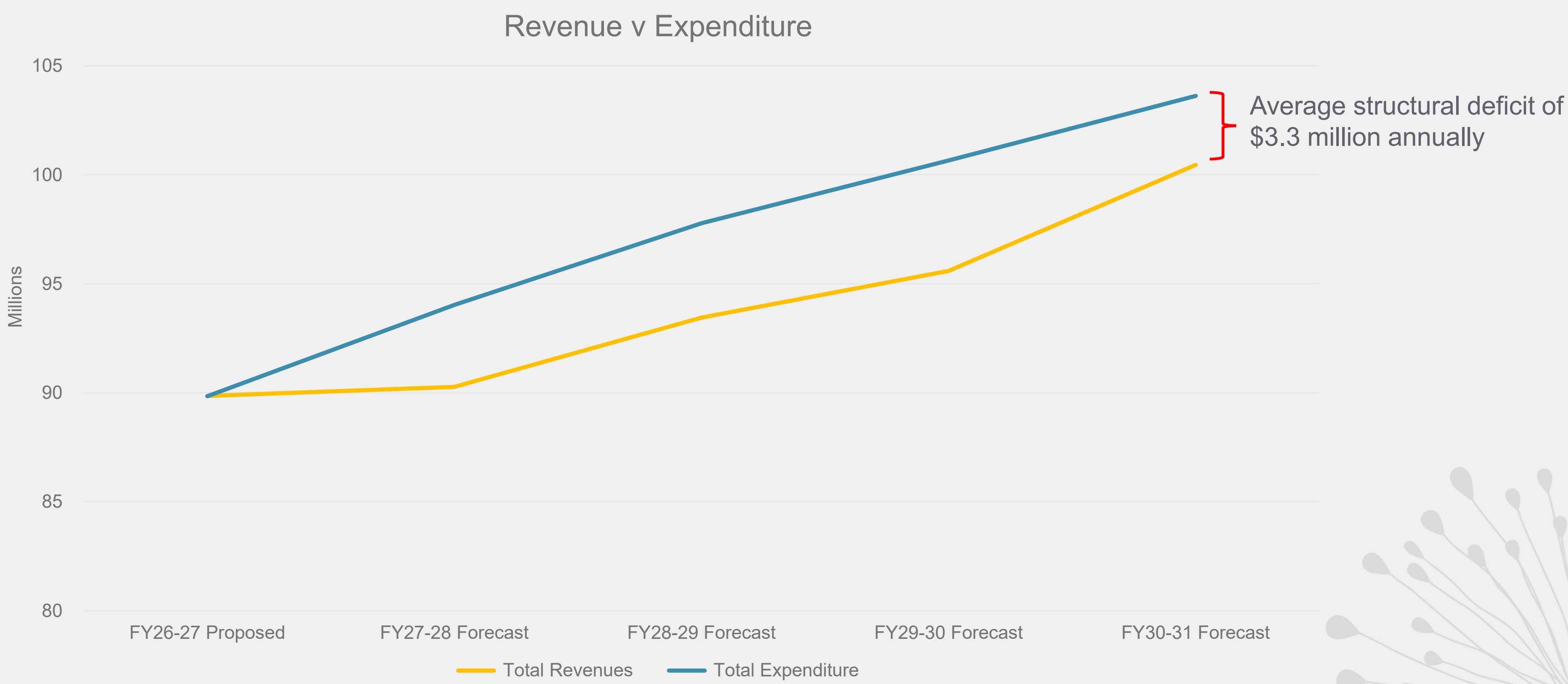
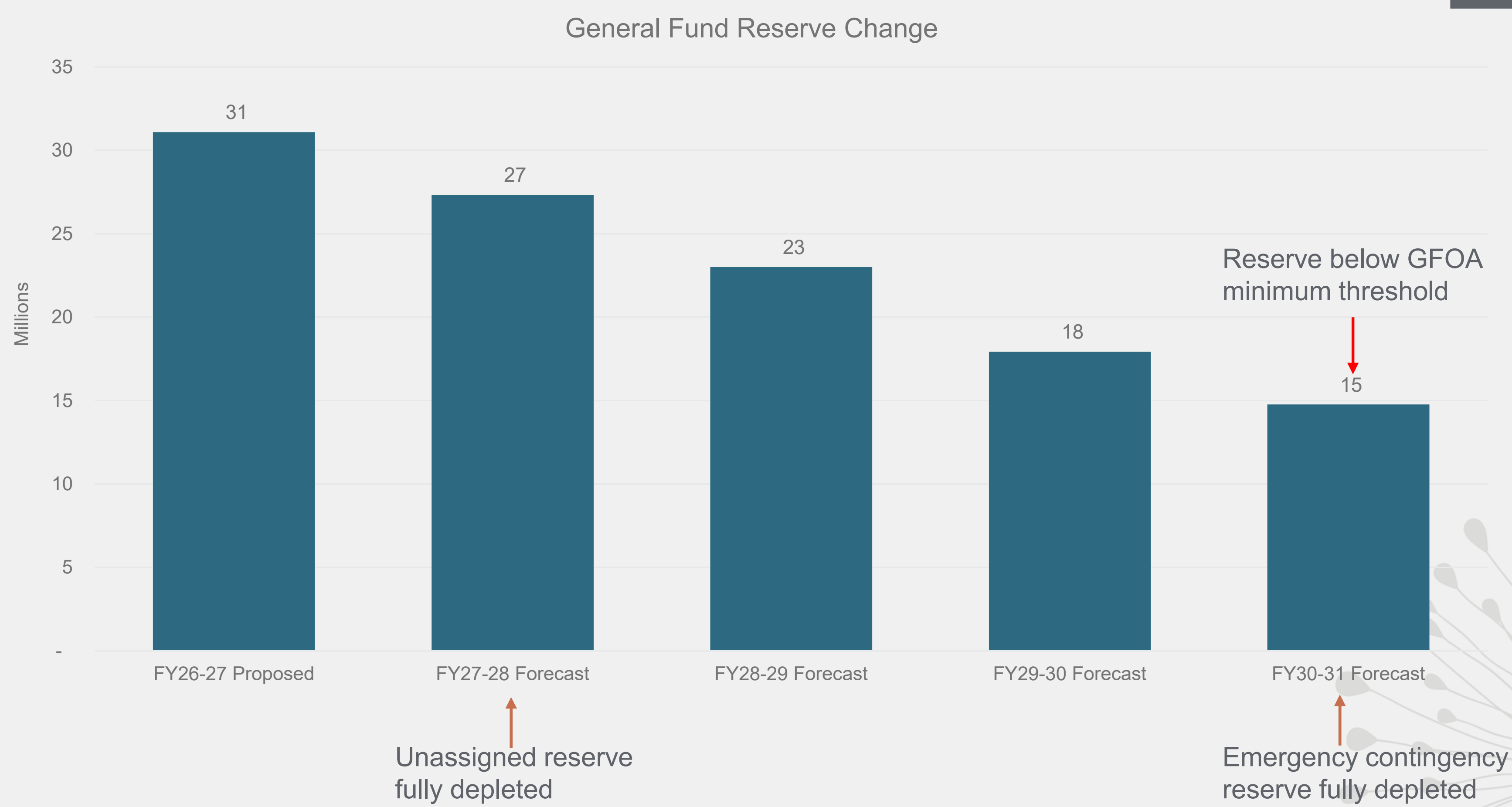
General Fund five-year forecast

- Includes ongoing net expenditure reduction of $0.7 million
- Projected total fund balance would decrease from $31.1 million to $14.8 million over the five-year period
  - Unassigned fund balance depleted in fiscal year 2027-28
  - Emergency Contingency Reserve would be fully depleted by fiscal year 2030-31
  - Economic Stabilization Reserve depletion beginning in fiscal year 2030-31

Operating surplus/(deficit)



General Fund reserve impact



Resolutions

Resolutions

- Adoption of the fiscal year 2026-27 budget and capital improvement plan
  - Formally appropriates funds and expenditures during the fiscal year
  - Authorized payments up to the budget amount for certain items
- Establish the appropriations limit for fiscal year 2026-27
  - California Government Code sets a limit on appropriations based several factors, including the prior limit, population change and cost-of-living adjustment (COLA) changes
- Salary schedule amendments
  - Approves updates to salary schedule pursuant to AFSCME MOU with corresponding changes to Confidential and Unrepresented Management; addition of one new position; and equity adjustment for one existing position
  - Effective first full pay period following July 1

Resolutions

- Rate assistance program
  - Extends the rate assistance program for solid waste and water utilities through June 30, 2027
  - Promotes equity and helps low-income households cover basic living expenses
- Award authority
  - Establishes award authority, bid requirements and approving authority for fiscal year
  - Staff is developing a comprehensive purchasing policy for City Council consideration later this summer that will update procurement authorities, strengthen internal controls, and clarify key purchasing definitions

City Council Action

- Provide final direction on the proposed fiscal year 2026-27 budget
- Adopt resolutions

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Questions