Board Agenda Item 6

DATE: March 17, 2026

TO: Board of Supervisors

SUBMITTED BY: Paul Nerland, County Administrative Officer

SUBJECT: FY 2025-26 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2025-26; and**
2. **Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2026-27 Budget which incorporates a Recommended Budget by June 30, 2026.**

ALTERNATIVE ACTION(S):

There are no viable alternative actions.

FISCAL IMPACT:

There is no additional Net County Cost associated with the recommended actions.

DISCUSSION:

INTRODUCTION

The Mid-Year Budget Report for 2025-26 is an opportunity to review the condition of the Operating Budget approved by the Board of Supervisors on September 15, 2025. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the FY 2026-27 Budget. Part I of this report addresses the mid-year budgetary condition of the General Fund Budget for the current fiscal year. Part II discusses preliminary projections for the next fiscal year. Part III addresses the potential impacts of the Federal budget and the Governor's Proposed 2026-27 State Budget issued in January 2026. Part IV discusses the Proposed Budget development schedule for FY 2026-27.

I. MID-YEAR CONDITION OF THE GENERAL FUND BUDGET FOR FY 2025-26

As part of the overall review, each General Fund Department provided a mid-year budget report including projected year-end actual expenditures and revenue. In addition, Departments identified any issues impacting their budget, provided a status of meeting their goals identified in the FY 2025-26 Adopted Budget, and identified potential impacts to the Department's FY 2026-27 Budget resulting from the Federal and/or Proposed State Budget. County Administrative Office staff evaluated the budgetary reports, including budgetary estimates, and followed up with Departments on potential issues.

Based on this mid-year review process, the Administrative Office projects that adjustments will be necessary to achieve a balanced General Fund Budget at the end of FY 2025-26. Any carryover fund

balance, which consists of Net County Cost (NCC) savings within Department budgets and revenue exceeding budgeted Discretionary Revenues, would become available for the upcoming fiscal year budget process.

Based on FY 2025-26 year-end projections, Department expenditures and revenues are estimated to be approximately 92% of budget. Most General Fund Departments indicate ending the fiscal year at or below their allocated NCC; however, budgets for County Counsel, Public Works & Planning-Parks, Alternate Indigent Defense, and Department of Social Services Foster Care and Aid to Adoptions are being monitored for potential budget shortfalls and will be addressed with Budget Mitigation or budget transfers within the General Fund.

In addition to the County Administrative Office's budget oversight, the Auditor/Controller-Treasurer/Tax-Collector, in collaboration with Administrative staff, continues to enforce the Fund Balance policy approved by your Board, ensuring the appropriate capture of discretionary interest revenue.

II. PRELIMINARY PROJECTIONS FOR FY 2026-27

When evaluating the condition of the General Fund Budget for the next fiscal year, projected growth and/or decline in the sum of Countywide Revenues and carryover fund balance needs to be determined. These two components are what funds the NCC, which is comprised of ongoing/structural operating and one-time costs.

As stated earlier in the report, the General Fund Budget with adjustments is estimated to be balanced at the end of FY 2025-26. Any carryover fund balance, which consists of Net County Cost (NCC) savings within Department budgets and revenue exceeding budgeted Discretionary Revenues, would become available for the upcoming fiscal year budget process.

Each year's Countywide Revenue forecast depends heavily on the County's assessment roll which is provided by the Assessor's Office to the Administrative Office in late June of each year. Assessed value growth is the most important factor in determining the County's ability to grow its Countywide Revenues. To illustrate, over 80 percent of total budgeted Countywide Revenues are tied directly to assessed value growth.

The revenue estimates in the FY 2025-26 Adopted Budget for secured property tax and property tax in lieu of Vehicle License Fees, which both directly correlate to assessed value, included a four percent increase over prior year actuals. The actual increase in assessed value was approximately 6.4 percent. Based on this, the remaining unbudgeted amount is available for future budget years.

The second largest revenue stream after property tax in Countywide Revenues is Bradley-Burns Sales Tax. Sales Tax revenue received in the first five months of FY 2025-26 was 6 percent greater than revenues received in the prior year. However, it is projected that sales tax will have minimal growth for FY 2026-27.

It is anticipated that there will be significant operating cost increases in FY 2026-27 primarily due to increases in County service contracts such as Jail Medical Services, increases in risk insurance rates and keeping pace with necessary salary and benefit increases.

Additionally, the most significant impact to the County's budget next fiscal year and beyond are the impact of H.R. 1 or the "One Big Beautiful Bill Act" passed by Congress and signed into law on July 4, 2025. Although the bill was focused on reducing federal costs; a noble aim; it resulted in a massive cost shift to Counties nationwide; that the National Association of Counties has described as "The Big Shift". The decisions that Counties; including the County of Fresno will need to make include reducing services, finding alternative revenue sources including new tax options, or delaying other County priority projects.

H.R. 1 impacts to counties include expanded demand for indigent care, increased county eligibility workforce costs for CalFresh and Medi-Cal, and direct cost shifts to counties for the administration of state health programs. The potential cost of H.R. 1 implementation to the County of Fresno is staggering at tens to hundreds of millions of dollars. In October 2026, H.R. 1 reduces the Federal government's share of CalFresh administrative costs from 50 percent to 25 percent, resulting in a $7.5 million increase in program administrative costs to the County's Department of Social Services. Preliminary estimated cost increases are approximately $41 million to $241 million for the Department of Public Health for indigent medical care, $20 million for higher acuity levels of care and loss in revenues for the Department of Behavioral Health, and up to an additional $33 million for the Department of Social Services.

The CAO will recommend that it continues to take a conservative approach in budgeting countywide revenues, along with implementing operational cuts, to help weather these challenges and other potential impacts of a downturn in the economy or impacts of the State and/or Federal budget. To that end, the CAO is directing departments to model potential reductions in their budgets next fiscal year to help make informed recommendations to the Board.

III. STATE BUDGET IMPACTS

CALIFORNIA PROPOSED BUDGET

On January 9, 2026, Governor Newsom released the FY 2026-27 Proposed State Budget totaling $348.9 billion, addressing roughly a $3 billion deficit. The California Legislative Analyst's Office (LAO) estimates the State deficit to be significantly higher at $18 billion due to differences in revenue projection assumptions, although revenue projections have improved slightly since the LAO's initial report. The LAO's revenue estimates incorporate "the strong risk of a stock market downturn" that is not included in the Governor's proposed budget. According to the LAO's January 2026 report, the LAO indicates that both their office and the administration "expect to face multiyear deficits" and notes that "deficits have persisted even as the state's economy and revenues have grown, underscoring that the problem is structural rather than cyclical." The LAO further notes that, "these trends raise serious concerns about the state's fiscal sustainability."

While the Governor's proposed budget includes $1.4 billion to address impacts related to the implementation of H.R. 1, it does not provide funding to mitigate the significant increase in costs to counties. CSAC, along with several other California county and health and human services associations, are actively engaging the State Administration and Legislature on addressing the impacts of H.R.1 through the state budget, legislation, and implementation workgroups.

FEDERAL BUDGET STATUS

As indicated, the passage of H.R. 1 in July 2025 resulted in reductions in federal outlays in health coverage provisions, significantly impacting State and ultimately county budgets, leading to major disagreements in Congress.

On October 1, 2025, the longest Federal government shutdown began, lasting 43 days. On February 3, 2026, Congress passed and the president signed a $1.2 trillion appropriations package to fully fund the majority of Federal agencies for FY 2026 through Sept. 30, 2026. According to the National Associations of Counties' Legislative Analysis for Counties, Congress enacted these bills through a series of standalone measures, minibus packages, and continuing resolutions instead of a single omnibus measure. Per the analysis, "this approach reflected ongoing disagreements between the House and Senate over topline spending levels and policy provisions across several appropriations bills."

IV. BUDGET DEVELOPMENT SCHEDULE

The budget development schedule will remain the same as in FY 2025-26. The FY 2026-27 Recommended

Budget will be brought to your Board by June 30, 2026. To accurately complete estimates for the General Fund, the tax roll is needed to verify Property Tax and Property Tax In Lieu of Vehicle License Fee revenue estimates. After these are received and analyzed, adjustments to the Recommended Budget will be brought to your Board for adoption in September 2026.

The proposed timeline allows for an accurate estimate of year-end fund balance and the most informed evaluation of how the State of California's FY 2026-27 Adopted Budget will affect the County of Fresno. Although it is anticipated that most of the information will be available in time to produce the proposed changes by the end of August, there is still uncertainty surrounding mitigation of H.R. 1 impacts. Budget hearings to adopt all known changes at that time are recommended to commence September 14, 2026.

CAO ANALYST:

Paige Benavides