

Agenda Item #16.1
For Council Meeting of: June 16, 2026

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: SCOTT WAGNER, CHIEF FINANCIAL OFFICER, FINANCE
DEPARTMENT
SUBJECT: PUBLIC HEARING ON ADOPTION OF THE CITY OF SANTA
ROSA FY 2026-27 OPERATIONS AND MAINTENANCE BUDGET
AND CAPITAL IMPROVEMENT PROGRAM BUDGET

AGENDA ACTION: RESOLUTION

RECOMMENDATION

The City Manager and the Finance Department recommend that the Council: 1) hold a Public Hearing to consider the Fiscal Year (FY) 2026-27 Operations and Maintenance Budget and the FY 2026-27 Capital Improvement Program (CIP) Budget; 2) by five separate resolutions adopt the City FY 2026-27 Operations and Maintenance Budget and FY 2026-27 Capital Improvement Program Budget; and 3) by resolution, amend the Police, Fire and Violence Prevention Partnership Public Safety and Prevention Transaction and Use Tax Implementation Plan to adjust for Fiscal Year 2026-27 budget for all Public Safety and Prevention (PSAP) programs. This item has no impact on current fiscal year budget.

EXECUTIVE SUMMARY

The City Council will hold a public hearing to consider the FY 2026-27 Operations and Maintenance Budget and the FY 2026-27 Capital Improvement Program (CIP) Budget. Staff will provide an overview of the Operations and Maintenance Budget and the CIP Budget with information on any changes that have been included since the Study Session in May.

Through a multi-pronged approach, the City Manager's proposed budget contains almost \$9.9 million in deficit reduction solutions as part of a two-year strategy. With the adoption of the Fiscal Year 2026-27 annual budget, \$7.8 million of reserves will be expended to allow Council time to determine a path forward. This two-year strategy provides funding through June 30, 2027.

Despite corrective actions, the General Fund remains in a structural deficit. This shortfall is the result of a persistent structural imbalance, as expenditure increases continue to outpace revenue growth. A \$9.8 million deficit is projected in FY 2027-28 and is expected to grow to \$22.4 million in FY 2030-31 without additional revenue.

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GOAL

This item relates to Council Goal #1 - Achieve and Maintain Budgeting Excellence and Fiscal Stability by adopting the annual budget for the upcoming fiscal year.

BACKGROUND/PRIOR COUNCIL REVIEW

The City Charter specifies numerous actions to take, leading to the City Council adopting a budget prior to the last day of June each fiscal year. City staff published a summary of the current year budget (FY 2025-26) on August 11, 2025; held a budget priorities public hearing on January 27, 2026; held a budget study session on the base budget projections and health of the General Fund on April 21, 2026, and another comprehensive budget study session on May 5 and 6, 2026; published a budget summary and public hearing notice on June 1, 2026; and made copies of the proposed budget available to the public on the City's website at www.srcity.org on June 1, 2026.

ANALYSIS

Changes to the Budget Since the May Study Sessions

Since the comprehensive budget study session in May, several adjustments have been incorporated into the proposed budget to reflect updated information.

- Updated official federal award amounts from Housing & Urban Development allocations increased the Housing Authority revenue and expenditure budget by \$64,000.
- The addition of 1.0 FTE Fire Captain in the Measure H Special Revenue Fund for \$383,000, as discussed in the May Study Session.
- Increased appropriations in Council-approved capital projects from interest earned in the American Rescue Plan Act (ARPA) Special Revenue Fund reserves by \$703,000. This increase will not change the anticipated expenditures on approved projects but will align federal spending deadlines and requirements with the City's procurement policies for project retention.
- An increase of \$200,000 in the FY 2026-27 General Fund proposed budget for the proposed Fire Management labor contract agreement through June 30, 2027. Fire Management is the only labor group scheduled to be out of contract on July 1, 2026. City Council is to consider the proposed labor contract agreement during the July 14, 2026, meeting.
- The addition of a recommendation for the City Council to address a gap in the General Fund Reserve Policy related to immediate critical facility needs.

Year 1 Deficit Reduction Strategy (FY 2026-27)

The City has been engaged in a multi-pronged strategy to address the projected structural deficit. For FY 2026-27, staff are not recommending an across-the-board cut strategy to address the shortfall. Instead, the proposed budget contains almost \$9.9 million in deficit reduction solutions in Year 1 through a combination of strategic reserve usage, innovative financing strategies, and departmental expenditure reductions.

- Department Reductions and Vacancy Management: The budget includes savings of \$4.9 million in department reductions. This involves eliminating 19 FTEs due to expiring grant funding (\$3.6 million), eliminating seven currently vacant positions across multiple departments (\$486,105), department consolidations, alignment of budget to actual spending, and enhanced cost recovery. For FY 2026-27, this includes a reduction of 26.0 FTEs total in the General Fund. Consequently, General Fund staffing is now at the bottom of Great Recession levels. This represents a 20 percent decrease in staffing from FY 2007-08 levels, even as the City's population has increased by 12 percent.
- Pension Cost Smoothing: The budget incorporates the Pension Stabilization Pathway adopted by Council on June 2, 2026, yielding \$3.8 million in pension savings for FY 2026-27 and \$37 million in savings over 16 years.
- Major Apparatus Lease Strategy: Shifting future major fire apparatus purchases to a lease financing program will smooth out payments over the useful life of the asset, generating \$1.0 million in ongoing budget savings while also keeping replacement schedules intact.
- Strategic Reserve Usage: After these reductions, the strategy utilizes \$7.8 million in reserves to address the remaining deficit, which prevents major cuts to core services in Year 1 (starting July 1, 2026).

Year 2 Challenges and Structural Deficit (FY 2027-28)

Despite corrective actions in Year 1, the General Fund remains in a structural deficit. A \$9.8 million deficit is projected in FY 2027-28, despite the cuts reflected in the FY 2026-27 Proposed Budget. This structural deficit is expected to grow to \$22.4 million in FY 2030-31 without additional revenue. Furthermore, Sales Tax Revenue Measure Q expires in FY 2030-31, which will discontinue \$23.5 million of ongoing revenue. Without Measure Q revenue, the deficit would escalate to \$46 million by FY 2031-32.

With cumulative reductions of over \$25 million and 79.0 FTEs cut from FY 2025-26 and FY 2026-27, the City can no longer reduce programs and staffing without significant impacts to core services resulting from draconian cuts. To address the FY 2027-28 deficit of \$9.8 million, it is projected that an additional reduction of 41.5 FTEs is required, which would result in the elimination of critical services and programs.

Year 2 Service Impacts (Starting July 1, 2027)

As directed by the City Manager, departments have developed cut scenarios to illustrate the reductions that may be required to balance future budgets. These scenarios are for illustration purposes only and are not currently recommended, but detail severe potential impacts unless the City is able to generate additional recurring revenue.

- Police Department: An 11.0 FTE reduction, equivalent to \$3.1 million, would lead to the elimination or consolidation of Police special units. This impacts Gangs, Narcotics, Traffic, Downtown Enforcement, and SET teams. These reductions will have significant impacts on police response times to emergency calls for service. Elimination of specialty teams will greatly impact the ability to recruit and retain police officers as well. The loss of specialty teams and minimum staffing levels in patrol limits officers to just responding to crimes and hampers investigations. This inability to properly investigate crimes leads to increases in violent crimes and visible blight across the city. Police Officer community engagement opportunities will also be severely limited.
- Fire Department: An 8.0 FTE reduction, equivalent to \$2.5 million, could result in fire station closures. This would impact call response times, particularly EMS, and core fire suppression readiness. It would cause a reduction of wildfire prevention and response capabilities, and special operations capability. Resources available will be below Measure O (PSAP) implementation levels from 2007 while call volume has increased approximately 66 percent during this time.
- Recreation: A 2.0 FTE reduction, equivalent to \$364,000, may lead to various program closures. This could include cuts to the Adult Softball league, Tiny Tots program, Park Ambassador program, and Youth sports, to name a few.
- Planning & Economic Development: A 4.0 FTE reduction, equivalent to \$817,000, would result in slowed planning and permit delivery that would impact economic development goals, reduced counter hours, slower permit processing times and a lower level of service to the community overall.
- Transportation & Public Works: An 8.0 FTE reduction, equivalent to \$1.5 million, would decrease street and road repair. Currently, 35 percent of streets and 42 percent of residential streets are in Poor or Fair condition. There would be no General Fund support for re-paving, street lighting, or traffic poles.
- Additional Impacts: Staffing reductions will cause a critical reduction in cybersecurity and longer times for Human Resources to fill public safety positions. It will also cause increased vendor payment processing times, delayed audits, and longer response times to critical issues, including lawsuits.

Unfunded Capital and Infrastructure Needs

Without additional revenue, current deferred maintenance to City infrastructure is growing with each year and will require significant financial resources. There is a \$7 million annual need for residential streets maintenance that is currently unbudgeted.

Additionally, there is a \$4.5 million funding gap for City Facilities and a \$2 million technology funding gap, which is expected to grow with technology advancements because the City has no technology replacement reserve.

General Fund Reserves and Assignment for Urgent Facility Needs

With almost \$10 million in Year 1 solutions to resolve the \$17.5 million deficit, General Fund available reserves are projected to remain above the City Council's mandated policy of 15% to 17% of operating expenditures through FY 2027-28 (two years). The General Fund Reserve Policy was adopted in 2006 and requires 15% to 17% to be available to alleviate short-term revenue or expenditure volatility or address one-time high priority needs. However, this policy does not include considerations for existing facilities, IT infrastructure, or pension funding, which are considered best practices for agencies like Santa Rosa.

Staff is proposing that the City Council revisit the General Fund Reserve Policy during Fiscal Year 2026-27 to review and potentially modernize it. To address the immediate facility reserves gap, staff propose that the City Council assign \$4.5 million in existing General Fund Reserves to a Critical Facilities Reserve to address rapidly deteriorating facility conditions as of June 30, 2026. Imminent system failures in key City facilities require immediate intervention, and critical stabilization and repairs must be funded directly from General Fund Reserves, or, for a strategic investment in a more appropriate facility that reduces the City's growing financial risk and liability.

It is important to note that an assignment of reserves does not appropriate funds, nor does it add to the General Fund deficit. Assigned reserves cannot be budgeted or spent without action from the City Council. Staff will be returning early in Fiscal Year 2026-27 to review these immediate critical needs with the City Council and discuss the potential appropriation of funds.

Next Steps

Following the adoption of the FY 2026-27 Operations and Maintenance Budget and Capital Improvement Program Budget, staff anticipate the immediate next steps:

- Revenue Enhancement Proposal: Because the City can no longer reduce programs without drastically cutting essential services, staff will be recommending a proposal in July 2026 on how to increase revenue to maintain existing services and address deteriorating infrastructure.
- Reserve Policy Review: Staff proposes that the City Council revisit the General Fund Reserve Policy during Fiscal Year 2026-27 to review and potentially modernize it.

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- Year 2 Strategy Preparation: If additional General Fund revenue is not generated to address the out-year shortfalls, staff will need to prepare to implement the Year 2 service impacts and reductions starting July 1, 2027.

FISCAL IMPACT

Adoption of the Operations and Maintenance Budget and the Capital Improvement Budget provides the funding for City operations and CIP for FY 2026-27.

The Public Safety and Prevention Tax (formerly Measure O) Implementation Plan details revenues and expenditures from the special tax and has no fiscal impact on the General Fund. All adjustments required to reflect Fiscal Year 2026-27 budget have been included in the proposed Fiscal Year 2026-27 Operations and Maintenance budget.

ENVIRONMENTAL IMPACT

Pursuant to CEQA Guidelines Section 15378, the recommended action is not a “project” subject to the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the recommended action is exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) because it can be seen with certainty that there is no possibility that the recommended action may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

NOTIFICATION

A Public Hearing notice and proposed budget summary was published on June 1st, 2026.

ATTACHMENTS

- Attachment 1 - Proposed FY 2026-27 Operations and Maintenance Budget
- Attachment 2 - Proposed FY 2026-27 Capital Improvement Program Budget
- Resolutions (5) – Budget Adoption:
 - Resolution – Transportation & Public Works Department budget (MacDonald recuse)
 - Resolution – Full-Time Equivalent Staffing Changes to Transportation & Public Works (MacDonald recuse)
 - Resolution – Primary

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- Exhibit A – to Primary Resolution Master Professional Services Agreement
- Resolution – Full-Time Equivalent Staffing Changes
- Resolution – Storm Water Assessment
- Resolution – Public Safety and Prevention Implementation Plan
- Exhibit A – to Resolution Public Safety and Prevention Implementation
- Public Hearing Notice

PRESENTER(S)

Scott Wagner, Chief Financial Officer