



# Second-Quarter Financial Review Fiscal Year 2026

City Council Meeting  
February 24, 2026





# Recommendation to City Council

- A. Receive a report from staff on the status of revenues and expenditures in relation to budget for the six months ended December 31, 2025;
- B. Accept the Fiscal Year (FY) 2026 Interim Financial Statements for the six months ended December 31, 2025;
- C. Adopt, by reading of title only, a Resolution of the Council of the City of Santa Barbara Amending Resolution 25-129, to Approve Proposed Second-Quarter (Q2) Adjustments to FY2026 Revenue and Expenditure Appropriations as Detailed in the Attached Schedule of Proposed Q2 Adjustments;
- D. Adopt, by reading of title only, a Resolution of the Council of the City of Santa Barbara Amending the Position Salary Control Resolution 25-138 for Authorized Positions for Fiscal Year 2026. Changes Are Effective January 10, 2026;
- E. Hear a report from staff regarding revenue generating and expenditure control options to balance the General Fund budget in FY2026 and forecast for FY2027; and
- F. Hear a report from staff related to the development of the Mid-Cycle budget update for FY2027.

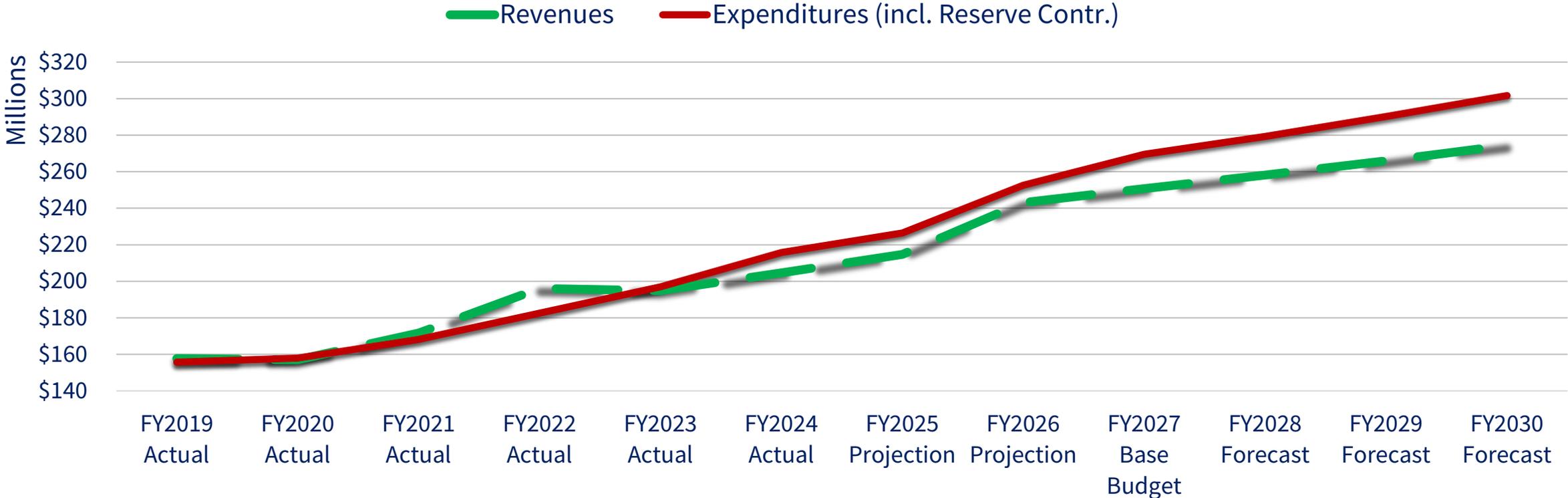


# Agenda

1. FY2026 General Fund Overview
2. FY2026 Position Changes
3. FY2026 Budget Options Update
4. FY2027 Mid-Cycle Budget Update
5. Questions, Public Comment, & Discussion



# General Fund Multi-Year Forecast



Revenue	\$157.7	\$157.0	\$171.6	\$196.0	\$194.8	\$204.6	\$214.7	\$242.2	\$250.1	\$257.2	\$264.8	\$273.2
Expenditure	\$155.7	\$157.9	\$168.2	\$182.6	\$196.9	\$215.8	\$226.5	\$250.9	\$264.7	\$275.1	\$285.9	\$297.2
<b>Surplus/Def.</b>	<b>\$2.0</b>	<b>(\$0.9)</b>	<b>\$3.4</b>	<b>\$13.4</b>	<b>(\$2.1)</b>	<b>(\$11.1)</b>	<b>(\$11.8)</b>	<b>(\$8.7)</b>	<b>(\$14.6)</b>	<b>(\$17.9)</b>	<b>(\$21.1)</b>	<b>(\$24.0)</b>

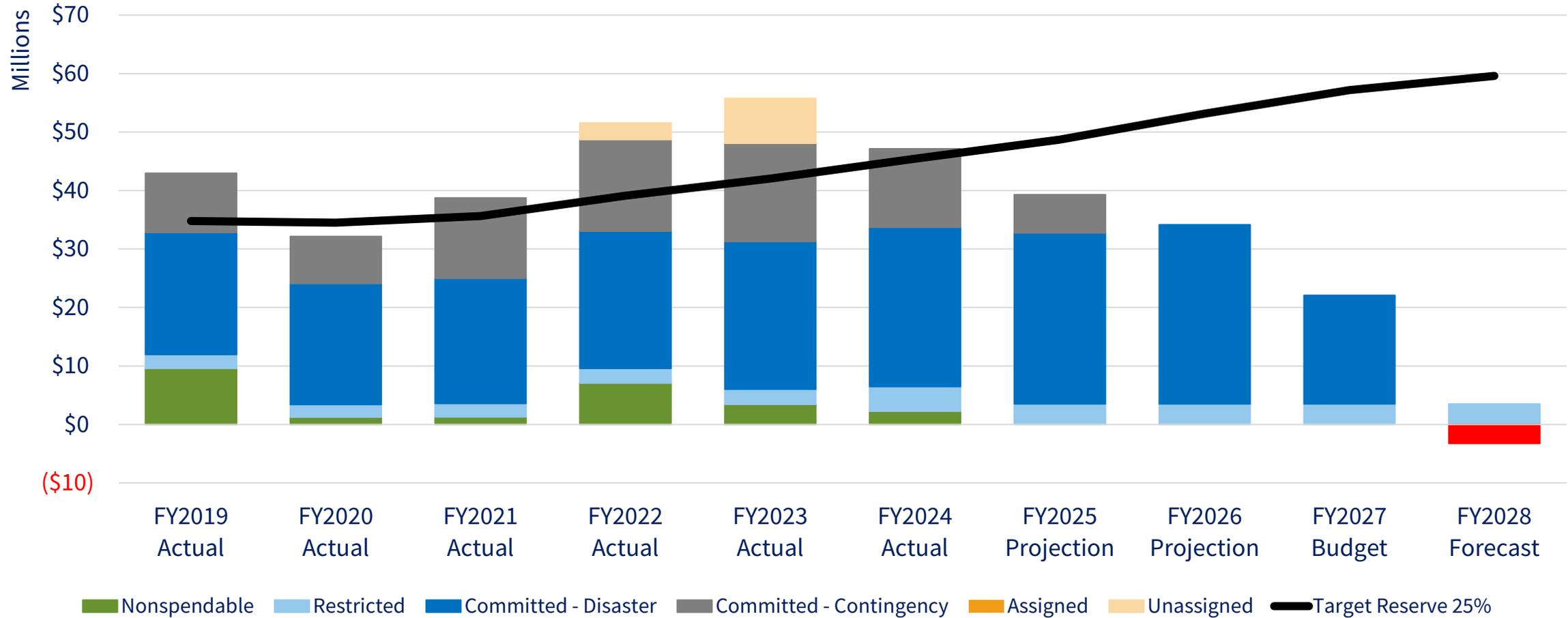


# General Fund Projection

\$ MILLIONS	FY2024 ACTUAL	FY2025 PROJECTION	FY2026 PROJECTION	FY2027 BASE BUDGET	FY2028 FORECAST
Revenues	\$204.6	\$214.7	\$242.2	\$250.1	\$257.2
Expenditures	\$212.3	\$221.6	\$248.1	\$260.6	\$272.7
<b>Surplus / (Deficit)</b>	<b>(\$7.7)</b>	<b>(\$6.8)</b>	<b>(\$5.8)</b>	<b>(\$10.6)</b>	<b>(\$15.5)</b>
Reserve Contribution	\$3.5	\$4.9	\$2.7	\$4.0	\$2.4
<b>Amount Below Annual Reserve Target</b>	<b>(\$11.1)</b>	<b>(\$11.7)</b>	<b>(\$8.6)</b>	<b>(\$14.6)</b>	<b>(\$17.9)</b>
Reserve Policy Target (25%)	\$45.4	\$48.7	\$53.2	\$57.2	\$59.6
Actual/Projected Reserve Level	\$47.1	\$39.3	\$34.2	\$22.1	\$0.3
<b>Difference</b>	<b>\$1.7</b>	<b>(\$9.4)</b>	<b>(\$19.0)</b>	<b>(\$35.1)</b>	<b>(\$59.3)</b>
<b>Actual/Projected Reserve Percent</b>	 <b>26.0%</b>	 <b>20.7%</b>	 <b>16.0%</b>	 <b>9.8%</b>	 <b>0.1%</b>



# General Fund Reserves Model

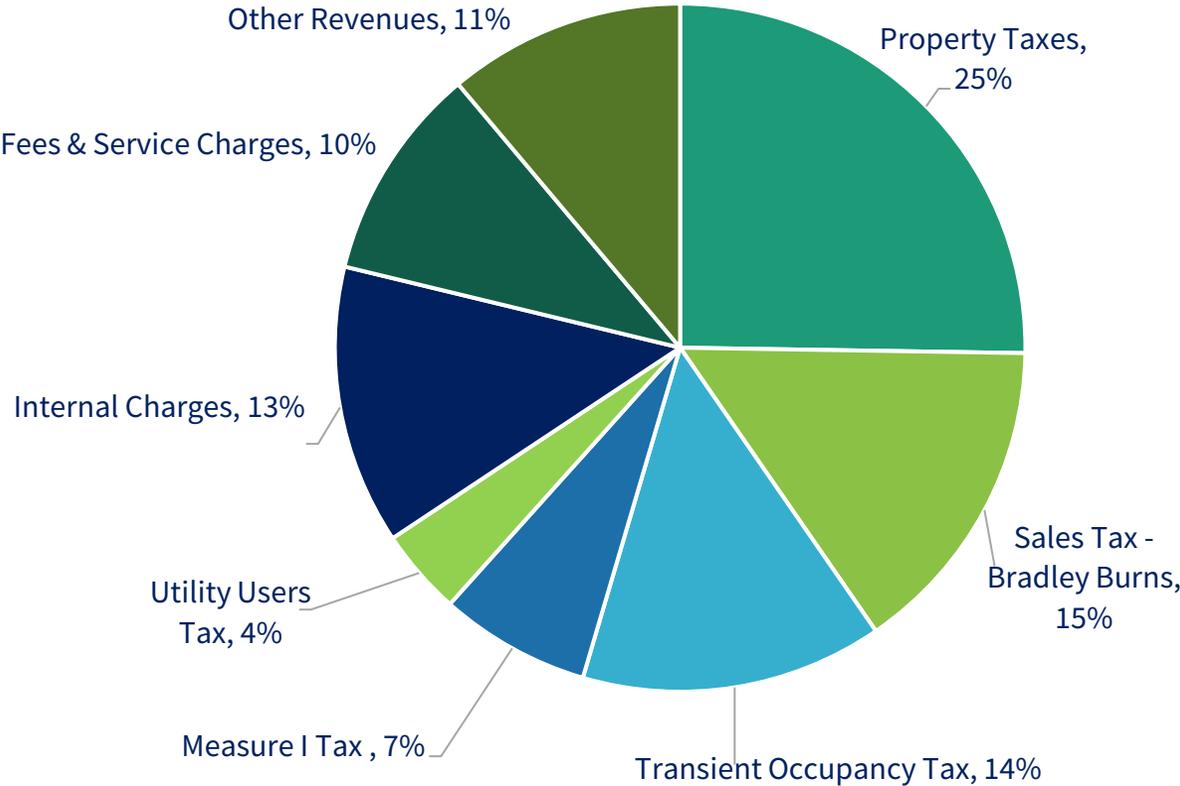




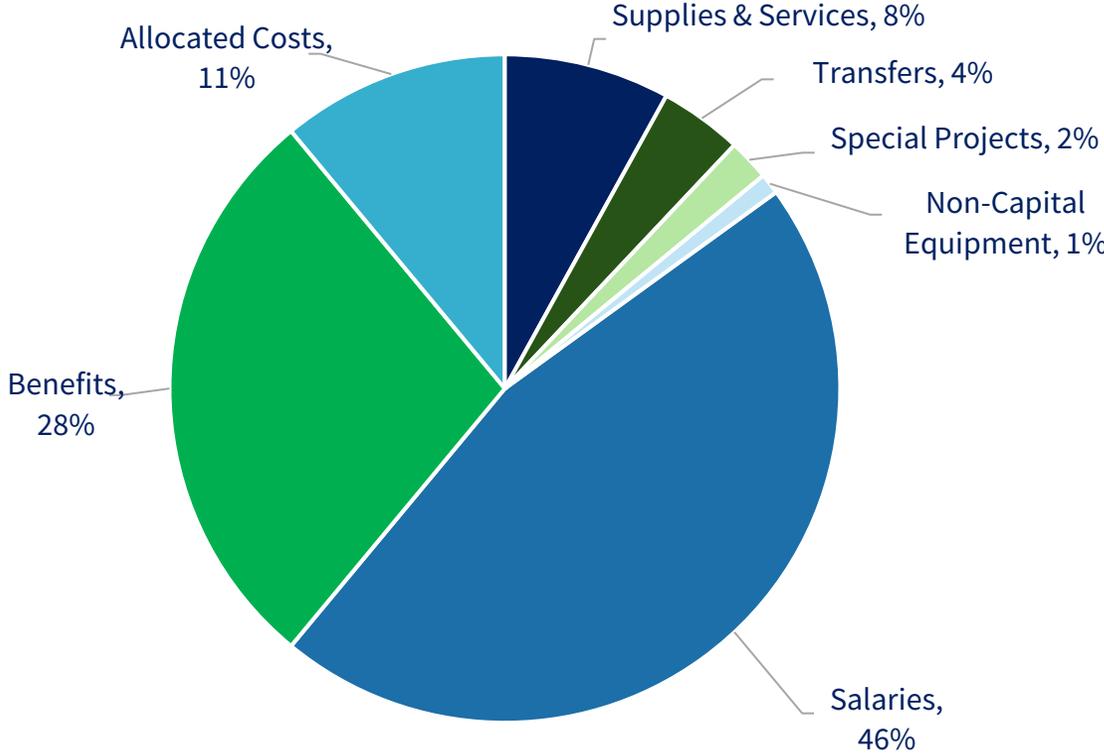
# General Fund Revenue & Expenditure

## Adopted Budget FY2026 – Percentage Allocation

### General Fund Revenue



### General Fund Expenditure



# General Fund Overview

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# General Fund Overview

- Revised Budget includes Carryforward appropriation from FY2025 for encumbrance & commitments continuing into FY2026.
- Tax revenue softening.
- Business tax certificate renewal by calendar year.

General Fund (\$ Millions)	FY2026 Adopted Budget	FY2026 Revised Budget	FY2026 Q2 Actual	Actual % of Revised Budget	FY2026 Projections	FY2025 Q2 Actual
<b>Revenues</b>	\$208.7	\$209.3	\$95.6*	45.7%	\$207.9	\$85.2
<b>Expenditures</b>	\$210.3	\$218.8	\$104.9	47.9%	\$213.9	\$93.4
<b>Surplus / (Deficit)</b>	(\$1.6)	(\$9.5)	(\$9.3)		(\$6.0)	(\$8.1)
<b>Contribution to Reserves</b>	\$2.7	\$2.7			\$2.7	
<b>Amount Below Annual Reserve Target</b>	(\$4.3)	(\$12.2)			(\$8.7)	
Measure C	FY2026 Adopted Budget	FY2026 Revised Budget	FY2026 Q2 Actual	Actual % of Revised Budget	FY2026 Projections	FY2025 Q2 Actual
<b>Revenues</b>	\$34.2	\$34.2	\$16.2	47.2%	\$34.2	\$16.0
<b>Expenditures</b>	\$35.1	\$78.4	\$13.7	17.4%	\$78.4	\$16.0
<b>Surplus / (Deficit)</b>	(\$0.9)	(\$44.2)	\$2.5		(\$44.2)	\$0.0

\*Additional Measure I revenue for FY2026 – \$5.0M



# General Fund Tax Summary (Q2 – Fiscal Year 2026)

Tax Source	Adopted Budget (\$ Millions)	Revised Budget (\$ Millions)	YTD Actual (\$ Millions)	% Used with Adopted Budget	FY2026 Projection	FY2025 Q2 Actual (\$ Millions)
Property Tax	\$53.6	\$53.6	\$20.9	<b>39.1%</b>	\$53.6	\$20.0
Sales & Use Tax	\$32.0	\$32.0	\$14.7	<b>46.1%</b>	\$32.0	\$15.2
Measure C Sales Tax	\$34.2	\$34.2	\$16.2	<b>47.2%</b>	\$34.2	\$16.0
Measure I Sales Tax	\$15.1	\$15.1	\$5.0	<b>33.4%</b>	\$15.1	\$0.0
Transient Occupancy Tax	\$29.6	\$29.6	\$17.6	<b>59.5%</b>	\$29.6	\$17.2
Utility Users Tax	\$8.2	\$8.2	\$4.1	<b>49.8%</b>	\$8.2	\$4.3
Business Tax Certificates	\$3.0	\$3.0	\$0.5	<b>15.8%</b>	\$3.0	\$0.7
Cannabis Excise Tax	\$1.0	\$1.0	\$0.6	<b>59.3%</b>	\$1.0	\$0.6
Property Transfer Tax	\$1.0	\$1.0	\$0.5	<b>47.6%</b>	\$1.0	\$0.3
<b>TOTAL TAXES</b>	<b>\$177.6</b>	<b>\$177.6</b>	<b>\$80.1</b>		<b>\$177.7</b>	<b>\$74.4</b>



# General Fund Expenditures FY2026

Department	Adopted Budget (\$ Millions)	Revised Budget (\$ Millions)	Q2 Exclude Encumbrance (\$ Millions)	% Used with Revised Budget	Encumbrance	FY2026 Projection
Mayor & Council	\$3.4	\$3.4	\$1.5	44.3%	\$0.6	\$3.4
City Attorney	\$5.6	\$5.7	\$2.7	46.8%	\$0.4	\$5.7
City Administrator	\$8.6	\$9.8	\$3.7	38.1%	\$1.8	\$9.7
Human Resources	\$2.9	\$3.1	\$1.3	41.2%	\$0.2	\$3.1
Finance	\$8.3	\$9.3	\$4.0	42.8%	\$0.7	\$9.2
<b>General Government</b>	<b>\$28.8</b>	<b>\$31.3</b>	<b>\$13.2</b>	<b>42.1%</b>	<b>\$3.6</b>	<b>\$31.1</b>
Police	\$61.2	\$62.4	\$30.5	49.0%	\$1.0	\$60.8
Fire	\$42.4	\$46.2	\$22.2	47.9%	\$0.1	\$46.2
<b>Public Safety</b>	<b>\$103.6</b>	<b>\$108.6</b>	<b>\$52.7</b>	<b>48.5%</b>	<b>\$1.1</b>	<b>\$107.0</b>



# General Fund Expenditures FY2026

Department	Adopted Budget (\$ Millions)	Revised Budget (\$ Millions)	Q2 Exclude Encumbrance (\$ Millions)	% Used with Revised Budget	Encumbrance	FY2026 Projection
Parks & Recreation	\$28.0	\$28.2	\$13.2	46.7%	\$1.2	\$28.2
Library	\$9.9	\$9.9	\$4.6	46.1%	\$0.1	\$9.2
<b>Community Services</b>	<b>\$37.9</b>	<b>\$38.1</b>	<b>\$17.7</b>	<b>46.5%</b>	<b>\$1.3</b>	<b>\$37.4</b>
Public Works	\$15.2	\$15.3	\$6.9	45.2%	\$0.0	\$13.8
Sustainability & Resilience	\$0.3	\$0.5	\$0.2	43.5%	\$0.1	\$0.5
Community Development	\$16.0	\$17.4	\$7.6	43.7%	\$0.9	\$16.9
<b>Subtotal Expenditures</b>	<b>\$201.8</b>	<b>\$211.3</b>	<b>\$98.4</b>	<b>46.6%</b>	<b>\$7.0</b>	<b>\$206.7</b>
Measure C Sales Tax	\$35.1	\$78.4	\$13.7	17.4%	\$0.0	\$78.4
Non - Departmental	\$8.5	\$7.6	\$6.5	85.8%	\$0.0	\$7.1
<b>Total Expenditures</b>	<b>\$245.4</b>	<b>\$297.2</b>	<b>\$118.5</b>	<b>39.9%</b>	<b>\$7.0</b>	<b>\$292.2</b>

# Position & Salary Changes

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# Position & Salary Changes



- Airport Department
  - Airport Security Aide
- City Attorney
  - Business Manager
- Fire Department
  - Emergency Medical Services Manager
- Sustainability & Resilience Department
  - Environmental Services Supervisor to  
Community Engagement Manager
  - Project Planner to Sustainability Analyst II
- Salary Adjustments Due to Compaction
  - Supervisor's Unit
  - AFSCME Managers, Unrepresented Managers &  
Executive Management

A large, curved image on the left side of the slide shows a coastal scene. In the foreground, there is a sandy beach and the ocean with gentle waves. A row of tall palm trees stands in the middle ground, with a white building and a blue bus visible behind them. In the background, there are mountains under a sky with soft, colorful clouds, suggesting a sunset or sunrise.

# FY2026 Budget Options Update



# Tiers of Options to Consider

**Tier 1** – Can be implemented fairly quickly.

**Tier 2** – May take more time, but still worth exploring & implementing.

**Tier 3** – Do not recommend at this time, but to be considered in the future.



# City Council Direction

## Highest priorities (recommending to proceed):

- Cannabis excise tax revenue generators:
  - Increase cannabis excise tax up to the 20.0% voter approved limit; &
  - Consider additional revenue generating sales opportunities;
- Initiate a poll to assess the viability of possible revenue tax measures for the November 2026 ballot, including tax rates increases for Real Property Transfer Tax, TOT, UUT, & a Parcel Tax; &
- Analyze recreational vehicle camping at the Waterfront parking lots.

## Lowest priorities (not recommending to proceed):

- Library closures or reduced hours of operation;
- Allow short-term rentals throughout the City which would generate additional TOT revenue; &
- Increase parking fees.



# Tier 1 Savings by General Fund Departments

## FY2026 savings include:

- Transferring positions to Enterprise Funds.
- Minor fee adjustments.
- Library reorganization.
- Increase parking citation revenues.
- Hold positions vacant.
- Clean Community taking on General Fund expenses.

Department	FY2026	FY2027
City Administrator's Office	\$0	\$230,000
Community Development	\$0	\$0
Finance	\$105,600	\$3,487,300
Fire	\$40,000	\$142,900
Human Resources	\$0	\$0
Information Technology	\$0	\$227,373
Library	\$224,186	\$67,509
Parks & Recreation	\$0	\$91,248
Police	\$557,000	\$1,480,000
Public Works	\$37,500	\$402,500
Sustainability & Resilience	\$365,000	\$698,000
<b>Total</b>	<b>\$1,329,286</b>	<b>\$6,826,830</b>



# Tier 1 Savings by Department

## FY2027 savings include:

- Revenue tax measure approved by the voters & take effect on January 1, 2027.
- Cannabis excise tax rate increase.
- Improve purchasing of fire vehicles, reduce inventory at the Warehouse.
- IT staff consolidation.
- Increase Parks & Recreation fees to achieve cost recovery.
- Police cost reimbursement for special events & utilization of opioid settlement funds.
- Centralize project management.
- Eliminate vehicles.



# Potential Revenue Tax Measures

**Finance  
Committee  
Recommendation**

- **Real Property Transfer Tax**
  - Increase current rate of \$0.55 per \$1,000 assessed valuation to \$9.50 for properties that sell for \$3.0 Million or greater.
  - Generate approximately \$5.1 Million per year.
  - Effective Date – January 1, 2027.
- **Transient Occupancy Tax**
  - Increase current rate of 12.0% to 14.0%.
  - Generate approximately \$5.8 Million per year.
  - Effective Date – January 1, 2027.
- **Council can adopt a resolution prioritizing funding allocations.**



# Finance Committee Recommendation

- **On February 3, 2026, the Finance Committee recommended the following:**
  - Pursue a general-purpose Real Property Transfer Tax (RPT), increasing the rate from \$0.55 to \$9.50 per \$1,000 for properties sold for \$3.0 Million or greater.
  - Consider oversight from the existing Citizen’s Oversight Committee.
  - Discuss the potential measure with the local realtor community.
  - Analyze impact if commercial properties were excluded.
  - Consider a resolution prioritizing funding.
- **City Council direction expected on March 3, 2026.**

# FY2027 Mid-Cycle Budget Update





# Balancing the FY2027 General Fund Budget

ITEM	FY2027 (\$MILLIONS)	TYPE
<b>FY2027 Base Budget Deficit (incl. Reserve Contribution)</b>	<b>(\$14.6)</b>	
Tier 1 Options – Revenue Increases & Expenditure Savings	\$4.0	<i>Ongoing</i>
Revenue Measure Passes in Nov. 2026	\$2.9	<i>Ongoing</i>
Delay Hiring of Vacant Positions	\$1.0	<i>Temporary</i>
Other Savings to be determined	\$5.4	<i>Temporary</i>
<b>FY2027 Budget Deficit REVISED</b>	<b>\$(1.3)</b>	

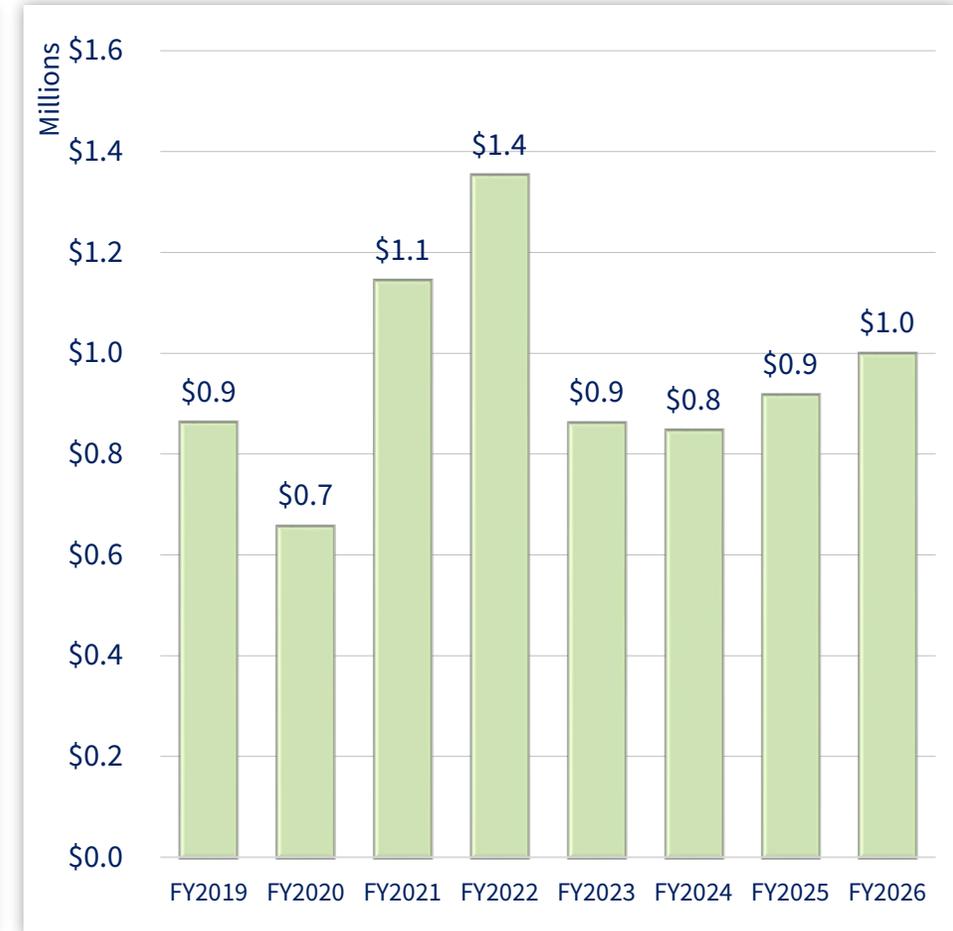
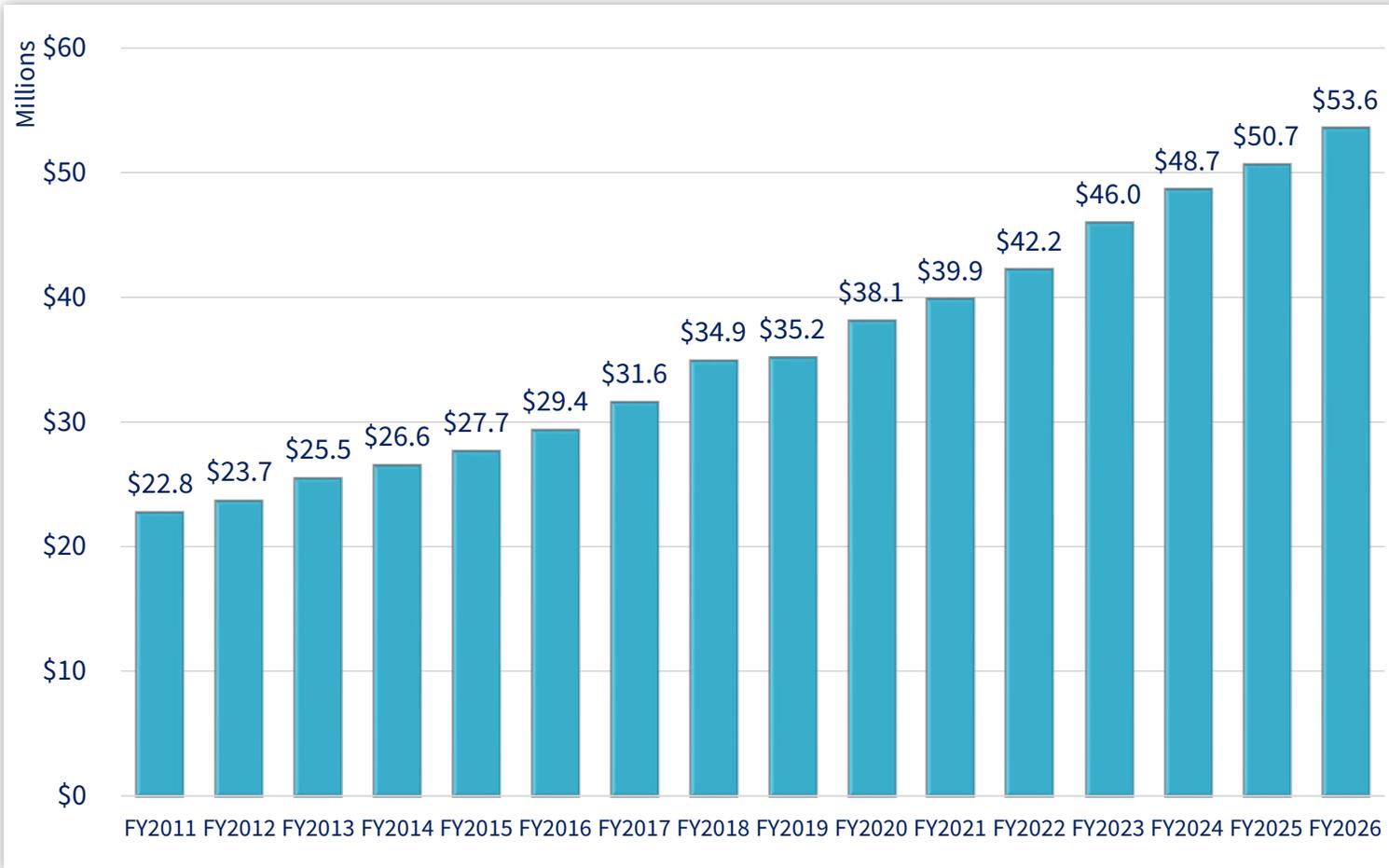


# Multi-Year Forecast Assumptions

- Leveled off, but continued slow growth, of sales & transient occupancy taxes.
- Strong & steady property tax growth.
- All known MOU changes have been incorporated.
- Salary increase assumption of 5.0% in FY2026 & FY2027, but then 3.0% going forward.
  - Cost of public safety agreements exceed assumptions in the budget.
- Pension normal cost, UAL & medical increases.
- Inflation not as bad as FY2024 & FY2025.
- SIF & other allocation increases continue in FY2027.

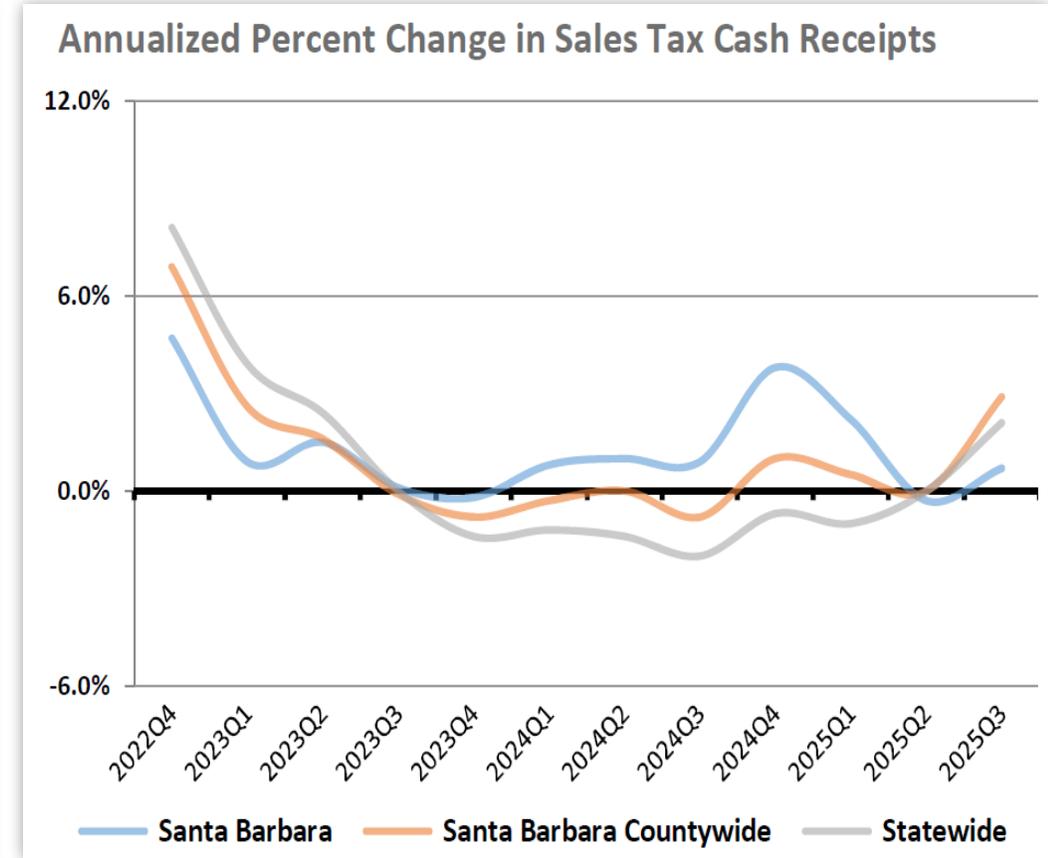
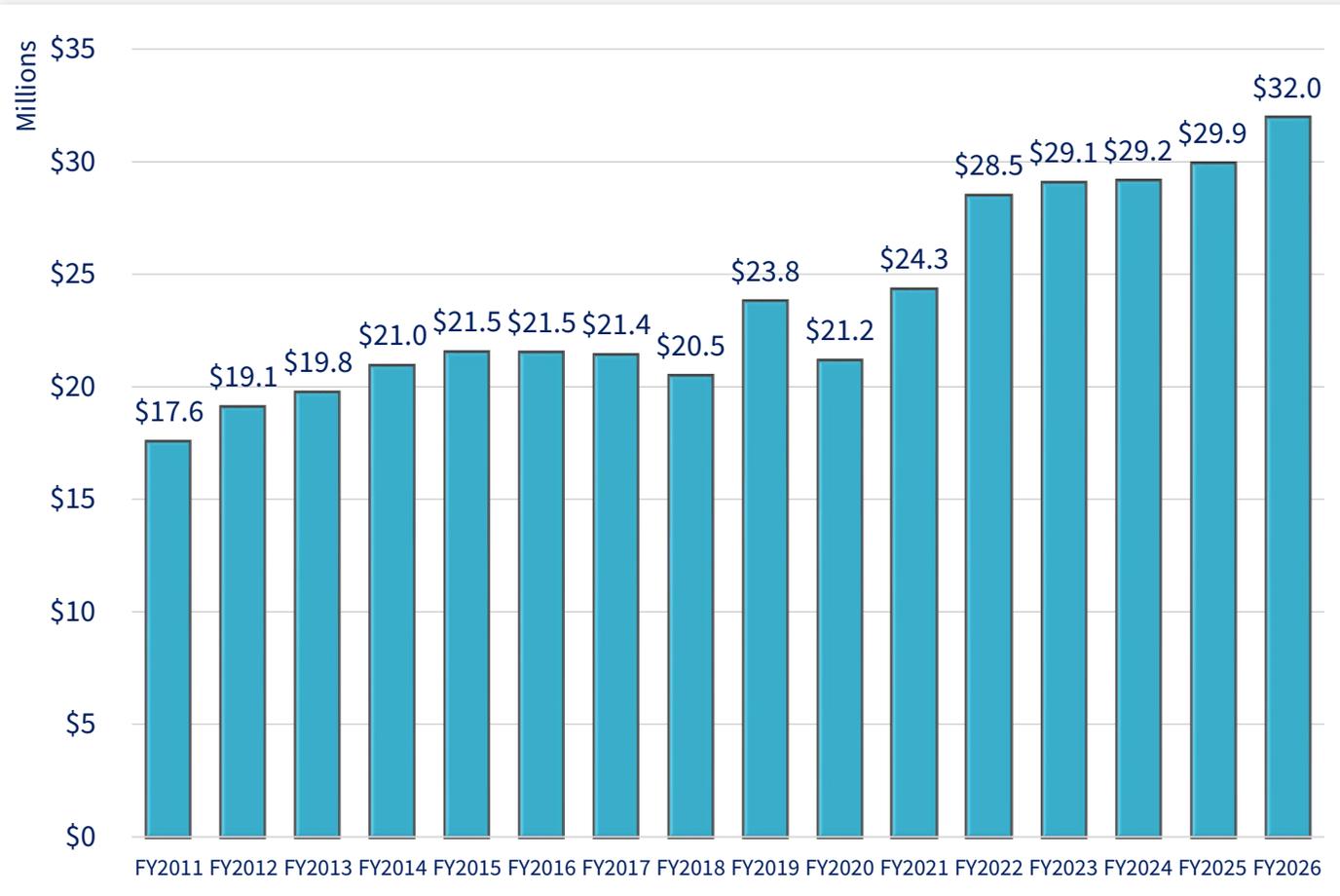


# Property & Real Property Transfer Tax





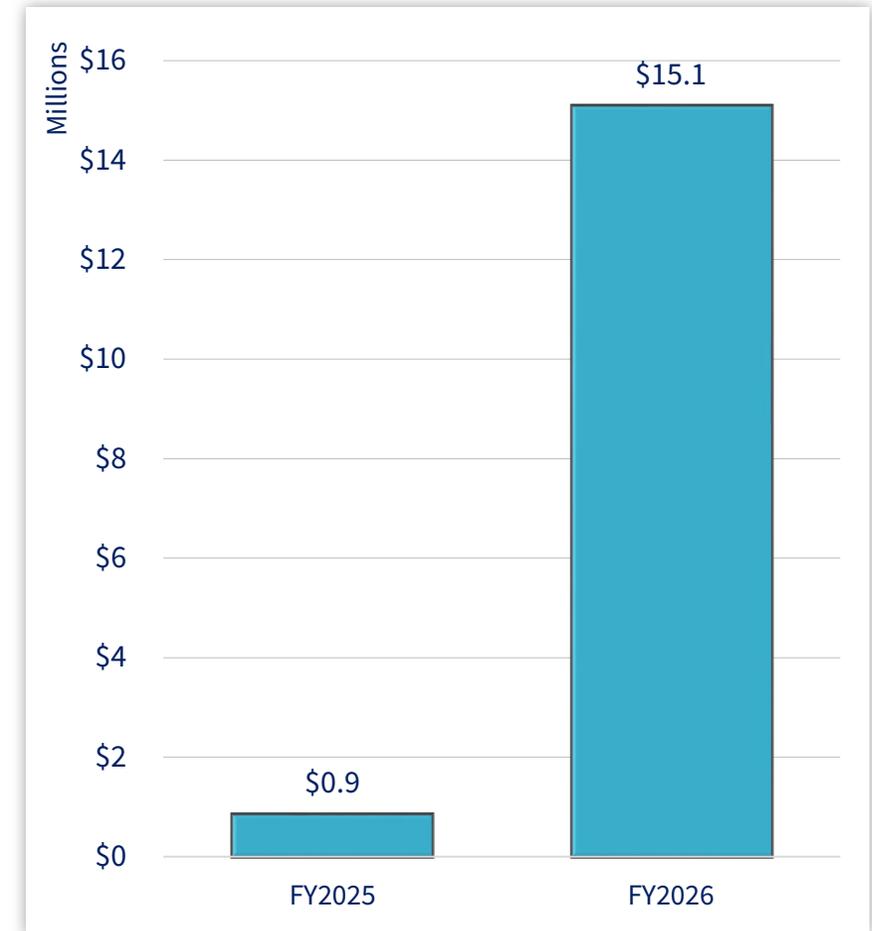
# Bradley-Burns 1.00% Sales Tax Trends



Source: Neumo, Economic Review 2025 Q3

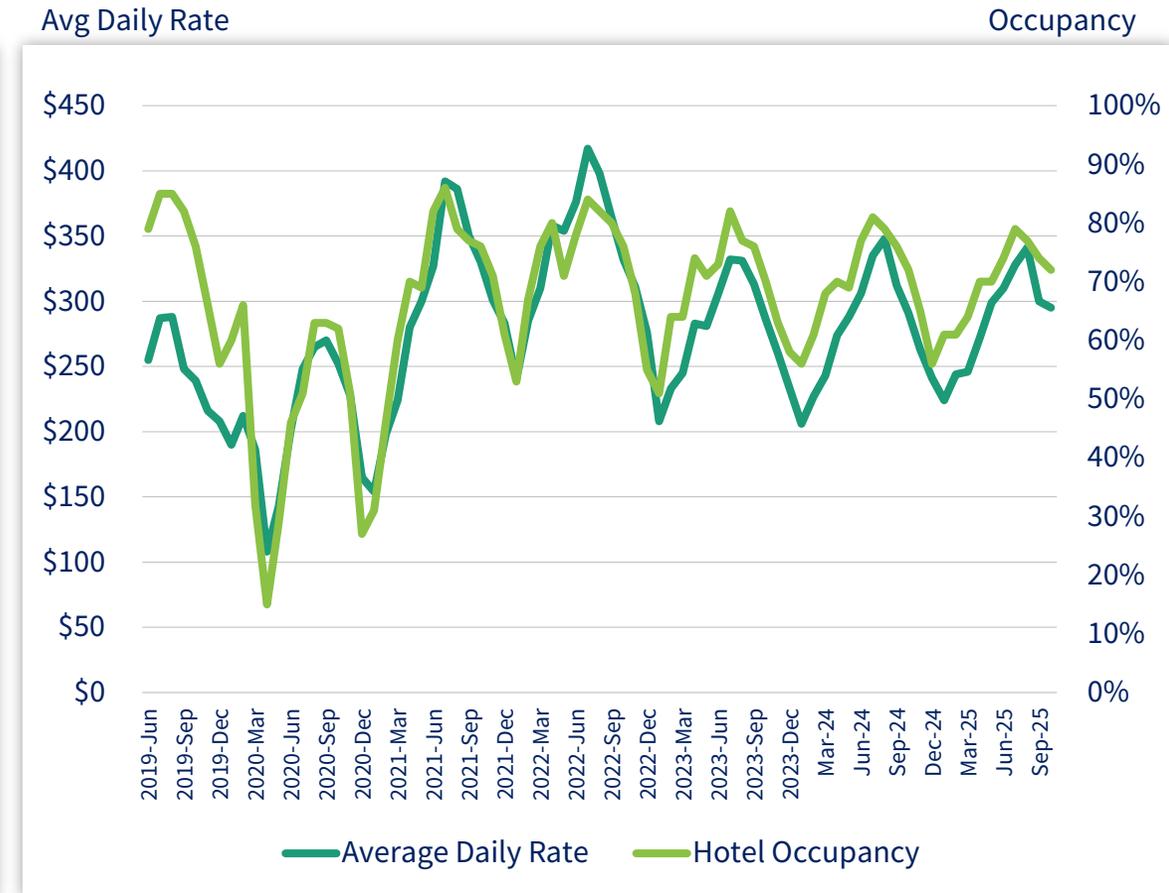
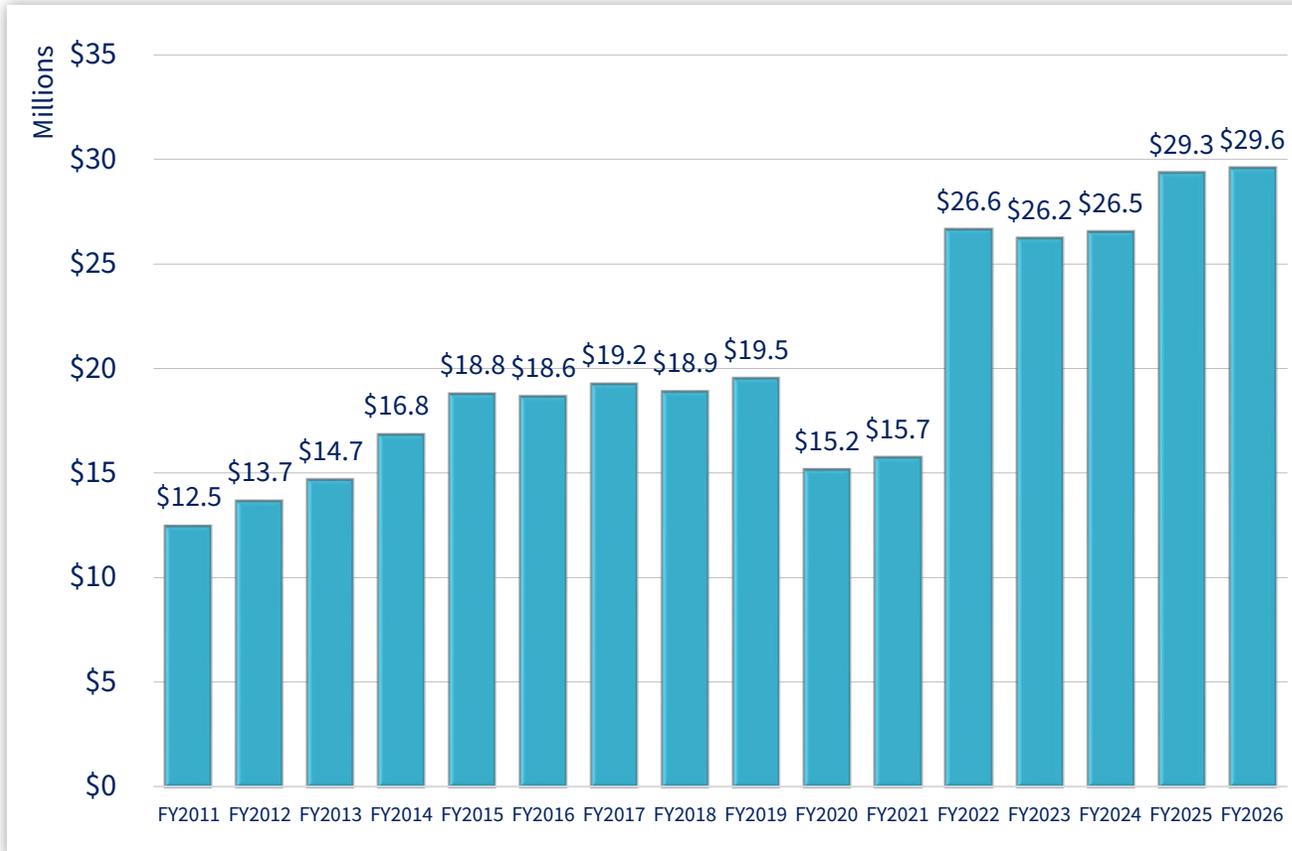


# Measure C 1.00% & Measure I 0.50% Trends





# Transient Occupancy Taxes Trends



Source: Visit Santa Barbara, Hotel ADR & Occupancy Reports



# Finance Committee, City Council & Public Hearing Schedule

DATE	ITEM
February 24	Q2 Report, Deficit Update, & Budget Work Session
April 21	Budget Introduction to the City Council
May 5	Finance Committee review of the recommended budget
May 12	Budget Hearing – General Fund departments
May 19	Budget Hearing – All other fund departments
June 9	Budget deliberations
June 16	Budget adoption



# Questions, Public Comment, & Discussion

