

Fiscal Year 2026-27 General Fund Base Budget Development Update

CITY COUNCIL
APRIL 21, 2026

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CHIEF FINANCIAL OFFICER

FY 2026-27 Budget Process



Overview

- FY 2026-27 General Fund base budget projects a **\$17.5 million deficit**
- Deficit is structural in nature, driven by expenditure growth (7.7%) outpacing revenue growth (3.6%)
- Structural deficit will continue to grow, with an additional \$8 million increase expected in FY 2027-28 if no corrective action is taken
- Total revenues projected to increase by \$7.8 million to \$222.9 million, expenditures projected to increase by \$16.7 million to a total of \$233.6 million
- Presentation does not include proposed reductions recommended by departments for fiscal year starting July 1, 2026, currently under review by the City Manager

Overview

- General Fund base budget **does** includes programing that have had outside funding sources decrease or end including InResponse and SAFER grant
- General Fund base budget **does** address pre-existing funding gaps in overtime that are causing budget overruns in the current year of \$3.1 million
- City Council to review proposed deficit reduction strategy during May 5th & 6th Study Sessions

Long Range Financial Forecast

General Fund Long-Range Financial Forecast *(in \$ millions)*

	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Revenues	\$215.1	\$222.9	\$229.5	\$234.2	\$240.5
Transfers In	2.5	2.6	2.6	2.6	2.6
Total Revenues & TI	\$217.6	\$225.5	\$232.1	\$236.8	\$243.1
Expenditures	216.8	233.6	247.8	259.0	267.3
Transfers Out	9.2	9.4	9.6	9.2	9.4
Total Expenditures & TO	\$226.0	\$243.0	\$257.4	\$268.1	\$276.7
Surplus (Deficit)	(\$8.4)	(\$17.5)	(\$25.3)	(\$31.3)	(\$33.6)

Projected General Fund Reserve Without Action

	Upcoming Budget Adoptions				
	FY2025	FY2026	FY2027	FY2028	FY2029
6/30/2025 Final Reserves	\$ 79,582,000				
FY 26/27 Budget Deficit		<u>\$ (17,500,000)</u>			
6/30/2026 Projected Reserves		\$ 62,082,000			
FY 27/28 Budget Deficit			<u>\$ (25,300,000)</u>		
6/30/2027 Projected Reserves			\$ 36,782,000		
FY 28/29 Budget Deficit				<u>\$ (31,300,000)</u>	
6/30/2028 Projected Reserves				\$ 5,482,000	
FY 29/30 Budget Deficit					<u>\$ (33,600,000)</u>
6/30/2029 Projected Reserves					\$ (28,118,000)

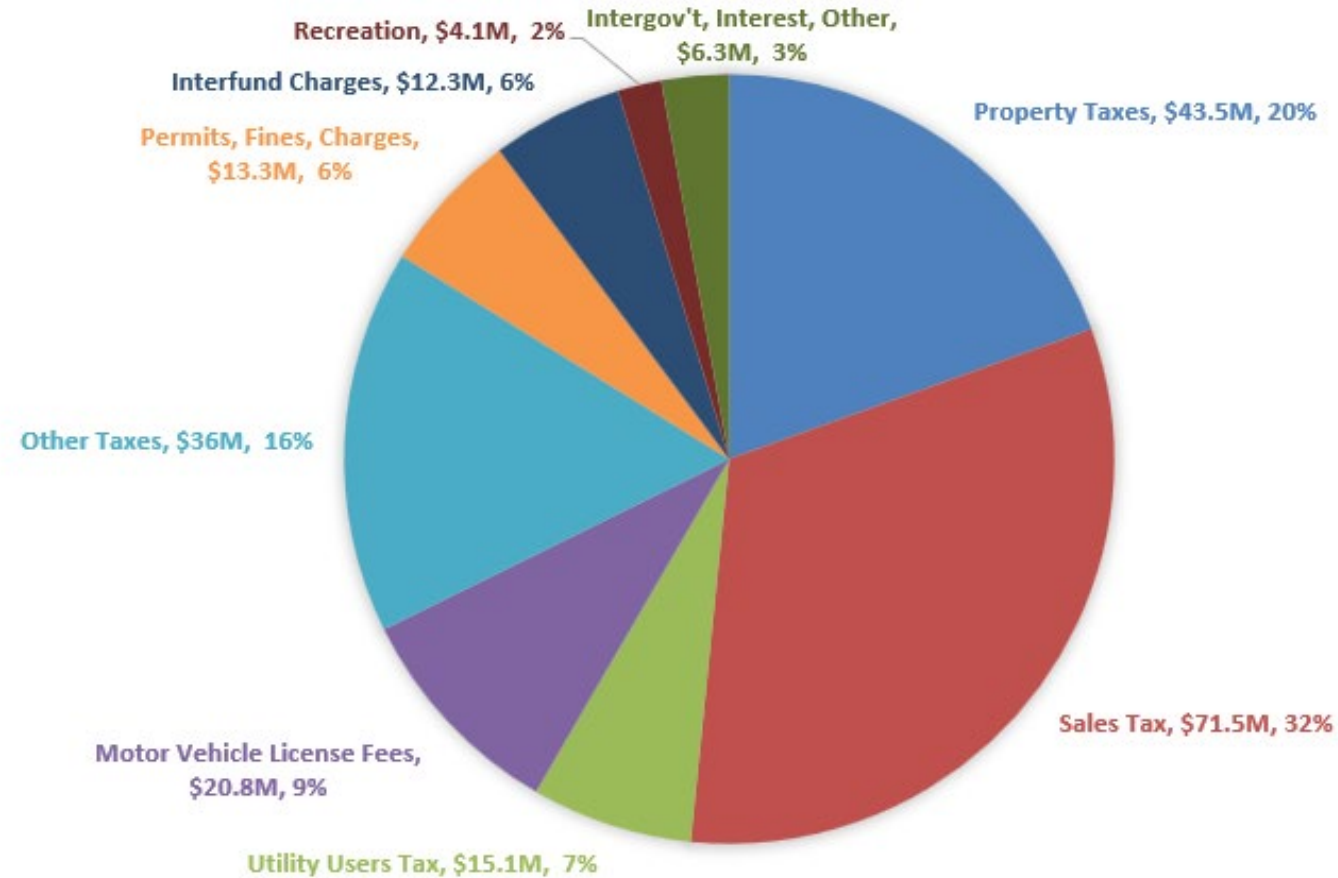
* Council Mandated Reserve was \$39.2M in FY2025, expected to be \$44.9M in 2027

Revenue & Expenditures

FY 2026-27 General Fund Revenues by Category (in millions) *** no recession consideration**

Category	2025-26 Adopted Budget	2026-27 Base Budget	\$ Change	% Change
Property Tax	\$41.4	\$43.5	\$2.1	5.1%
Sales Tax	70.5	71.5	1.0	1.4%
Utility Users Tax	14.4	15.1	0.7	4.9%
Vehicle License Fees	19.8	20.8	1.0	5.1%
Other Taxes	33.3	36.0	2.7	8.1%
Permits, Fines & Charges	14.1	13.3	(0.8)	(5.7%)
Interfund Charges	12.4	12.3	(0.1)	(0.8%)
Recreation Revenues	3.3	4.1	0.8	24.2%
Intergov't, Interest & Other	5.9	6.3	0.4	6.8%
Total	\$215.1	\$222.9	\$7.8	3.6%

General Fund Revenues by Category

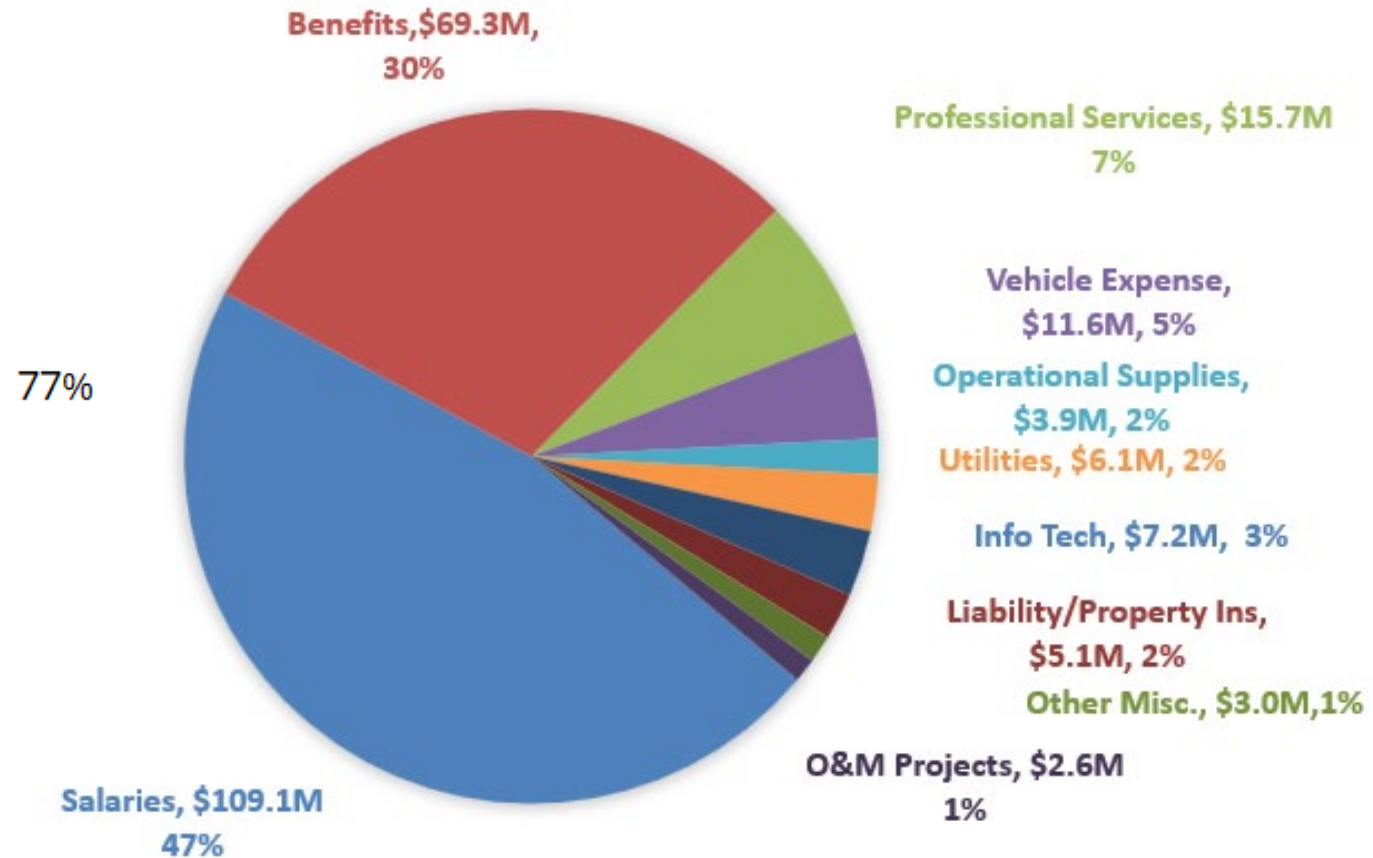


FY 2026-27 General Fund Expenditures by Category (in millions)

Category	2025-26 Adopted Budget	2026-27 Base Budget	\$ Change	% Change
* Salaries	\$98.7	\$109.1	\$10.4	10.5%
Benefits	67.0	69.3	2.3	3.4%
Professional Services	13.6	15.7	2.1	15.4%
Vehicle Expense	10.9	11.6	0.7	6.4%
Operational Supplies	3.3	3.8	0.5	18.2%
Utilities	5.9	6.1	0.2	3.4%
Information Technology	6.7	7.2	0.5	7.5%
Liability/Property Insurance	5.7	5.1	(0.6)	(10.5%)
Other Miscellaneous	2.6	3.0	0.4	15.4%
O&M Projects	2.4	2.6	0.2	8.3%
Total	\$216.8	\$233.5	\$16.7	7.7%

* InResponse & SAFER positions and salaries included = 19.0FTE \$3.7M

General Fund Expenditures by Category

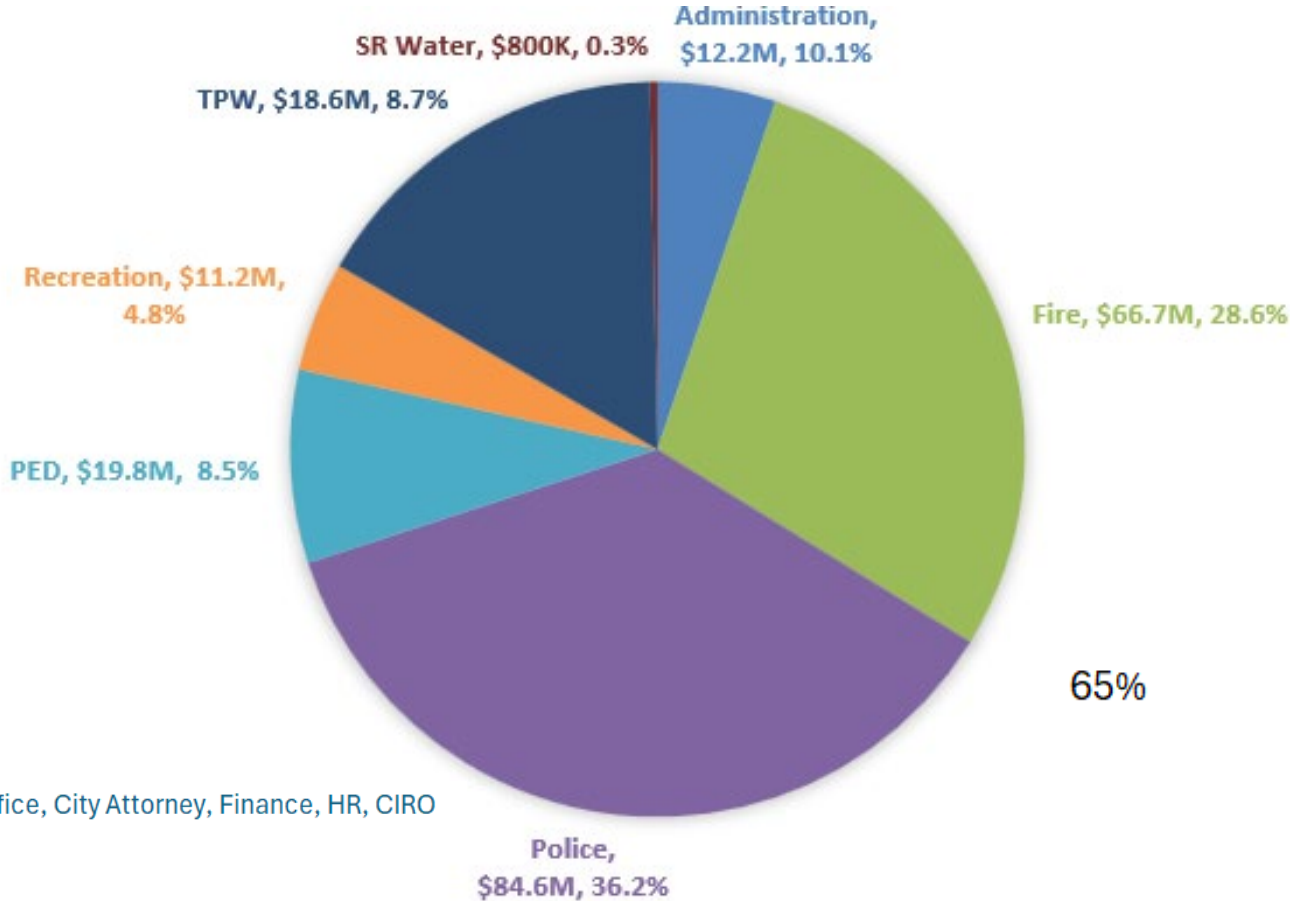


FY 2026-27 Base Budget General Fund Expenditures by Department (in millions)

Department	2025-26 Adopted Budget	2026-27 Base Budget	\$ Change	% Change
CC,CMO, FIN, HR, CIRO, CAO	\$11.9	\$12.2	0.3	2.5%
Fire	58.9	66.7	7.8	13.2%
Planning & Economic Development	19.1	19.8	0.7	3.7%
Police	80.0	84.5	4.5	5.6%
* Recreation	18.4	11.3	(7.1)	(38.6%)
* Transportation & Public Works	27.8	38.2	10.4	37.4%
SR Water (Storm Water GF only)	0.7	0.8	0.1	14.3%
Total	\$216.8	\$233.5	\$16.7	7.7%

* Variance corresponding to reorganization of former Rec & Parks Department

General Fund Base Budget Expenditures by Department



Administration is City Council, City Manager Office, City Attorney, Finance, HR, CIRO

Base Budget Increases by Department

\$17.5 Million

Total Projected Deficit



Ongoing Structural Deficit

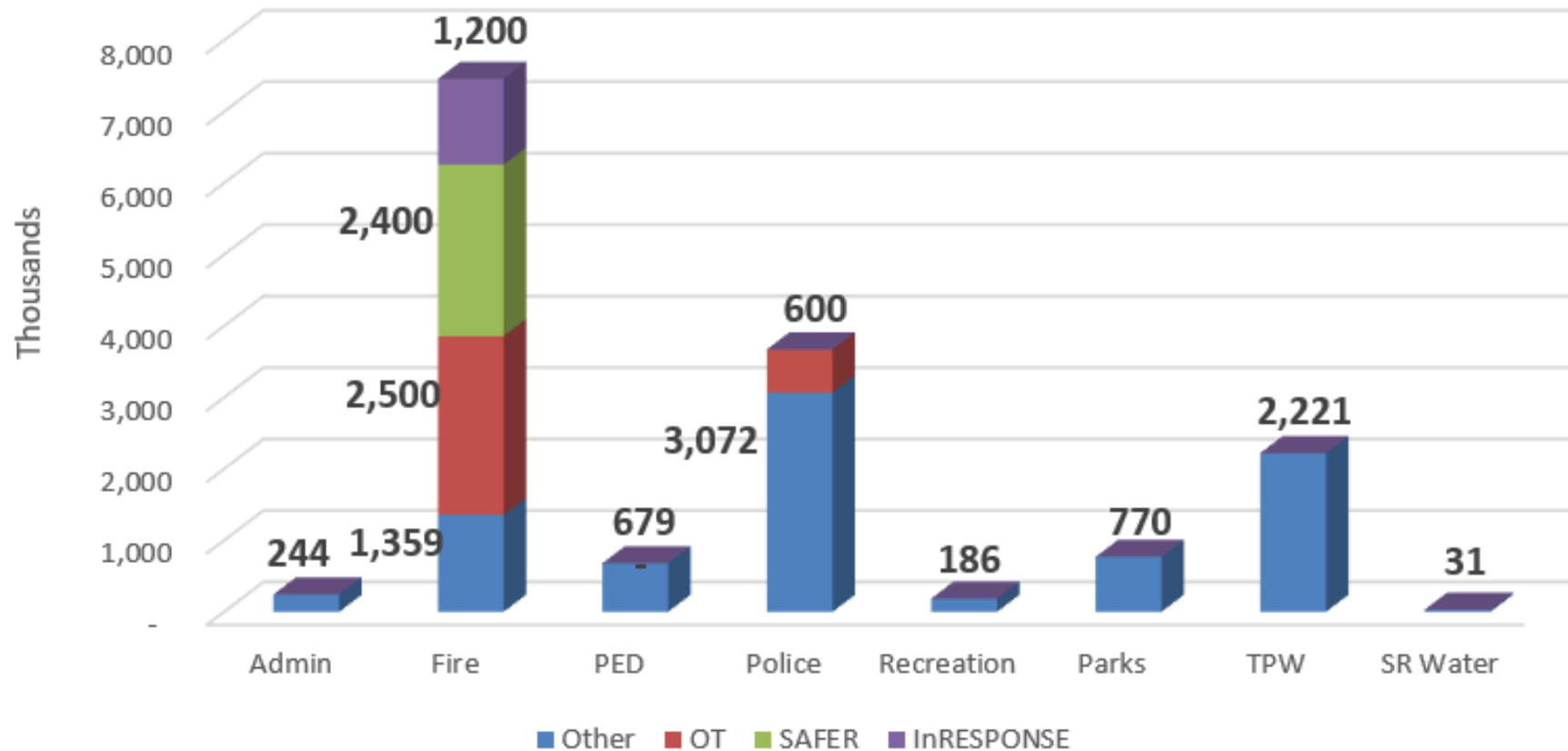
Expenditure growth (7.7%) outpacing revenue growth (3.6%)

Grant-Funded Programs Expiring

InResponse and SAFER grant funding ending

$\$13.9\text{M Structural Deficit} + \$3.6\text{M Expiring Grants} = \$17.5\text{M Total Deficit}$

General Fund \$16.7M Expenditure Increase by Department



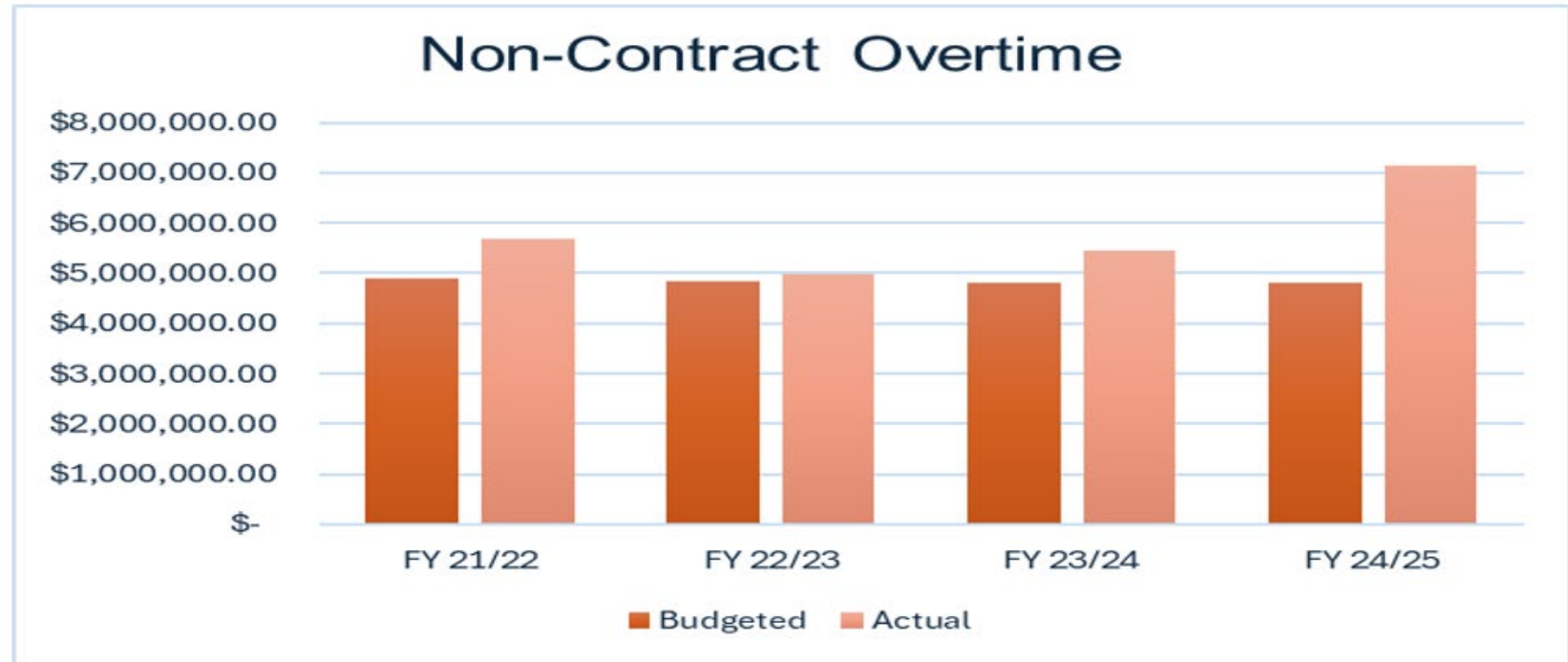
Police & Fire Department Budget Increases

Fire Department	Amount
Overtime	\$2.5M
SAFER Grant	2.4
In RESPONSE	1.2
All Other	1.4
Total	\$7.5M

Police Department	Amount
Overtime	\$600K
All Other	3.1M
Total	\$3.7M

Pre-existing budget shortfall – Fire Overtime

- We expect the Fire Department to actuals to exceed budget by up to \$2.5 million in the current year.
- FY2026-27 Base Budget aligns overtime to actuals and increases overtime budget by \$2.5 million



Pre-existing budget shortfall – PD Overtime



- We expect to exceed budgeted overtime for Police by \$600K in current year
- FY2026-27 Base Budget aligns overtime to actuals

Summary

- Baseline budget of \$17.5 million deficit
- Includes grant funded programs and positions - 19 FTEs
- Includes correction of pre-existing funding gap in public safety OT of \$3.1 million causing over budget in current year
- Includes contractually approved compensation adjustments

Actions Taken to Date

Budget Engagement

- Budget engagement efforts over the past year:
 - Monthly Fiscal Update Meetings with labor representatives with agenda driven by labor including:
 - Investment portfolio, CalPERS pension expenses, CIP funding, all assumptions in the City's Long Range Financial Forecast & FY 2026-27 budget development strategy
 - Formation of City Manager Budget Working Group with community members
 - LTFPA Subcommittee line-by-line review of all department's budget

Phase One: FY2024-25 & FY2025-26 Multi-year Strategy

- The City has been engaged in a multi-year process to address the structural deficit in the General Fund that began with mid-year adjustments in fiscal year 2024-25. This has included:
 - \$15.2 million in ongoing reductions
 - Workforce reduction of 54 full time equivalent positions
 - \$10.2 million in one time funding re-allocated from projects to shore up reserves
 - Voter approved revenue measure EE & FF which generated an additional \$3.7 million in Business and Transient Occupancy Taxes
 - No mid-year cuts in fiscal year 2025-26

Prior Adopted Budget Reductions

- Council adopted \$15.2 million of ongoing budget reductions since mid-year FY 2024-25
- FY 2025-26 original deficit amount of \$19.3 million reduced to \$8.4 million

GF Cut Amounts by Department - Mid Year + Adoption			
Department	8% Target	24/25 Mid-Year + 25/26 Adopted Cuts	(Below) Over Target
Police Department	\$ 6,222,331.0	\$ 3,005,002.0	\$ (3,217,329.0)
Fire Department	\$ 4,469,286.0	\$ 2,127,000.0	\$ (2,342,286.0)
Transportation & Public Works	\$ 2,060,252.0	\$ 1,894,605.0	\$ (165,647.0)
Planning & Econ Development	\$ 1,400,261.0	\$ 1,510,190.0	\$ 109,929.0
Recreation & Parks	\$ 1,369,611.0	\$ 1,166,731.0	\$ (202,880.0)
Finance	\$ 640,292.0	\$ 1,754,902.0	\$ 1,114,610.0
Housing & Community Services	\$ 392,022.0	\$ 1,579,000.0	\$ 1,186,978.0
Human Resources	\$ 371,420.0	\$ 519,435.0	\$ 148,015.0
City Attorney	\$ 367,459.0	\$ 308,050.0	\$ (59,409.0)
City Manager	\$ 253,062.0	\$ 844,900.0	\$ 591,838.0
Comms & Intergovt. Relations	\$ 145,580.0	\$ 444,368.0	\$ 298,788.0
Santa Rosa Water	\$ 59,617.0	\$ 57,000.0	\$ (2,617.0)
Total	\$ 17,751,193.0	\$ 15,211,183.0	\$ (2,540,010.0)

Phase Two : FY 2026-27 & FY2027-28 Multi-pronged Deficit Reduction Strategy

Strategies Considered

- One-year full correction of \$17.5 million deficit
- Cut positions with vacancies
- Major apparatus leasing
- Use of reserves
- Pensions savings strategy
- Department reductions

Two-Year Deficit Strategy (FY 2026-2028)

- Address the projected \$17.5 million total deficit
- Implement a multi-pronged strategy over two years
- Year One: Fewer reductions to departments and core public services
- Year Two: Transparent and thorough analysis of the potential impacts to core public services if additional General Fund revenue is not generated to address these out-year shortfalls

Year 1 (FY 2026-27) Multi-Pronged Approach

- Strategic Reserve Usage: Utilizing reserve funds partially to prevent major cuts to services
- Vacancy Management: Eliminating and defunding specific vacant positions
- Pension Cost Smoothing: Implementing an innovative pension strategy using the Fresh Start plus 115 Trust balance
- Major Apparatus Lease Financing: Purchases (over \$250k) based on the useful life of the equipment
- Targeted cost recovery improvements

Year 2 (FY 2026-27) Department Reductions

- This multi-pronged approach results in the need for fewer reductions to departments and core public services in Year 1
 - However, it does require that additional measures are taken in Year 2 to address the remaining structural deficit, unless there is additional General Fund revenue to offset costs
- The City Manager's formal Proposed Budget for the fiscal year beginning July 1, 2026, to be presented to the City Council for adoption on June 16, 2026, will not include anticipated Year 2 departmental cuts
 - It is imperative that there is a transparent and thorough discussion of the potential impacts to core public services if additional General Fund revenue is not generated
 - Staff will be presenting this information at the May 5th and 6th Study Sessions

Year 1 (FY 2026-27) Deficit Reduction Strategy

\$ (17.50)	Draft Deficit
\$ 8.40	Use of Reserves (Adopted Deficit)
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\$ (9.10)	Ongoing Reduction Target
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\$ 1.00	Fire Apparatus Lease Strategy
\$ 3.80	Pension Savings
\$ 4.30	<i>Department Reductions</i>
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\$ -	

in millions

- Use of Reserves (adopted deficit) of \$8.4M matches FY2025-26 adopted deficit
- Savings identified moving major apparatus to lease financing program
- Potential pension program savings from Fresh Start and Usage of 115 trust
- More than half of proposed reductions from new financing strategies for liability management

Major Apparatus Lease Strategy

- \$1.0 million in ongoing reductions has been identified from a capital leasing of major apparatus replacement program
 - Accumulated funding has cash flowed all fire engines which the City has on order
 - Future purchases will utilize lease financing which will smooth out payments over the useful life of the asset
 - Maintains \$2.0 million in ongoing funding to meet future leasing needs

Year 1 Department Reductions

- \$4.3 million department target addresses 25% of deficit
 - Critical for maintaining mandated reserves
- Departments were asked to develop 1% and 3%
- Proposed reductions presented to City Manager in March
 - Review included tiered approach
 - Reviewed all vacant positions versus filled positions
 - Developed plans which can maintain service on an ongoing basis
 - Remain under review for City Council Study Session presentation on May 5th & 6th

General Fund 1% and 3% Reduction Targets

- Proposed department reductions recommended to be reviewed on May 5th and May 6th

Department	1% Target	3% Target
Police	777,876	2,333,628
Fire	566,935	1,700,805
Transportation & Public Works	263,746	791,237
Planning & Economic Development	171,615	514,845
HCS - Recreation	171,451	514,353
Finance	81,932	245,796
Human Resources	45,819	137,457
City Attorney	45,192	135,576
HCS - Homeless Services	34,957	104,872
City Manager	28,925	86,775
Comm's & Intergovt Relations	17,327	51,980
City Council	10,123	30,369
Water	7,646	22,939
Total	2,223,544	6,670,632

Scenario Analysis

- Analysis was completed to understand organizational impact of fully addressing the \$17.5 million deficit in the coming adopted budget, FY 2026-27
- The City's proposed budget will need to balance maintaining core services versus abrupt change
- These scenarios are illustrative and not being recommended
 - They illustrate FTE reduction necessary to obtain the target

Scenarios Analysis – Full Cut Across the Board

*Not being recommended

Department	7.81% Target	FTE by Cut Target
Police Department	6,075,211	28.0
Fire Department	4,427,761	17.8
Transportation & Public Works	2,830,854	19.4
Planning & Econ Development	1,340,314	8.6
HCS - Recreation	712,086	5.7
Finance	639,889	4.2
Human Resources	357,846	2.2
City Attorney	352,950	1.6
HCS - Homeless Services	273,018	N/A
City Manager	225,905	1.1
Comm's & Intergovt Relations	135,322	0.8
City Council	79,061	N/A
Santa Rosa Water	59,717	N/A
Total	17,500,000	89.3

Total Excluding Public Safety 7,006,962

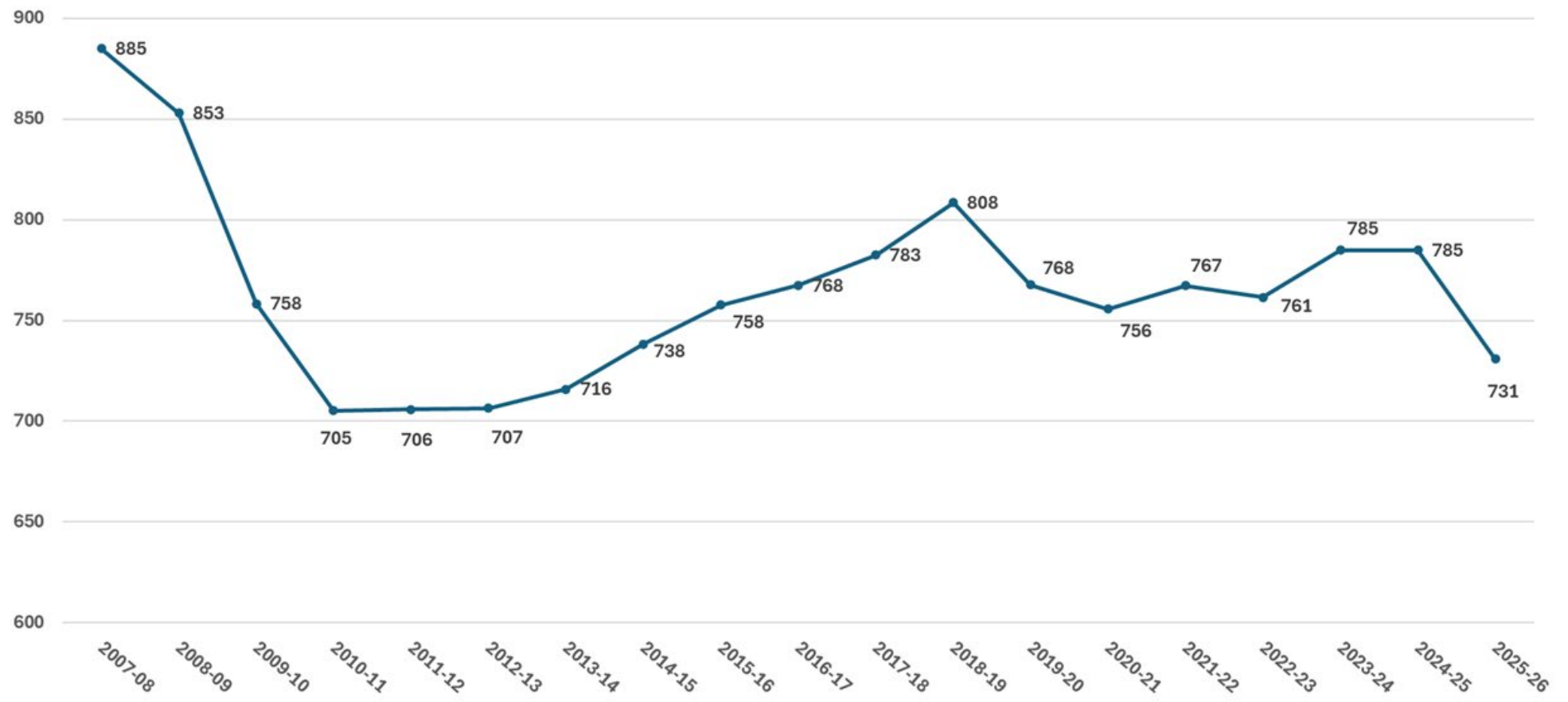
Scenarios Analysis – Full Cut Across the Board Excluding Public Safety

***Not being recommended**

Department	19.5% Target	FTE by Cut Target
Police Department		
Fire Department		
Transportation & Public Works	7,068,074	48.3
Planning & Econ Development	3,346,495	21.4
HCS - Recreation	1,777,935	14.2
Finance	1,597,674	10.6
Human Resources	893,469	5.5
City Attorney	881,244	4.0
HCS - Homeless Services	681,670	N/A
City Manager	564,040	2.7
Comm's & Intergovt Relations	337,872	1.9
City Council	79,061	N/A
Santa Rosa Water	59,717	N/A
Total	17,500,000	108.5

***19.2 Additional Employee Cuts**

General Fund FTE Count by Fiscal Year



Conclusion

- The General Fund has been experiencing deficits and extensive efforts have been undertaken over the past two years to address the shortfalls
- A two-year strategy has been developed to reduce expenses while maintaining core services in FY2026/27
- Innovative financing strategies for pension costs and major apparatus costs will save almost \$5 million in year 1
- Additional revenue options will need to be considered to ensure sustainability
- Year 2 scenarios will be presented during the May 5th and May 6th Study Sessions

Next Steps

- **April 21, 2026:** Pension Cost Reduction Strategy Study Session
- **May 5 & 6, 2026:** City Council Budget Study Session detailed review of proposed FY 26-27
- **June 2, 2026:** Draft of Budget Books available
- **June 16, 2026:** FY 26-27 Budget Adoption Public Hearing

Questions
