

County Executive
David Villanueva



County of Sacramento

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August 22, 2025

Members, Board of Supervisors
County of Sacramento
700 H Street, Suite 2450
Sacramento, CA 95814

RE: Fiscal Year 2025-26 Revised Recommended Budget

Honorable Members of the Board:

I am pleased to submit the Revised Recommended Budget for Fiscal Year (FY) 2025-26 for your consideration and approval.

On June 4, 2025, the Board of Supervisors (Board) approved the Recommended Budget (**"Approved Recommended Budget" or "Approved Budget"**), which provides appropriation authority until the budget is adopted. This Revised Recommended Budget reflects adjustments to the Approved Budget resulting from updated revenue estimates, including changes in State funding; actual unaudited FY 2024-25 ending fund balances; re-budgeting of capital projects and other expenditures not completed in FY 2024-25; and additional costs for County obligations.

With approval of the Recommended Budget in June, the Board also directed that the Revised Recommended Budget in September should prioritize General Fund investment in certain programs and services, should additional resources be available.

After funding changes in base budget requirements and new County obligations, remaining discretionary resources are only sufficient to fund a portion of the General Reserve requirement in accordance with the **County's** General Fund Reserve Policy, and therefore are not available to fund the investments prioritized in the Approved Budget.

ALL FUNDS BUDGET

The Approved Budget for all funds totaled \$8.9 billion in appropriations. **With the completion of the County's FY 2024-25 year-end financial closing activities and the availability of updated information, an increase of \$239 million is proposed, bringing the Revised Recommended Budget to \$9.2 billion in total appropriations for all funds.**

The \$239 million increase in total appropriations includes:

- A \$16 million increase in General Fund appropriations, as described more fully in the following section; and
- A \$223 million increase in appropriations in other funds, resulting primarily from re-budgeting of capital projects and other contractual expenditures and including \$529,000 in non-General Fund growth, as detailed in Exhibit B to Attachment 3.

Attachment 1 provides a summary of budget changes, and total appropriations by fund and budget unit can be found in Attachment 2.

More detailed information for budget units with recommended changes can be found in the budget unit sections within the main budget document.

GENERAL FUND BUDGET

General Fund Overview

The table on the following page summarizes changes in the General Fund budget, with total appropriations of \$4.0 billion, an increase of \$16 million compared to the Approved Budget. As described more fully in the following sections, recommended revisions to the General Fund budget result in:

- A \$28 million increase in General Fund discretionary resources, with \$19 million resulting from a preliminary cost settlement for behavioral health services that is recommended to be held in reserves and \$4 million resulting from reserve releases.
- A \$5 million increase in Net County Cost, or appropriations funded with discretionary resources, resulting primarily from the recognition of American Rescue Plan Act (ARPA)-related expenditures funded with related reserve releases and recommended growth for new County obligations.
- A \$23 million increase in reserve contributions, \$19 million of which is to reserve the preliminary cost settlement described above for amounts that may be due in future audits.

FY 2025-26 Revised Recommended Budget
GENERAL FUND

	FY 2025-26 Approved Recommended Budget	FY 2025-26 Revised Recommended Budget	Difference
Resources			
Beginning Available Balance (not due to cost settlement)	\$ 71,000,000	\$ 73,442,571	\$ 2,442,571
Fund Balance due to cost settlement	-	19,251,687	19,251,687
Reserve Release	16,469,409	20,639,169	4,169,760
Discretionary Revenue	942,749,593	944,908,497	2,158,904
Total Discretionary Resources	\$ 1,030,219,002	\$ 1,058,241,924	\$ 28,022,922
Semi-discretionary Reimbursements	1,032,140,714	1,032,140,714	-
Interfund Reimbursements	531,642,976	557,822,999	26,180,023
Departmental Revenue	1,377,320,123	1,361,713,388	(15,606,735)
Total Revenue	\$ 3,883,853,406	\$ 3,896,585,598	\$ 12,732,192
Total Resources	\$ 3,971,322,815	\$ 4,009,919,025	\$ 38,596,210
Requirements			
Contingency	\$ 8,657,810	\$ 8,657,810	\$ -
Other Net County Cost	1,021,561,192	1,026,997,960	5,436,768
Total Net County Cost	\$ 1,030,219,002	\$ 1,035,655,770	\$ 5,436,768
Other Appropriations	2,941,103,813	2,951,677,101	10,573,288
Total Appropriations	\$ 3,971,322,815	\$ 3,987,332,871	\$ 16,010,056
Reserve Contributions	\$ -	\$ 22,586,154	\$ 22,586,154
Total Requirements	\$ 3,971,322,815	\$ 4,009,919,025	\$ 38,596,210

General Fund Resource Adjustments

The Revised Recommended Budget reflects an overall increase of \$39 million in estimated General Fund resources compared to the Approved Budget, resulting from the following:

- The available fund balance carry-forward of \$73 million represents a \$2 million increase compared to the estimated \$71 million included in the Approved Budget.
- An additional \$19 million of fund balance (for total unaudited FY 2024-25 ending fund balance of \$93 million) results from the cost settlement for behavioral health services described more fully below.
- A net increase in reserve release of \$4 million, primarily to fund ARPA administration expenditures with the reserve created for that purpose through the reallocation of ARPA for revenue replacement in FY 2023-24.
- A \$2 million increase in estimated discretionary revenue; and
- An \$11 million combined net increase in estimated departmental revenue and interfund reimbursements.

The following sections more fully describe the estimated changes in available resources.

Cost Settlement for Behavioral Health Services

The County receives cost settlements from the California Department of Health Care Services (DHCS) based on reported expenditures for Medicaid-funded behavioral health services. The \$19 million cost settlement received in FY 2024-25 was based on a preliminary review of FY 2016-17 services and costs and remains subject to a full audit. Final audits often involve a detailed examination of documentation, which may result in disallowed costs or other adjustments potentially leading to recoupments. In prior years, DHCS audits have resulted in significant adjustments, occasionally requiring the County to repay substantial amounts.

DHCS has indicated that the federal government has set a deadline of 2027 to complete cost report audits for the remaining seven fiscal years, which could require multiple fiscal years of recoupments to be paid within a single fiscal year. To provide an available source of funding for amounts that may be owed as a result of these audits, the \$19 million received during FY 2024-25 for the preliminary cost settlement is recommended to be held in the Audit Report Payback/Litigation Settlement reserve.

Discretionary Revenue

General Fund discretionary revenue includes property tax, sales and use tax, other taxes, and discretionary revenue from other sources. As shown in the table on the following page, discretionary revenue in the General Fund is now expected to be \$2 million (0.2%) higher than was expected for the Approved Budget, with a \$3 million increase in estimated sales and use tax revenue and a \$2 million increase in estimated property tax revenue partially offset by a combined \$3 million reduction in other categories.

FY 2025-26 Revised Recommended Budget DISCRETIONARY REVENUE

	FY 2025-26 Approved Recommended Budget	FY 2025-26 Revised Recommended Budget	Difference
Property Tax - Secured/VLF in Lieu	\$ 627,594,420	\$ 628,239,822	\$ 645,402
Property Tax - Supplemental	7,571,358	7,571,358	-
Other Property Tax	23,955,514	25,180,269	1,224,755
Total Property Tax	\$ 659,121,292	\$ 660,991,449	\$ 1,870,157
Sales and Use Tax	\$ 145,152,502	\$ 148,002,279	\$ 2,849,777
Utility User Tax	22,940,000	22,308,000	(632,000)
Transient Occupancy Tax	5,180,000	5,118,700	(61,300)
Property Transfer Tax	13,000,000	13,000,000	-
Teeter Reimbursement	14,464,429	14,464,429	-
Other Revenue	82,891,370	81,023,640	(1,867,730)
Total Revenue	\$ 942,749,593	\$ 944,908,497	\$ 2,158,904

Semi-Discretionary Revenue and Reimbursements

The County receives "semi-discretionary" revenue (1991 and 2011 Realignment and Proposition 172 Public Safety Sales Tax) that can be allocated within certain broad parameters, primarily to social services and public safety departments. Semi-discretionary revenue is received in restricted funds and then either transferred as a reimbursement to departments in the General Fund or held in reserves within the restricted funds.

Semi-discretionary revenues are expected to remain generally at the levels projected in the Approved Budget, and fund balance changes in the semi-

discretionary restricted funds either result in offsetting revenue reductions due to expected recoupment or are recommended to be held in reserves, resulting in no change to recommended semi-discretionary reimbursements in the General Fund.

Departmental Revenue and Reimbursements

The Revised Recommended General Fund budget reflects a net increase of \$11 million in estimated Federal, State and other departmental revenue and reimbursements, which are dedicated to a specific purpose and largely offset by associated program expenditures.

Budget units with the largest increases in estimated departmental revenue and reimbursements include:

- Child, Family and Adult Services, with a \$5 million increase resulting from re-budgeted Federal and State revenue supporting the **Department's programs**.
- Voter Registration and Elections, with a \$2 million increase due to re-budgeted revenues for voting system costs.
- Health Services, with a \$2 million increase resulting from re-budgeted ARPA revenue and State-funded recommended growth detailed in Attachment 3.

General Fund Appropriations

The Revised Recommended General Fund budget includes appropriation adjustments totaling \$16 million for the following purposes:

- \$12 million to cover Base budget adjustments, resulting largely from appropriations associated with additional and re-budgeted departmental revenue.
- \$4 million (\$2 million Net County Cost) to fund new County obligations funded with discretionary resources and fully funded growth resulting from new State funding, as described more fully in the New or Enhanced Programs (growth) section of this letter.

General Fund Reserves

The **County's General Fund Reserve Policy**, approved by Resolution 2023-0720, establishes an overall discretionary reserve target of 17% of total General Fund revenues and outlines funding approaches for the Recommended Budget and Revised Recommended Budget to reach the target reserve level over time.

For the Revised Recommended Budget funding approach, the Reserve Policy calls for using any increase in discretionary resources available in the following order of priority:

1. Fund any changes in base budget requirements and any new County obligations.
2. Adjust the contribution to the General Reserve as needed to maintain a balance of 10% of discretionary revenue and reimbursements.
3. With any remaining discretionary resources, fund growth identified in the Approved Recommended Budget for consideration in the Revised Recommended Budget, with a goal of aligning ongoing expenditure growth with ongoing resources.
4. Deposit any remaining net increase in discretionary resources to the Service Stability Reserve until the Reserve Target is reached, and then to other reserves as needed.

The recommended changes to General Fund reserves are consistent with the Reserve Policy. As shown in the table on the following page, these changes include:

- A \$2.6 million net increase to Teeter reserves based on the most recent calculation of required reserve balances by the Department of Finance.
- A \$0.6 million increase to General Reserves, resulting from remaining discretionary resources after funding base budget changes and new County obligations, as called for in the Reserve Policy. With this increase, the General Reserves balance will equal 9.7% of discretionary revenue, short of the 10% minimum balance called for in the policy before funding growth prioritized in the Approved Budget.
- A \$0.4 million increase to the Property Tax System reserve due to a reduction in the reserve release that was included in the Approved Budget. This reduction in the reserve release accounts for amounts not spent in FY 2024-25.
- As described earlier in this letter, a \$19.3 million increase to the Audit Report Payback/Litigation Settlement reserve, resulting from a preliminary cost settlement for behavioral health services that are subject to future audit.
- A combined \$4.4 million release from two ARPA-related reserves that were originally funded from the reallocation of ARPA funding during FY 2023-24. These reserve releases fund ARPA administration costs budgeted for FY 2025-26 and incurred

in FY 2024-25, as well as Community Based Organization (CBO) Capacity Building costs incurred in FY 2024-25.

- A minor adjustment to the Imprest Cash reserve based on FY 2024-25 balances.

FY 2025-26 Revised Recommended Budget

GENERAL FUND RESERVE STATUS

	FY 2025-26 Approved Recommended Budget	FY 2025-26 Revised Recommended Budget	Change
Restricted Reserves			
Tax Loss (Teeter Plan)	\$ 7,574,509	\$ 10,189,812	\$ 2,615,303
Teeter Delinquencies	737,604	855,528	117,924
Loan Buyout (Teeter Plan)	2,685,709	2,553,467	(132,242)
Total Restricted Reserves	\$ 10,997,822	\$ 13,598,807	\$ 2,600,985
Discretionary Reserves			
General Reserves	\$ 90,739,147	\$ 91,340,387	\$ 601,240
Cash Flow	32,421,527	32,421,527	-
Service Stability	90,639,816	90,639,816	-
Total Non-Dedicated Discretionary	\$ 213,800,490	\$ 214,401,730	\$ 601,240
<i>Percentage of General Fund Revenue</i>	<i>5.5%</i>	<i>5.5%</i>	
Property Tax System	18,866,570	19,255,716	389,146
Audit Report Payback/ Litigation Settlement	-	19,251,687	19,251,687
ARPA Administration	7,829,128	3,581,817	(4,247,311)
ARPA CBO Capacity Building	2,078,014	1,950,590	(127,424)
American River Parkway Homeless	922,981	922,981	-
Imprest Cash	513,650	461,721	(51,929)
Special Deposits Travel	100,000	100,000	-
Total Other Discretionary	\$ 30,310,343	\$ 45,524,512	\$15,214,169
Sub-total: Discretionary Reserves	\$ 244,110,833	\$ 259,926,242	\$15,815,409
Total Reserves	\$ 255,108,655	\$ 273,525,049	\$18,416,394

The Approved Budget prioritized establishing a reserve for jail facility capital improvements with a contribution of \$20 million after funding General Reserves at 10% of discretionary revenues and before funding prioritized growth. Additional resources are not sufficient to fund this reserve.

NEW OR ENHANCED PROGRAMS (GROWTH)

County departments submitted over \$150 million in requests for new or enhanced programs (growth) for the FY 2025-26 budget, including over \$67 million to be funded with General Fund discretionary resources (Net County Cost).

Growth Funded and Prioritized in the Approved Budget

The Approved Budget funded \$70 million of growth in all funds, including \$45 million in the General Fund, with \$11 million of that amount funded with Net County Cost.

The Approved Budget also identified \$20 million of General Fund growth prioritized for inclusion in the Revised Recommended Budget, resources permitting, primarily to fund road maintenance and rehabilitation and also including the purchase of an inflatable boat for Regional Parks.

As described earlier in this letter, because additional resources are not sufficient to maintain the minimum General Reserves balance called for in the Reserve Policy, the growth prioritized in the Approved Budget is not recommended for funding in the Revised Recommended Budget.

Additional Recommended Growth

The Revised Recommended Budget includes additional recommended General Fund growth with total appropriations of \$4 million, of which \$2 million in Net County Cost is recommended to address new County obligations, as follows:

- Sheriff – Intensive Outpatient Program (IOP) Expansion: \$0.5 million Net County Cost is recommended to fund 1.0 FTE Sheriff Sergeant and 4.0 FTE Deputy Sheriff positions needed for the expansion of the IOP program to comply with the Mays consent decree. Due to anticipated mid-year implementation, the FY 2025-26 budget includes funding for 5 months.
- Correctional Health Services – IOP Expansion: \$1.8 million Net County Cost is recommended to increase the UC Davis mental health services contract for 5 months of expanded IOP operations during FY 2025-26 and to provide funding required

for one-time capital improvements needed at the Rio Consumnes Correctional Center.

- **Health Services – Behavioral Health Services Act (BHSA):** \$1.4 million of State funding to add 9.0 FTEs to provide administrative support for BHSA mandates.
- **Public Defender – State Prison Unit:** \$0.5 million of State funding to add 2.0 Limited Term FTE in the department's state prison unit.

Detailed information for each recommendation is provided in Attachment 3.

ATTACHMENTS TO THE BUDGET TRANSMITTAL LETTER

Attachments are included with this transmittal letter that provide more detailed budget information.

Attachment 1: Provides a summary of budget changes by budget unit.

Attachment 2: Provides total appropriations by fund and budget unit.

Attachment 3: Provides information on new and enhanced programs (growth) recommended for funding in the Revised Recommended Budget.

CONCLUSION/ACKNOWLEDGEMENT

I would like to acknowledge the hard work and dedication of the County's department heads and fiscal staff in preparing this year's budget, as well as the executive leadership team and the staff in the Office of Budget and Debt Management, whose insights and contributions to the preparation of this year's budget have been invaluable.

The FY 2025-26 Revised Recommended Budget will be presented to the Board on September 3, 2025, starting at 9:30 a.m., with deliberations on that date and the following two days, as needed.

We look forward to working with you as you review the Revised Recommended Budget. During your review, please contact me with any questions you may have.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'D Villanueva', with a long horizontal flourish extending to the right.

David Villanueva
County Executive