



County of El Dorado

Chief Administrative Office

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TO: Honorable Board of Supervisors

FROM: Sue Phillips
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SUBJECT: FY 2025-26 Mid-Year Budget Report

The Chief Administrative Office provides the Board of Supervisors with an annual Mid-Year Budget Report to update both the Board and the public on the fiscal performance of County departments and to evaluate the County's financial outlook as we prepare for the upcoming fiscal year. Due to the County's conservative approach to budgeting, there are unspent funds at the end of the year, which can be used to fund the following year's needs.

To compile this report, County departments were asked to review their budgets and to identify any known or anticipated significant changes to expenditures and/or revenues through the end of the fiscal year. Departments have developed conservative projections of their year-end fund balances, often assuming best-case scenarios for filling vacancies, receiving ordered fixed assets, and completing projects for the remainder of the fiscal year. These conservative projections include cautious revenue projections based upon limited data from State and Federal sources. These fund balance estimates will aid the Chief Administrative Office in projecting General Fund savings through the end of the year. This projection of General Fund savings is an important part of budget development for the following fiscal year.

This memo summarizes departmental year-end financial forecasts and related issues and includes a summary of the next steps in the budget development process, with a brief discussion of the Governor's Proposed Budget. Exhibit B includes a brief description of each department's anticipated year-end variances from the budget.

FY 2025-26 General Fund Year-End Projection

The net projected General Fund balance on June 30, 2026, is \$15.98 million, of which \$8.15 million is unspent contingency. Approximately \$2.6 million will need to be re-budgeted in FY 2026-27 for projects and purchases that will not be completed in FY 2025-26 and will be carried over into FY 2026-

27. Excluding contingency and the \$2.6 million that needs to be re-budgeted, this leaves an estimated \$5.2 million of fund balance available to fund operations in the FY 2026-27 Recommended Budget, representing 2.2% of Departments' Net County Cost. This is a decrease from the \$7.6 million projected to be available to fund operations in the FY 2024-25 Mid-Year Report.

The \$7.8 million in fund balance, unrelated to contingency, is composed of \$3.2 million in departmental savings, \$2.6 million in appropriations that will need to be carried over into FY 2026-27, and \$2 million in additional General Fund revenues. Exhibit A to this memo includes a table showing anticipated savings for each department, and Exhibit B is a narrative description of each department's projected savings. It should be noted that these are preliminary projections and will be used only for planning purposes at this point.

The \$3.2 million in departmental savings has been generated through reduced departmental expenditures, primarily from Salaries and Benefits savings from vacancies. \$3.2 million represents 1.3% of total General Fund Salaries and Benefits appropriations. As departments tighten their budgets, it is anticipated that they will have less fund balance at the end of the fiscal year. The \$3.2 million in departmental savings in the current year is \$2.5 million (43%) less than what was included in FY 2024-25 Mid-Year Budget Report.

General Revenues are the General Fund revenues received to fund Net County Cost and other General Fund expenditures. These revenues are projected to be \$2 million higher than budgeted. \$1.3 million of the projected increase in General Revenues through the end of FY 2025-26 is attributed to Supplemental and Unsecured Property Tax, Garbage Franchise Fees, and Assessment and Tax Collection Fee receipts that are projected to be higher than anticipated. Sales and Use Tax receipts are projected to exceed budget by \$400,000 due to higher-than-anticipated first-quarter receipts. Due to the State's disbursement schedule, as of the drafting of this report, the County has only received one full quarter of receipts. Lastly, when the Budget was developed, Federal Payments in Lieu of Taxes (PILT) revenue was projected to decrease 24%, as there were Federal proposals to decrease the PILT budget. On January 23, 2026, the President signed the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (P.L. 119-74), which appropriated full funding for PILT. Due to this Federal action, it is anticipated that the County will receive \$250,000 more PILT revenue than budgeted. Staff continue to closely monitor these revenues and will update the Board as more data is received.

This fund balance projection excludes any unspent Capital Project funds that may remain at the end of the fiscal year. These funds will be returned to the Capital Projects Designation and re-budgeted for FY 2026-27. Capital Projects often span multiple years; any unspent use of the Capital Projects Designation would need to be re-budgeted to complete the projects. Therefore, they are not recommended for discretionary use and will be returned to the Designation to avoid overstating the General Fund year-end Balance.

The projected excess fund balance should be considered a one-time funding source, the use of which should be determined strategically, balancing departmental needs with countywide obligations, while adhering to the County's budget policies, considering the County Strategic Plan, and considering the Board's priorities. The Recommended Budget that will be presented in June will reflect updated projections, and those figures may increase or decrease from the current projection.

State and Federal Funding Impacts

The data presented in this FY 2025-26 Mid-Year Budget Report is tentative and represents staff's best attempt to project state and federal funding despite a shifting landscape that is hard to predict and is constantly changing. Two examples of changing funding policies that may impact the FY 2025-26 Budget are the freeze of Child Care and Development Fund, Temporary Assistance for Needy Families, and Social Services Block Grant funding for California and four other states announced on January 6, 2026, and the January announcement by the President that federal funding to California would be frozen starting February 1, 2026, as a part of Executive Order 14287. The funding impacts of these actions have not been determined as of the drafting of this memo, primarily due to pending litigation related to these actions.

The County has to determine when to dedicate limited resources to responding to funding/policy changes and when and how to reduce expenditures as a result of funding cuts. County staff and programs are already at capacity planning for and adapting to changing state and federal funding/policies that are codified into law. Examples include the One Big Beautiful Bill Act (H.R. 1) and California Environmental Quality Act reforms in AB 130 & SB 131. When a pending funding/policy change is announced, staff must assess whether the announced change warrants the allocation of resources to develop a response plan. This situation is challenging because funding and policy changes can occur frequently. An example is the U.S. Department of Housing and Urban Development (HUD) notice of funding opportunity (NOFO) that would have made substantial changes to the Continuum of Care (CoC) program's expenditure flexibility and competition framework. After the changes were announced by HUD in November, the El Dorado Opportunity Knocks CoC (EDOK CoC) prepared a new competitive process to comply with the revised NOFO, but before implementing the competition, the NOFO was met with legal challenges that resulted in a court-ordered injunction requiring HUD to restore the prior fiscal year CoC program competition while also allowing the release a newly revised NOFO, that is expected to be released in June of this year for the 2026 grant cycle. It is likely the EDOK CoC will have to reissue a local competition when the 2026 NOFO is released.

Board of Supervisors Policy B-16 Budget Policy 6 County Share states, "If funding is reduced, there should be no increased County share for programs funded primarily from non-General Fund sources unless an increased County share is mandated or the Board of Supervisors has previously determined that this program is a high priority for use of limited General Fund dollars." Some funding reductions are clear, as they are outlined in a law. Other funding reductions are not as clear, an example being reductions from executive orders or revised grant agreements. When a funding reduction is challenged in court, and the reduction is temporarily overturned, the County must assess the financial risk of continuing to operate the program. The Chief Administrative Office is working with departments to determine how to respond to funding/policy changes. Staff will notify the Board of any funding impacts that will impact service levels or increase the use of General Fund resources.

The Governor released his budget proposal for FY 2026-27 on January 9, 2026. The Governor's Proposed Budget states, "while the Budget is balanced in the 2026-27 fiscal year, with a discretionary reserve of \$4.5 billion, it projects a deficit of roughly \$22 billion in the 2027-28 fiscal year and shortfalls in the two years following." In response to the Governor's Budget, the Legislative Analyst's Office responded, "the administration's revenue estimate is considerably higher than ours because it does not incorporate the strong risk of a stock market downturn... Several historically reliable signs

suggest the stock market is overheated and at high risk of reversing course into a downturn in the next year or so. Should a stock market downturn occur, income tax revenues would fall considerably. These risks are severe enough that not incorporating them into this year's budget, as the Governor proposes, would put the state on precarious footing." In response to the Governor's Budget the California State Association of Counties stated, "Federal actions such as H.R. 1 will shift billions of dollars in new Medi-Cal, CalFresh, and indigent care costs to counties — without removing the mandates to deliver these services. Counties cannot absorb these combined hits alone. The Governor's spending plan exacerbates these risks of ignoring H.R. 1 with several poorly thought-out proposals."

As we move through the budget development process, staff will closely monitor relevant developments at the federal and state level that could affect the FY 2025-26 Budget or the FY 2026-27 Recommended Budget.

FY 2026-27 Budget Development

As you are aware, there are several factors that indicate balancing the FY 2026-27 Recommended Budget may be a challenge, as it was in FY 2025-26. Growth in our largest discretionary revenue source, Property Tax, is 9% less than average annual growth in the prior 10 years due to the sluggish housing market as a result of elevated home prices, high mortgage interest rates, and the unaffordability or unavailability of homeowner's insurance. As revenues have slowed, expenses have not. Health Plan Programs and Ancillary Employee Benefit Programs increased 13.4% in 2026. We have adjusted the budgets for most of our capital projects due to rising construction and labor costs. Departments have also felt the effects of inflation on their services and supplies and utility budgets. Departments have had to find ways to absorb these increases despite a 3% overall decrease in departments' Net County Costs in FY 2025-26 when compared to the FY 2024-25 Budget. While the County has been prudent in maintaining reserves in anticipation of a financial downturn, the goal is to bring expenses into alignment with revenues without drawing down those reserves. Achieving long-term budget sustainability while maintaining a culture where employees are valued and fairly compensated will be challenging.

Departments submitted their FY 2026-27 Budget requests a week before the publication of this report; the requests included the 5% and 10% budget reduction scenarios directed by the Board at the Budget Hearing for the FY 2025-26 Recommended Budget. Staff from my office are currently reviewing these requests and reduction scenarios. Departments were instructed to submit a FY 2026-27 Budget request that maintained their departmental Net County Cost at the same level as FY 2025-26. This will require departments to absorb the cost increases described above. For some departments, this request is not possible without resulting in a reduction in service levels. Staff are working with the Budget Ad Hoc and departments to determine how to best get the direction needed from the full Board to balance the FY 2026-27 Recommended Budget. Staff will return to the Board on April 28, 2026, for further Board direction on revenue assumptions, policy issues, and Board priorities for the FY 2026-27 Recommended Budget.

- Exhibits: A: General Fund Mid-Year Projection Table
B: FY 2025-26 Summary of Department Mid-Year Projections