County Executive
David Villanueva

County of Sacramento

August 28, 2026

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

RE: Fiscal Year 2026-27 Revised Recommended Budget

Honorable Members of the Board:

I respectfully submit the Revised Recommended Budget for Fiscal Year (FY) 2026-27 for your consideration and approval.

On June 10, 2026, the Board of Supervisors (Board) approved the Recommended Budget ("Approved Recommended Budget" or "Approved Budget"), which provides appropriation authority until the budget is adopted. As a result of the County's structural deficit and substantial impacts from federal House Resolution 1 (H.R. 1), the Recommended Budget included significant program reductions across many departments. The Approved Budget restored funding for certain reductions, with an offsetting adjustment to the General Fund contingency.

Subsequently, on July 14, 2026, the Board approved an adjustment to the Approved Budget. This Revised Recommended Budget reflects that adjustment as a recommended change to the Approved Budget, along with other changes resulting from updated cost and revenue estimates. These changes include adjustments resulting from the State budget, actual unaudited FY 2025-26 ending fund balances, re-budgeting of capital projects and other expenditures not completed in FY 2025-26, additional costs for County obligations, and restoring the General Fund contingency to the Recommended Budget level after this amount had been reduced by program restorations made by the Board.

In accordance with the County's General Fund Reserve Policy, after funding changes in base budget requirements and new County obligations, remaining discretionary resources are recommended to fund the General Reserve requirement and a portion of the investment for road maintenance prioritized in the Recommended Budget.

ALL FUNDS BUDGET

The Approved Budget for all funds totaled $8.9 billion in appropriations. Following the County’s FY 2025-26 year-end financial closing and the availability of updated information, an increase of $230 million is proposed, bringing the Revised Recommended Budget to $9.2 billion in total appropriations for all funds.

The $230 million increase in total appropriations includes:

- A $31 million increase in General Fund appropriations, as described more fully in the following section; and

- A $199 million increase in appropriations in other funds, resulting primarily from re-budgeting of capital projects and other contractual expenditures.

Attachment 1 provides a summary of budget changes, and total appropriations by fund and budget unit can be found in Attachment 2. This letter and Attachments 1-4 describe recommended changes to the Approved Budget. More detailed information for each budget unit, including those with no recommended changes, can be found in the FY 2026-27 Recommended Budget document.

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 $31 million compared to the Approved Budget. As described more fully in the following sections, recommended revisions to the General Fund budget result in:

- A $12 million increase in General Fund discretionary resources, with $6 million of that amount resulting from a preliminary cost settlement for behavioral health services that is recommended to be held in reserves.

- A $1 million decrease in Net County Cost, or appropriations funded with discretionary resources.

- A $13 million increase in reserve contributions, $6 million of which is to reserve the preliminary cost settlement described above for amounts expected to be due in future audits.

FY 2026-27 Revised Recommended Budget
GENERAL FUND

	FY 2026-27 Approved Recommended Budget	FY 2026-27 Revised Recommended Budget	Difference
Resources			
Beginning Available Balance (Not Reserved for Cost Settlement)	$ 46,000,000	$ 50,899,896	$ 4,899,896
Fund Balance Reserved for Cost Settlement	14,000,000	19,705,542	5,705,542
Reserve Release	3,949,519	2,960,707	(988,812)
Discretionary Revenue	967,112,934	969,747,350	2,634,416
Total Discretionary Resources	$ 1,031,062,453	$ 1,043,313,495	$ 12,251,042
Semi-discretionary Reimbursements	1,068,130,214	1,068,130,214	-
Interfund Reimbursements	608,892,152	611,143,784	2,251,632
Departmental Revenue	1,306,556,657	1,336,459,195	29,902,538
Total Revenue	$ 3,950,691,957	$ 3,985,480,543	$ 34,788,586
Total Resources	$ 4,014,641,476	$ 4,059,046,688	$ 44,405,212
Requirements			
Contingency	$ 6,330,683	$ 16,246,820	$ 9,916,137
Other Net County Cost	1,005,731,770	994,790,531	(10,941,239)
Total Net County Cost	$ 1,012,062,453	$ 1,011,037,351	$ (1,025,102)
Other Appropriations	2,983,579,023	3,015,733,193	32,154,170
Total Appropriations	$ 3,995,641,476	$ 4,026,770,544	$ 31,129,068
Reserve Contributions	$ 19,000,000	$ 32,276,144	$ 13,276,144
Total Requirements	$ 4,014,641,476	$ 4,059,046,688	$ 44,405,212

GENERAL FUND RESOURCE ADJUSTMENTS

The Revised Recommended Budget reflects an overall increase of $44 million in estimated General Fund resources compared to the Approved Budget, resulting from the following:

- The available fund balance carry-forward of $51 million represents a $5 million increase compared to the estimated $46 million included in the Approved Budget.
- An additional $6 million fund balance results from cost settlements for behavioral health services described more fully below.
- A net decrease in reserve release of $1 million, due to unspent reserve releases in FY 2025-26.
- A $3 million increase in estimated discretionary revenue.
- A $32 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. Cost settlement amounts received in FY 2025-26 were based on a preliminary review of services and costs for prior fiscal years and remain subject to a full audit. Final audits involve a detailed examination of documentation, which may result in adjustments potentially leading to recoupments. In prior years, DHCS audits have resulted in significant adjustments, at times requiring the County to repay substantial amounts and at other times resulting in reimbursement to the County.

DHCS has indicated that the federal government has set a deadline of 2027 to complete all cost report audits going back to FY 2018-19, which could require multiple fiscal years of recoupments to be paid during FY 2026-27. To provide an available source of funding for amounts owed as a result of these audits, a combined $20 million of amounts received during FY 2025-26 for preliminary cost settlements is recommended to be held in the Audit Report Payback/Litigation Settlement reserve. This amount includes an additional $6 million of settlement payments that were not included in the Approved Budget estimated fund balance and reserve contribution.

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 below, discretionary revenue in the General Fund is now expected to be $3 million (0.3%) higher than was expected for the Approved Budget, driven largely by increases in estimated sales tax and property tax revenues.

FY 2026-27 Revised Recommended Budget
DISCRETIONARY REVENUE

	FY 2026-27 Approved Recommended Budget	FY 2026-27 Revised Recommended Budget	Difference
Property Tax	$ 690,631,813	$ 692,070,134	$ 1,438,321
Sales and Use Tax	154,180,258	155,924,853	1,744,595
Utility User Tax	22,607,000	21,728,000	(879,000)
Transient Occupancy Tax	4,810,000	4,970,500	160,500
Property Transfer Tax	13,000,000	13,000,000	-
Teeter Reimbursement	13,362,683	13,362,683	-
Other Revenue	68,521,180	68,691,180	170,000
Total Revenue	$ 967,112,934	$ 969,747,350	$ 2,634,416

Semi-Discretionary Reimbursements

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

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

Departmental Revenue and Reimbursements

The Revised Recommended General Fund budget reflects a net increase of $32 million in estimated federal, State and other departmental revenue and reimbursements, which are dedicated to a specific purpose. In some cases, this change in revenue reflects new or re-budgeted program expenditures, and in other cases additional revenue funds expenditures that otherwise would be funded with discretionary resources, resulting in a reduction in Net County Cost. Budget units with the largest revenue increases include:

- Human Assistance - Administration, with a $19 million increase reflecting additional revenue resulting from State budget changes. Overall, the additional revenue funds approximately $11 million in additional appropriations, with the remaining $8 million resulting in lower Net County Cost.

- Sheriff, with a $3 million revenue increase funding additional appropriations for grants and contract services approved by the Board after the Approved Budget.

- Health Services, with a $3 million increase resulting from additional interfund reimbursement for the Board-approved flexible housing pool and offsetting a shift in intrafund reimbursements.

GENERAL FUND APPROPRIATION ADJUSTMENTS

The Revised Recommended General Fund budget includes an increase in total appropriations of $31 million compared to the Approved Budget, as follows:

- $12 million increase due to base budget changes largely funded with additional and re-budgeted departmental revenue.

- $10 million increase to the contingency to restore funding to the level included in the Recommended Budget, consistent with the County's Contingency Policy.

- $2 million increase due to net restoration of reductions compared to the Approved Budget.

- $11 million decrease due to adjusted costs for the County Medically Indigent Services and Healthy Partners programs.

- $18 million ($4 million Net County Cost) increase to fund new County obligations and prioritized growth.

Program Reductions

As shown in the table below, the Recommended Budget included $57 million in appropriation decreases related to program reductions. During the Recommended Budget hearings on June 10th, the Board restored $10 million in the Approved Budget. With the $2 million of net Revised Recommended changes described below, total reductions will stand at $45 million. Program reduction detail is included in Attachment 4.

FY 2026-27 Revised Recommended Budget
PROGRAM REDUCTIONS TO BASE BUDGET - GENERAL FUND APPROPRIATIONS

Department/Budget Unit	Included in Recommended Budget	Restored in Approved Budget	Revised Recommended Changes	Total Reductions
Agricultural Comm-Sealer Of Wts & Meas	$ 156,724	$ -	$ -	$ 156,724
Animal Care Services	303,120	-	-	303,120
Board of Supervisors	79,609	-	-	79,609
Child, Family and Adult Services	5,693,427	-	-	5,693,427
Child Support Services	1,817,596	-	-	1,817,596
Clerk of the Board	89,702	-	-	89,702
Correctional Health Services	4,062,233	-	-	4,062,233
County Counsel	373,830	-	-	373,830
County Executive Cabinet	132,768	-	-	132,768
Department Of Finance	253,607	-	-	253,607
District Attorney	4,084,151	(1,372,072)	1,372,072	4,084,151
Emergency Services	51,500	-	-	51,500
Financing-Transfers/Reimbursement	475,000	-	-	475,000
Health Services	5,421,642	-	-	5,421,642
Homeless Services and Housing	787,435	-	-	787,435
Human Assistance-Administration	8,960,697	-	-	8,960,697
Non-Departmental Costs/General Fund	3,000,000	-	-	3,000,000
Personnel Services	1,343,649	-	-	1,343,649
Probation	2,199,904	-	-	2,199,904
Public Defender	3,295,757	(649,076)		2,646,681
Regional Parks	833,903	-	-	833,903
Sheriff	13,788,424	(7,894,989)	(3,411,000)	2,482,435
Wildlife Services	81,832	-	-	81,832
Total General Fund	$ 57,286,510	$(9,916,137)	$ (2,038,928)	$45,331,445

Restoration of Sheriff Reduction - On July 14th, the Board approved an adjustment to the Approved Budget to restore $3,411,000 in the Sheriff budget for the Problem Oriented Policing program, and that adjustment is reflected above as a Revised Recommended change to the Approved Budget.

Reinstatement of District Attorney Reduction - Among the reductions restored by the Board in the Approved Budget was $1,372,072 in the District

Attorney budget to fund four positions in the Community Prosecution Unit. Because this reduction was prioritized for restoration by the District Attorney below another reduction that was not restored by the Board, the Board directed that the funding restoration be contingent on a memorandum of understanding (MOU) with the District Attorney's Office to ensure the funding would be used for the intended purpose.

Subsequently, staff presented an MOU to the District Attorney, and the response from the District Attorney stated that an MOU would not be executed. Because the Board directed that the funding restoration included in the Approved Budget be accompanied by an MOU, the Revised Recommended Budget reinstates the recommended reduction of $1,372,072.

Program Growth

General Fund program growth included in the Approved Budget and Revised Recommended changes are summarized in the table below.

FY 2026-27 Revised Recommended Budget
GENERAL FUND GROWTH

Department/Budget Unit	Approved Budget Appropriations	Revised Recommended Changes	Total Appropriations	Net County Cost
Child, Family and Adult Services	$ 140,000	$ -	$ 140,000	$ 92,500
Community Development	438,382	-	438,382	38,382
Correctional Health Services	11,727,976	84,298	11,812,274	7,678,007
Coroner		740,000	740,000	740,000
County Executive Cabinet	-	-	-	-
Data Processing-Shared Systems	600,000	-	600,000	600,000
District Attorney	-	-	-	-
Emergency Services	28,780	-	28,780	13,780
Financing-Transfers/Reimbursement	-	2,405,270	2,405,270	2,405,270
Health - Medical Treatment Payments	34,019,288	(11,300,000)	22,719,288	22,719,288
Health Services	41,288,863	889,532	42,178,395	-
Homeless Services and Housing	3,008,026	-	3,008,026	1,728,635
Human Assistance-Administration	-	13,977,569	13,977,569	1,079,777
Sheriff	(176,034)	-	(176,034)	(186,658)
Total General Fund	$91,075,281	$ 6,796,669	$97,871,950	$36,908,981

The Approved Budget funded $91 million of General Fund program growth, with $44 million Net County Cost. Revised Recommended changes result in total appropriations for program growth of $98 million, with $37 million Net County Cost. The most significant changes included in the Revised Recommended Budget are described below. Detailed information for each recommendation is provided in Attachment 3.

Reduced Costs for Indigent Medical Care - The most significant Net County Cost growth included in the Approved Budget was $34 million for the County's indigent medical care programs – County Medically Indigent Services Program (CMISP) and Healthy Partners, which resulted from impacts of H.R. 1 and anticipated coverage changes at the State level. Revised estimates based on recent federal and State changes result in an $11 million decrease in Net County Cost, for a total of $23 million.

Additional Recommended Growth – The Revised Recommended Budget includes additional appropriations for recommended General Fund growth of $18 million, with $4 million of additional Net County Cost, of which $2 million is recommended to address new County obligations, as follows:

- Human Assistance - Administration: $14 million total to fund additional growth largely resulting from changes in the State budget, including funding for additional eligibility staff supporting the Medi-Cal, CalWORKs, and CalFresh programs, with a net $1 million of Net County Cost resulting from the County's share of CalFresh administration costs, partially offset by savings resulting from more costs being covered by Medi-Cal revenue.

- Coroner: $0.7 million of one-time Net County Cost to acquire and implement equipment required for forensic postmortem imaging. Use of the equipment is expected to reduce operational costs, with annual savings after full implementation estimated to offset the cost of equipment within two years.

Partial Funding of Road Maintenance Prioritized in Recommended Budget - The Recommended Budget identified $20 million of General Fund growth to fund road maintenance and rehabilitation that was prioritized for inclusion in the Revised Recommended Budget, resources permitting. After funding changes in base budget requirements, the new obligations described above, and the General Reserve requirement described in the following section, $2.4 million is available and included in recommended growth as a one-time transfer from the General Fund to the Roads Fund.

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 $5.6 million increase to General Reserve to maintain a balance of 10% of discretionary revenue.

- A $1.9 million increase to the Technology Replacement reserve to account for amounts not spent in FY 2025-26.

- As described earlier in this letter, a $5.7 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 $1.0 million increase to two ARPA-related reserves to account for amounts not spent in FY 2025-26.

- A minor adjustment to the Imprest Cash reserve based on FY 2025-26 balances.

FY 2026-27 Revised Recommended Budget
GENERAL FUND RESERVE BALANCES

	FY 2026-27 Approved Recommended Budget	FY 2026-27 Revised Recommended Budget	Change
Restricted Reserves			
Tax Loss (Teeter Plan)	$ 10,189,812	$ 10,189,812	$ -
Teeter Delinquencies	855,528	855,528	-
Loan Buyout (Teeter Plan)	2,553,467	2,553,467	-
Total Restricted Reserves	$ 13,598,807	$ 13,598,807	$ -
Discretionary Reserves			
General Reserves	$ 91,340,387	$ 96,974,735	$ 5,634,348
Cash Flow	32,421,527	32,421,527	-
Service Stability	80,621,836	80,621,836	-
Total Non-Dedicated Discretionary	$204,383,750	$210,018,098	$ 5,634,348
Percentage of General Fund Revenue	*5.2%*	*5.3%*	
Technology Replacement	18,655,716	20,591,970	1,936,254
Audit Report Payback/ Litigation Settlement	33,251,687	38,957,229	5,705,542
ARPA Administration	1,265,677	2,070,114	804,437
ARPA CBO Capacity Building	150,590	380,590	230,000
American River Parkway Homeless	839,602	839,602	-
Imprest Cash	461,721	416,096	(45,625)
Special Deposits Travel	100,000	100,000	-
Indigent Medical Care	5,000,000	5,000,000	-
Total Other Discretionary	$ 59,724,993	$ 68,355,601	$ 8,630,608
Sub-total: Discretionary Reserves	$264,108,743	$278,373,699	$14,264,956
Total Reserves	$277,707,550	$291,972,506	$14,264,956

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 program growth.

Attachment 4: Provides information on program reductions.

CONCLUSION

I would like to recognize the commitment and effort shown by the County's department heads and fiscal staff throughout this year's budget preparation. I also appreciate the County's executive leadership team and the Office of Budget and Debt Management staff, whose expertise and input have been essential to this process.

The FY 2026-27 Revised Recommended Budget will be presented to the Board on September 8, 2026 starting at 9:30 a.m., with deliberations on that date and the following three 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.

Thank you,

David Villanueva
County Executive