



February 10, 2026

A dark blue silhouette of the Sacramento city skyline is set against a background that transitions from light blue at the top to dark blue at the bottom. The skyline includes recognizable buildings like the California State Capitol and various office towers.

**FY2024/25 Close  
FY2025/26 Update  
FY2026/27 Budget**

# FY25 Year-End Close

# FY26 Budget Update

# FY27 Budget Preview

- FY25 Year End
- FY26 Budget Update
- 5-Year Forecast Update / FY27 Budget Gap
- Budget Balancing
- Pending Factors

# FY2024/25 Year End Results

Category	Performance vs Budget (\$s in 000s)
Operating Results	\$2.8
Investments Fair Market Gain	\$12.0
<b>TOTAL</b>	<b>\$14.8</b>
9/9 Council Action – Prior Year Savings to fund SPOA Arbitration	(\$7.1)
<b>GRAND TOTAL</b>	<b>\$7.7</b>

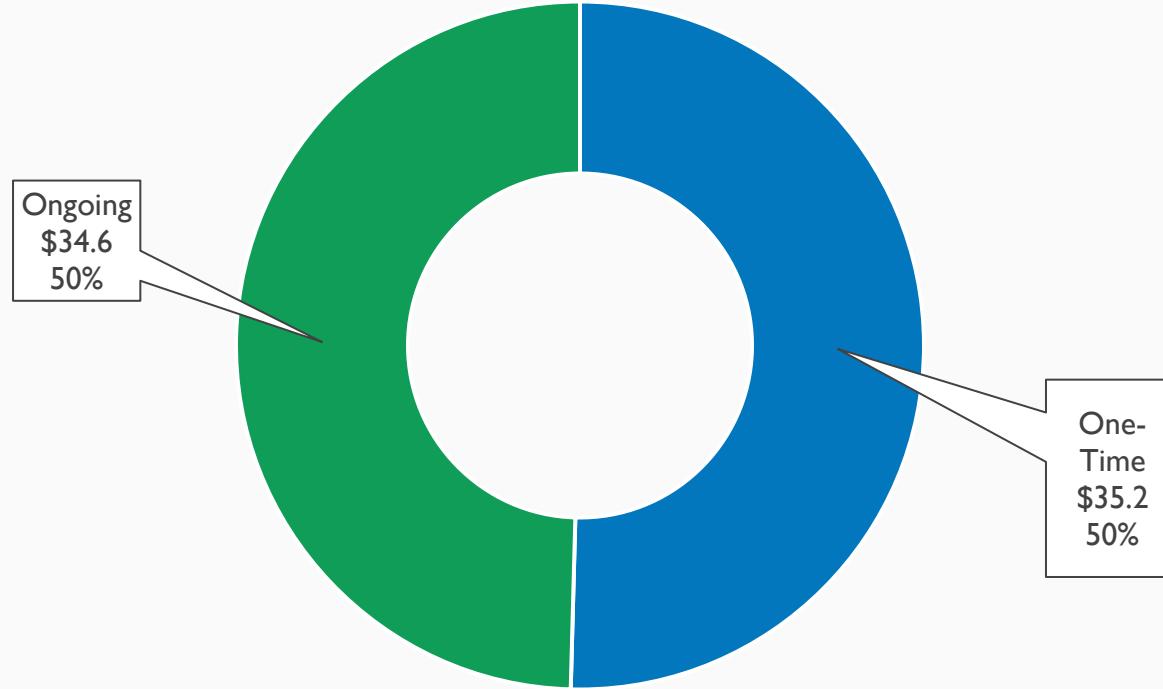
Investments Fair Market Gain is the one-time repayment of prior year unrealized losses on the City's investment pool.

Based on FY2024/25 year-end close, the City has \$7.7 million in General Fund available balance.

# Fiscal Year 2025/26 Approved Budget

- \$1.7 Billion All Funds
- \$872.5 Million General/Measure U Funds
- Supports approximately 5,000 full-time equivalent employees
- Closed \$62 Million Funding Gap Without Layoffs

## Onetime vs Ongoing Balancing Strategies (\$ millions)



**One-time balancing solutions must be made up for in future Fiscal Years**

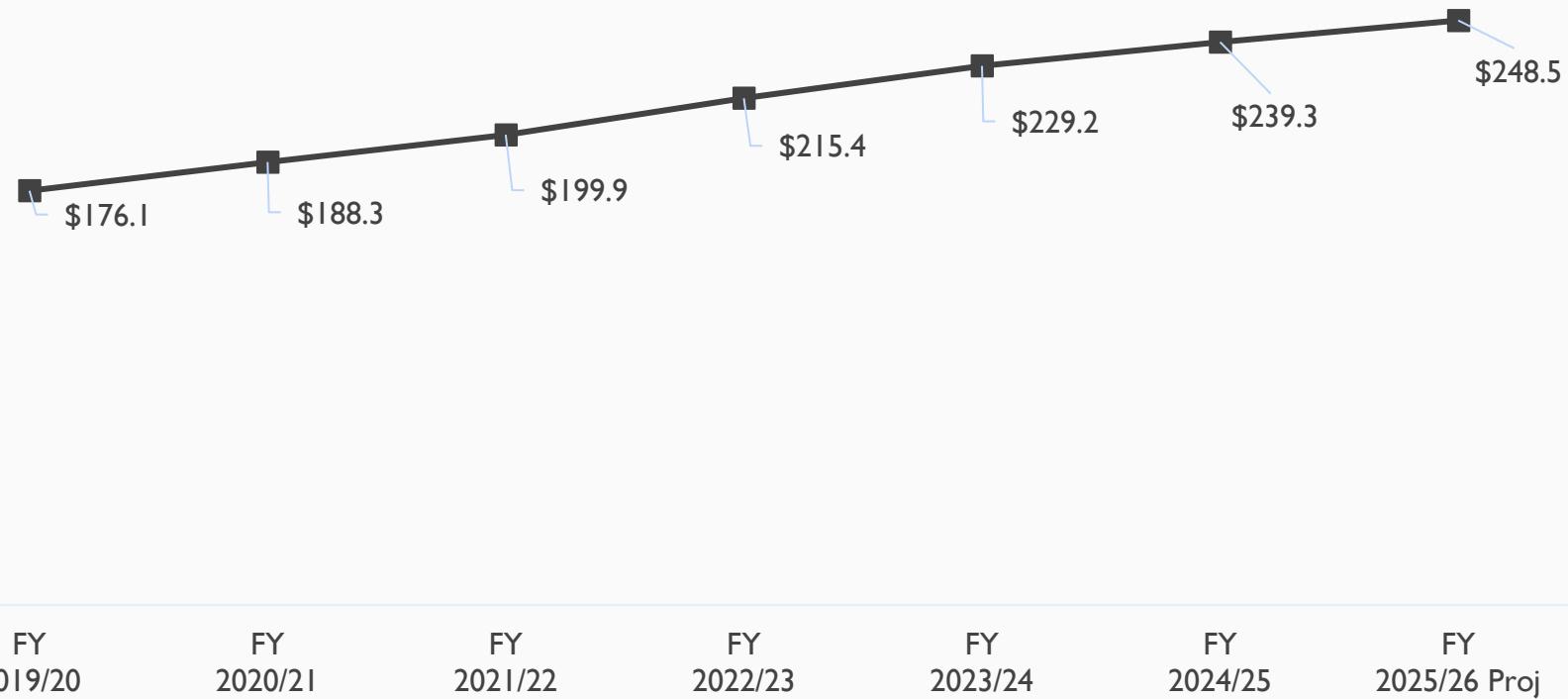
# FY 26 – Financial Updates

- Property Tax, Utility Users Tax, Property Transfer Tax, and Transient Occupancy Tax projected above budget.
- Cannabis Business Operations Tax projected below budget.

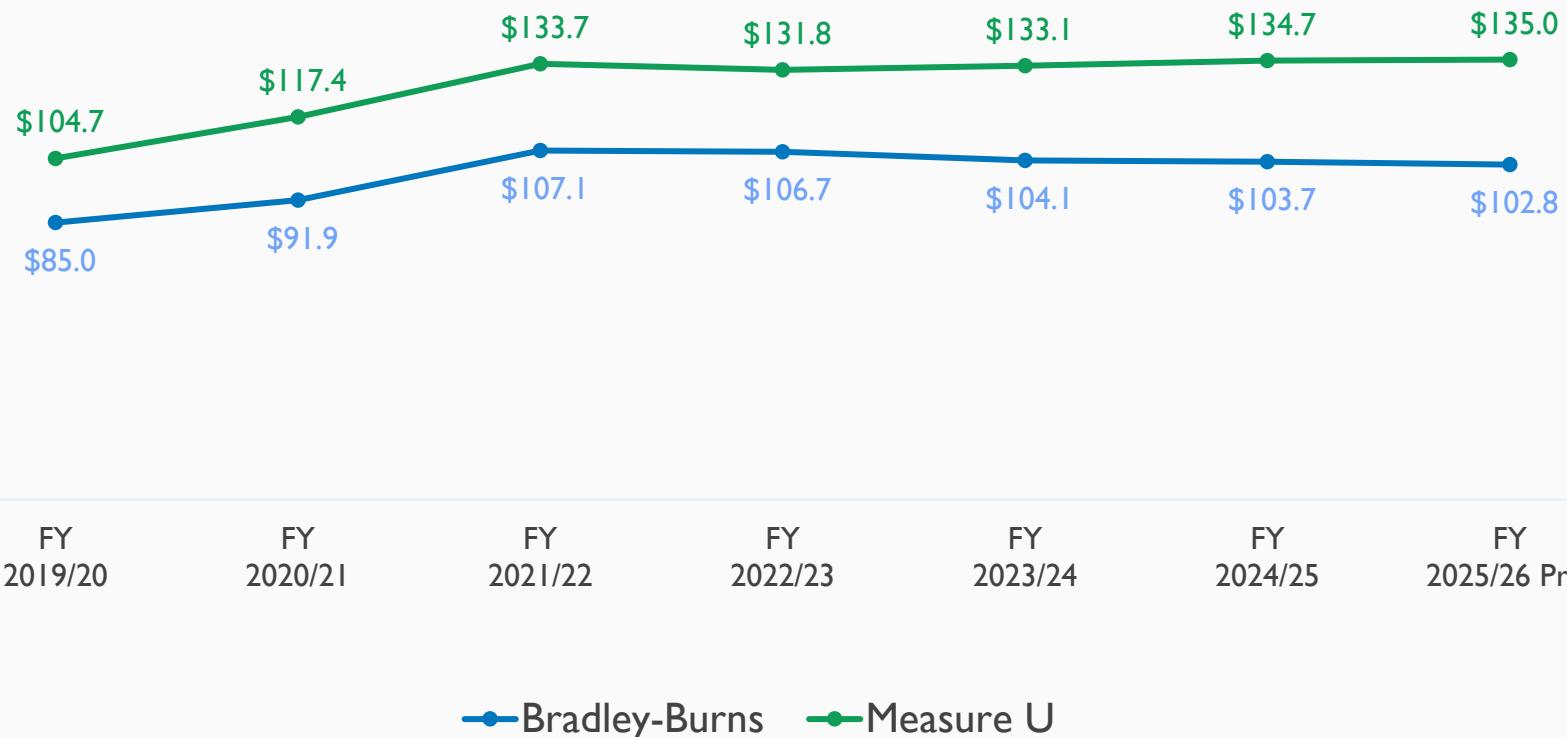
# FY 26 Updates

Item	FY 25/26 Adjustment (millions)
Utility Users Tax	\$2.6
Property Tax	\$1.5
Property Tax In-Lieu of VLF	\$0.6
Property Transfer Tax	\$0.3
Transient Occupancy Tax	\$0.2
Sales Tax	\$-
Cannabis Business Operations Tax	(\$2.3)
<b>Total Revenue Adjustment</b>	<b>\$2.9</b>
Measure L Transfer	(\$0.9)
<b>Total Expense Adjustment</b>	<b>(\$0.9)</b>

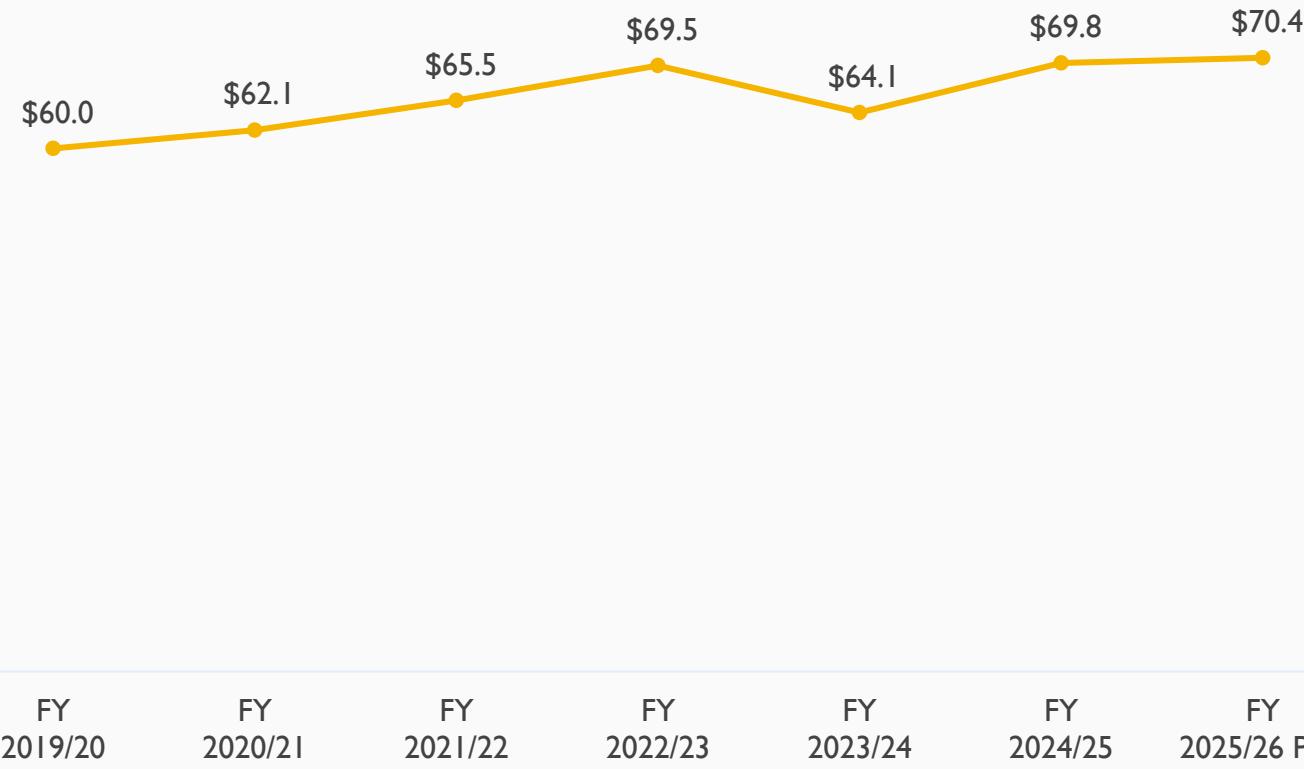
## Property Tax (\$ millions)



## Sales Tax - 1% Bradley-Burns & 1% Measure U (\$ millions)



## Utility Users Tax



# 5-Year Forecast Update

# Forecast Assumptions

- Continued economic growth / No recession
- Incorporates costs for City proposals to labor groups in active negotiations
- Excludes HHAP-7 pending information from the State regarding timing of funding and potential additional requirements to receive funding
- Excludes \$7.7M of one-time FY2024/25 Year End savings

# Projected FY 27 Funding Gap (\$ millions)

	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Approved Budget Forecast	\$0.5	(\$60.4)	(\$70.4)	(\$88.3)	(\$92.6)
Expense & Revenue Updates	\$3.8	\$5.8	\$7.0	\$8.6	\$10.3
Current City Labor Proposals	(\$3.6)	(\$11.6)	(\$18.4)	(\$19.7)	(\$19.8)
<b>Updated Surplus / (Deficit)</b>	<b>\$0.7</b>	<b>(\$66.2)</b>	<b>(\$81.8)</b>	<b>(\$99.4)</b>	<b>(\$102.1)</b>

To meet our Charter mandate to balance the FY 2026/27 Budget, the City needs to close a projected **\$66.2 million** deficit.

## Updated Forecast (\$ millions)



## Potential HHAP-7 Impact

If there are no changes to the current proposed HHAP-7 allocation, if the City were able to access that funding in FY2026/27, and if there are no additional restrictions on the use of those funds, the forecast would be:

	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Approved Budget Forecast	\$0.5	(\$60.4)	(\$70.4)	(\$88.3)	(\$92.6)
Expense & Revenue Updates	\$3.8	\$5.8	\$7.0	\$8.6	\$10.3
Current City Labor Proposals	(\$3.6)	(\$11.6)	(\$18.4)	(\$19.7)	(\$19.8)
HHAP-7	\$-	\$6.4	\$-	\$-	\$-
<b>Updated Surplus / (Deficit)</b>	<b>\$0.7</b>	<b>(\$59.8)</b>	<b>(\$81.8)</b>	<b>(\$99.4)</b>	<b>(\$102.1)</b>

Given the uncertainty around HHAP-7 funding, staff is not including this funding in the forecast pending additional information from the State.

# FY2026/27 Budget Balancing Options

## Budget Instructions

- Develop reduction plans to hit a target reduction of 15% net G/MU fund use.
- Define service and staffing impact of each strategy

## Citywide Strategies

- Finance staff will review projects and other citywide budget reduction strategies.

Department	15% Reduction Target (millions)
City Attorney	\$ 1.4
City Auditor	\$ 0.2
City Clerk	\$ 0.4
City Manager / OIED	\$ 1.4
City Treasurer	\$ -
Community Development	\$ 3.3
Community Response	\$ 6.0
Convention &Cultural Services	\$ 0.5
Finance	\$ 1.0
Fire	\$ 23.4
Human Resources	\$ 0.8
Information Technology	\$ 3.2
Office of Public Safety Accountability	\$ 0.3
Police	\$ 37.0
Public Works	\$ -
Youth, Parks, and Community Enrichment	\$ 6.3
<b>TOTAL</b>	\$ 85.316

# Guiding Principles

In developing and evaluating strategies staff are seeking to:

- Define & preserve core services.
- Advance Council priorities:
  - Economic Development;
  - Homelessness; and
  - Public Safety.
- Minimize, to the extent possible, impacts on services to the public.
- Minimize, to the extent possible, impacts on staff.

If Council has additional considerations, please let us know.

# Upcoming Budget Development Schedule

Feb 3 – Budget & Audit – Midyear Update / Finalization of budget gap

Feb 10 – Council - Midyear Update / Finalization of budget gap, AB2561 Hearing

March 2026 – Department Presentations (Budget & Reduction Plan focused)

April 2026 – Proposed Budget Release

May – Budget Hearings, Capital Improvement Program, Fees & Charges, Equity Lens

June – Budget Hearings & Budget Adoption

# Preliminary FY2026/27 Budget Hearings Calendar

2026 Budget Hearing Schedule <sup>1</sup>			
Date	Time	Legislative Body	Subject
<b>Proposed Budget</b>			
Tuesday, March 3, 2026	2:00 PM	City Council	Department presentations
Tuesday, March 10, 2026	2:00 PM	City Council	Department presentations
Tuesday, March 17, 2026	2:00 PM	City Council	Department presentations
Tuesday, March 24, 2026	2:00 PM	City Council	Department presentations
Week of April 28, 2026	TBD	n/a	FY2026/27 Budget Release
Tuesday, May 5, 2026	11:00 AM	Budget and Audit Committee	Fees & Charges
Tuesday, May 5, 2026	5:00 PM	City Council	(1) FY2026/27 Proposed Budget Overview and (2) Assistant City Manager presentations (Community Services, Internal Services, Municipal Services and Public Safety)
Tuesday, May 12, 2026	2:00 PM	City Council	(1) 2026-2031 Capital Improvement Program, (2) Citywide Fees and Charges (3) Budget Equity Lens
Tuesday, May 12, 2026	5:00 PM	City Council	FY2026/27 Proposed budget deliberations and Council direction
Monday, May 18, 2026	5:30 PM	Measure U	FY2026/27 Proposed Budget Overview with Measure U committee
Tuesday, May 19, 2026	5:00 PM	City Council	HOLD
Tuesday, May 26, 2026	11:00 AM	Budget and Audit Committee	Adoption of the FY2026/27 Budget
Tuesday, June 9, 2026	5:00 PM	City Council	Adoption of the FY2026/27 Budget

<sup>1</sup> Schedule is subject to change, refer to agendas at: [http://sacramento.granicus.com/ViewPublisher.php?view\\_id=21](http://sacramento.granicus.com/ViewPublisher.php?view_id=21)

# Pending Factors

- Unfunded pension obligations
- Unfunded capital needs
- Future of State homelessness program resources
- Federal funding risks
- Risk of recession / Economic Uncertainty Reserve below Council policy minimum
- Structural nature of budget deficit, not due to an economic downturn

## Budget Year Plus One Deficit Tolerance

The current forecast for Fiscal Year 2027/28 has expenditures of approximately \$931M. Based on that level, the budget gap as a percent of expenditures would be:

<b>%</b>	<b>Amount (millions)</b>	<b>Ongoing Reductions Needed</b>
1%	\$9.3	FY27 - \$66.2M FY28 - \$6.3 additional
2%	\$18.6	FY27 - \$63.2M FY28 – No additional
3%	\$27.9	FY27 - \$53.8M FY28 – No additional
4%	\$37.2	FY27 - \$44.5M FY28 – No additional
5%	\$46.6	FY27 - \$35.2M FY28 – No additional

## Recommendations

- Approval of FY26 Revenue & Expense adjustments.
- Reserve \$7.7M of one-time FY2024/25 year-end savings for labor negotiations and budget balancing.
- Provide direction regarding whether to set a budget year plus one deficit tolerance.

# Questions & Discussions