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File ID: 2025-01717

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**Adoption of the Fiscal Year (FY) 2026/27 Budget Development Policy and Provide Direction on the Two-Year Budget Process and Council Amendments Best Practices**

File ID: 2025-01717

**Location:** Citywide

**Recommendation:** 1) Pass a **Motion** adopting the Fiscal Year (FY) 2026/27 Budget Development Policy; 2) Provide direction on the process to balance a two-year budget; and 3) Provide direction on Council amendments best practices.

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**Attachments:**

1-Description/Analysis

**Description/Analysis**

**Issue Detail:** The City is facing significant financial challenges. As shown in the FY2025/26 Approved Budget (Budget) five-year forecast below, the City's budget is facing a structural deficit with the pace of expense growth exceeding revenue growth over the next five years. Both the FY2024/25 Budget and FY2025/26 Budget decreased the size of the structural deficit, but deficits are still forecasted in future years.

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<b>5-Year Forecast</b> General Fund (\$ in 000s)	<b>FY2025/26</b> Approved	<b>FY2026/27</b> Projection	<b>FY2027/28</b> Projection	<b>FY2028/29</b> Projection	<b>FY2029/30</b> Projection
<b>BEGINNING AVAILABLE FUND BALANCE</b>	<b>12</b>	<b>488</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues</b>					
Revenues	838,742	851,643	869,393	885,136	900,669
Other Sources	18,150	15,488	15,181	15,407	15,637
<b>Total Revenues/Resources</b>	<b>856,892</b>	<b>867,131</b>	<b>884,574</b>	<b>900,542</b>	<b>916,306</b>
<b>Expenditures</b>					
Department Operating, Debt, and MYOPs	860,789	868,346	895,763	929,226	948,862
Capital Projects	15,835	15,740	15,211	15,191	15,191
Federal Funding Loss Contingency	3,738	-	-	-	-
EUR Contribution	-	4,396	4,530	4,696	4,792
<b>Total Expenditures/Uses</b>	<b>880,362</b>	<b>888,481</b>	<b>915,504</b>	<b>949,113</b>	<b>968,845</b>
<b>Surplus/(Deficit)</b>	<b>(23,469)</b>	<b>(21,351)</b>	<b>(30,930)</b>	<b>(48,570)</b>	<b>(52,538)</b>
<b>Other Sources/(Uses)</b>					
Reserve for Future Budget Development (FY2023/24)	26,807	-	-	-	-
FY2025/26 Vacancy Factor	6,467	6,596	6,728	6,863	7,000
<b>Total Other Sources/(Uses)</b>	<b>33,274</b>	<b>6,596</b>	<b>6,728</b>	<b>6,863</b>	<b>7,000</b>
<b>Voter-Approved Spending</b>					
Measure L	(9,329)	(9,329)	(9,329)	(9,329)	(9,329)
<b>Total Voter-Approved Spending</b>	<b>(9,329)</b>	<b>(9,329)</b>	<b>(9,329)</b>	<b>(9,329)</b>	<b>(9,329)</b>
<b>Surplus/(Deficit) with Other Sources</b>	<b>476</b>	<b>(24,083)</b>	<b>(33,530)</b>	<b>(51,036)</b>	<b>(54,867)</b>
<b>Homeless Services</b>					
General Fund Support	35,304	11,507	11,555	11,604	11,653
Homeless Housing, Assistance, and Prevention Program (HHAP-6)	12,896	-	-	-	-
Homeless Services Programming	(48,201)	(48,304)	(48,408)	(48,892)	(49,381)
<b>Total Homeless Services</b>	<b>-</b>	<b>(36,797)</b>	<b>(36,853)</b>	<b>(37,288)</b>	<b>(37,728)</b>
<b>Surplus/(Deficit) with Homeless Services</b>	<b>476</b>	<b>(60,880)</b>	<b>(70,383)</b>	<b>(88,325)</b>	<b>(92,595)</b>
<b>ENDING AVAILABLE FUND BALANCE WITH HOMELESS SERVICES</b>	<b>488</b>	<b>(60,392)</b>	<b>(70,383)</b>	<b>(88,325)</b>	<b>(92,595)</b>

To address the structural deficit issues and provide transparency for Council and the public, staff is proposing the adoption of the following policies and procedures for FY2026/27 Budget development. In addition, considerations regarding balancing the year following the budget year are presented for Committee discussion.

#### City Charter - Budget Guidelines:

As stated in City Charter, Article IX Section 111, “each department, office and agency of the city shall provide in the form and at the time directed by the city manager all information required by the city manager to develop a budget conforming to modern budget practices and procedures as well as specific information which may be prescribed by the council.” The City’s budget process requires departments to submit all budget change proposals for review and consideration by the City Manager, which include both augmentations and reductions. All City departments, including Charterand appointed offices, should follow process provided by the Budget Division.

**FY 2026/27 Budget Development Policy:**

As in the prior two budget cycles, staff will request departments submit reduction plans, with the total amount of reductions submitted across all City departments being greater than the projected budget deficit in order to give Council a menu of reduction options. To achieve that goal, the City will follow the following guidelines:

- All City departments, including Charter and appointed offices, will submit budget balancing strategies totaling 15% of net General Fund (including Measure U) use in their FY2025/26 Budget to the City's Budget Division.
- Budget reduction strategies should seek to minimize, to the extent possible, service impacts to residents.
- All City departments, including Charter and appointed offices, will follow the timelines and instructions provided by the Budget Division.

This approach will ensure all proposed changes are analyzed and reviewed in a consistent manner and provide Council with the information needed to make budget decisions.

**Council Amendments to the Proposed Budget:**

At the Budget and Audit Committee (Committee) meeting on September 16, 2025 (File No. 2025-01557), staff recommended that Councilmember proposals for amendments to the Proposed Budget be submitted in memo form to the Council and City Manager by the end of the first Council budget hearing. This process would allow staff to provide a fiscal analysis of the proposal, publish the memos as attachments to the staff report for the next budget hearing, and allow staff to create summaries of all proposals for Council to discuss and deliberate in the following budget hearing. This process will allow each Councilmember and the public to view all the proposals along with staff analysis.

The Committee made several changes to the recommendation and passed a motion to forward the following to Council:

- Make it a best practice for Councilmembers to submit their proposals in writing as early as possible in lieu of a formal process; and
- Continue the practice of Councilmembers being able to propose budget changes at Council meetings.

Two-Year Budget Development:

During the FY2025/26 budget process, there was a request to discuss the development of a two-year budget process. Due to the level of planning and resources required and current technology infrastructure, conducting a two-year budget for the upcoming budget cycle would be extremely difficult to achieve. However, there are several alternative options to consider if Council would like to balance the fiscal year after the Proposed Budget fiscal year:

- *Option 1 - Balance the entire second-year budget:* This could be achieved by approving additional reductions to be implemented in the second-year budget with unused reduction strategies from the Proposed Budget **OR** approve ongoing reductions in the Proposed budget to fully balance the second year.
- *Option 2 - Determine a deficit percentage threshold for the second-year budget:* Instead of attempting to balance the entire second-year budget, there would be a percentage threshold that the deficit must be under. For example, if the percentage threshold is 2% and the General Fund budget is \$900 million, then the second-year budget cannot be in deficit by more than \$18 million.
- *Option 3 - Do not implement second-year budget reductions at this time.*

The Committee passed a motion to move forward with Option 2 and asked staff to conduct research on the technology needed to conduct a formal two-year budget process. In addition, the Committee asked staff to bring deficit percentage threshold options. The forecasted deficit for FY2027/28 (from the FY2025/26 Approved Budget five-year forecast) is \$70.4 million. Below is a chart with deficit percentage threshold options and amounts based on the FY2027/28 expenditure amount of \$915.4 million.

Deficit Threshold	
%	(in millions)
1%	\$9.2
2%	\$18.3
3%	\$27.5
4%	\$36.6
5%	\$45.8

Staff will come back to the Committee with information on the cost and timeline of a financial system upgrade.

FY2026/27 Budget Hearing Schedule and Other Updates:

Below is a draft schedule of the FY2026/27 Budget hearings. The proposed schedule addresses Council's recommendations from the previous budget cycle and the Committee's recommendation from September 16, 2025.

**2026 Budget Hearing Schedule**

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Legislative			
Date	Time	Body	Subject
Proposed Budget			
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)

Staff are currently working with the Measure U commission to gather their FY2026/27 Budget priorities, which will be provided to departments as they work on their reduction proposals.

In addition, staff are currently working on launching the FY2026/27 Budget survey (survey). The survey will include Council's new priorities from the City Council Priority and Goal Setting Workshop on September 30, 2025.

**Policy Considerations:** The proposed policies and processes could help to address on-going structural deficits and create more transparency for Council and the public.

**Economic Impacts:** Not applicable.

**Environmental Considerations:** California Environmental Quality Act (CEQA): This report concerns administrative activities and government fiscal activities that do not constitute a “project” as defined by CEQA Guidelines section 15378 and California Public Resources Code section 21080 and are not subject to the provisions of CEQA (CEQA Guidelines, §15060(c)(3)). CEQA review for any project which utilizes funds allocated in this report, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

**Sustainability:** Not applicable.

**Commission/Committee Action:** Staff presented the proposed policies and process to the Budget and Audit Committee meeting on September 16, 2025. Several motions were passed as detailed above in the Description/Analysis section.

**Rationale for Recommendation:** The proposed policies and processes reflect Council direction during the FY2025/26 budget process with further direction from the Committee. These policies and processes would not only help address structural deficit issues and create more transparency for Council and the public, but it would also create procedural efficiencies.

**Financial Considerations:** The proposed policies and processes will support efforts to move the City’s operating budget back to structural balance, which will help improve the City’s overall fiscal condition.

**Local Business Enterprise (LBE):** Not applicable.