



A Tradition of Stewardship  
A Commitment to Service

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**Ryan J. Alsop**  
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To: Board of Supervisors

From: Ryan Alsop, Chief Executive Officer

Date: March 24, 2026

Subject: Fiscal Strategy, Budget Policies, and  
Mid-year Fiscal Review for Fiscal Year 2025-26

### **Introduction**

Our fiscal strategy and budget policy document (Exhibit A) provides the structural roadmap in the development of our annual budget. It is important to review this document annually as Board priorities and fiscal climates change. Aside from the presentation style, the only material modification in the attached documentation for the fiscal year 2026-27 budget development is in Section 1 of the Budget Policies regarding the level of General Fund Contributions. While committing to maintain sustainable levels of General Fund Contributions to Roads, Fire and Housing and Community Services, this policy now provides for an annual analysis and discussion rather than an automatic transfer.

A mid-year review of the County's budget status, focusing particularly on the General Fund, is an important element of our on-going fiscal monitoring process. Using six months' worth of actual revenues and expenditures, we work with departments and the Auditor-Controller's Office to forecast revenues, expenditures and Net County Cost, through the end of the fiscal year. This review enables us to identify and address any current-year budget challenges in a timely manner. It also assists us in preparing the fiscal year 2026-27 budget by providing an estimate of the General Fund ending available fund balance as of June 30, 2026, which becomes a budget resource for the next fiscal year. A similar analysis is completed for all funds to ensure fiscal stability and sustainability of services provided within each fund.

### **Mid-Year Fiscal Review – General Fund**

Using the most current financial information available, we conservatively estimate that the General Fund will complete this fiscal year (2025-26) with an available ending fund balance of approximately \$11.2 million. This is roughly an \$800,000 increase compared to the adopted budget projection of \$10.4 million and is a result of several adjustments, both within revenues and expenditures.

The chart on the next page shows a high-level summary with the differences from the Adopted Budget and the 2025-26 Mid-Year Estimates.

GENERAL FUND SUMMARY  
Fiscal Year 2025-26

	Mid-Year		
	<u>Adopted Budget</u>	<u>Budget Estimates</u>	<u>Difference</u>
<b>Beginning Available Fund Balance</b>	\$ 57,268,624	\$ 55,801,672	\$ (1,466,952)
<b>Projected Revenues</b>	306,679,752	302,565,610	(4,114,142)
<b>Total Financial Resources</b>	<u>\$ 363,948,376</u>	<u>\$ 358,367,282</u>	<u>\$ (5,581,094)</u>
<b>Projected Expenditures</b>	\$ 341,321,348	\$ 333,237,362	\$ (8,083,986)
<b>Increase to Designation for Fiscal Uncertainty</b>	10,000,000	10,000,000	-
<b>Increase to General Reserves (Policy Level)</b>	2,225,000	3,928,667	1,703,667
<b>Total Financial Requirements</b>	<u>\$ 353,546,348</u>	<u>\$ 347,166,029</u>	<u>\$ (6,380,319)</u>
<b>Add to (Reduction of) Available Fund Balance</b>	<u>\$ 10,402,028</u>	<u>\$ 11,201,253</u>	<u>\$ 799,225</u>

**Analysis of Major Variances**

The following is a brief explanation for the differences in projected revenues and expenditures identified above.

- A. General Fund Revenues are estimated to be approximately \$4.1 million lower (net) than the Adopted Budget.

The primary decreases (\$10.3 million) in revenues are in the following areas:

1. Property Tax revenues are currently projected to be approximately \$7.0 million lower than budgeted, due to an overestimation of end-of-year receipts and year-to-year growth in assessed value coming in well below the 10-year average.
2. Sales Tax is projected to be approximately \$550,000 lower than budgeted based on the most recent report received from the HDL Companies, who provide sales tax forecasts.
3. Transient Lodging Tax revenues are projected to be approximately \$750,000 lower than budgeted based on the latest market trends.
4. Proposition 172 revenues, a permanent half-cent sales tax in California for local public safety, are projected to be approximately \$2.0 million lower than budgeted due to a calculation error in the adopted budget for the current fiscal year.

These decreases are offset primarily by the following increases (\$6.2 million) in revenues:

1. Release of disaster FEMA audit funds of \$2.8 million.
2. Release of unused Roads disaster CIP funds of \$1.2 million.
3. Reimbursement from California Public Utilities Commission - Local Agency Technical Assistance grant for the broadband project expended in the prior fiscal year of \$500,000.
4. Increase in PBES permit and planning fees of \$1.0 million.
5. Various other small increases totaling approximately \$700,000.

- B. General Fund Expenditures are projected to be approximately \$8 million lower (net) than the Adopted Budget.

The primary decreases (\$11.8 million) of expenditures are in the following areas:

1. \$500,000 decrease in County Counsel's office's due to less than anticipated outside counsel legal costs. Legal services expenses vary significantly from year to the next based on litigation matters pending and what phase of the process they are in.
2. Fleet Vehicle Replacement Fund is an Internal Services Fund and has accumulated excessive fund balance. It plans to credit departments back at end of this fiscal year and the estimated amount back to the General Fund is \$1.157 million.
3. \$9.0 million decrease from not transferring General Fund to the Fire Fund due to Fire Fund having sufficient fund balance.
4. \$1.175 million decrease from not transferring 4<sup>th</sup> quarter General Fund contribution to the Housing & Community Services due to it having sufficient fund balance.

These decreases are offset primarily by the following increases of expenditures (\$3.4 million):

1. \$925,000 salary increase due to Deputy Sheriff's Association's labor negotiations.
2. \$750,000 increase to Conflict Public Defender legal costs.
3. \$850,000 increase due to new leased office space.
4. \$840,000 increase due to transfer to Roads for the latest storm repairs.

During the mid-year analysis, departments have identified budget adjustments needed based on actual activity throughout the year. Where possible, departments are "shifting" appropriations within their control to offset deficits, instead of utilizing available fund balance.

However, we are recommending mid-year budget increases to appropriations in the General Fund totaling \$376,000, offset by the use of available fund balance, primarily to cover new contractual obligations entered into throughout the year. We are also recommending amendments for funds other than the General Fund, which are either budget neutral or using the respective fund's available fund balance. Details of the mid-year budget amendments are attached to this report as Exhibit B.

The estimated ending available fund balance for June 30, 2026, of approximately \$11.2 million, suggests that the General Fund should have the necessary resources to make it through the rest of the fiscal year without the need to make expenditure reductions beyond those that have already been made or assumed in these projections.

It is important to remember, because departments work on mid-year budget estimates with only six months' worth of actual data, with another six months remaining, the mid-year estimates tend to be very conservative, notably with expenditures coming in below estimates, usually resulting in actual numbers at the end of the fiscal year to be much better.

Given the implications of this forecast, and the uncertainty of next fiscal year and beyond, staff will return to the Board early in October for a budget update when final accounting is completed and the fiscal year is closed.

## **Five-Year Forecast**

The purpose of the Five-Year Forecast is to evaluate current and potential future fiscal conditions to guide policy and programmatic decisions. Forecasts present estimated information based on past, current, and projected financial conditions to help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services. It is important to develop and monitor these estimates on a regular basis to ensure good fiscal discipline and maintain essential community services.

Although we estimate current budget requirements to be met, actuals from the previous two fiscal years, and mid-year projections of the current fiscal year, are demonstrating that growth in General Fund expenditures is outpacing growth in General Fund discretionary revenue sources (Property, Sales, and Transient Occupancy Taxes). This will be a key informant in the development of next fiscal year's budget.

To minimize the increases to the expenditures for next year's budget, departments are being guided to build their budgets with no increase to service levels and no increase to staffing unless they are able to provide savings to offset the cost elsewhere. Only adds/deletes of positions with no net increases or extremely minimal increases were approved. Staff is also analyzing every General Fund contribution to other funds and will recommend appropriate levels of funding based on need to continue sustainable service levels, as modified in the Budget Policies.

Staff will come back during the budget hearings with a five-year forecast using the recommended fiscal year 2026-27 budget as the base year, looking four years into the future. Staff will present the forecast using past trends and current assumptions with the best information available to date.

## **Future Stress Factors on the General Fund**

There are several budgetary issues that your Board will be facing going into the fiscal year 2026-27 budget. As mentioned, the increase in expenditures are outpacing the increase in available discretionary revenues. In addition, the list below demonstrates current stress factors that are known today and will continue to challenge the limits of our General Fund resources.

- Property Tax revenue growth is not increasing at the same pace as expenditures due to lower than average growth in assessed values. Other key discretionary revenue streams, such as sales tax and transient occupancy taxes, are underperforming in today's economic climate.
- General Liability and Property Insurance costs are increasing by nearly \$2.0 million (28%) from fiscal year 2025-26 to fiscal year 2026-27. The cost for liability and property insurance has been increasing each year, and it is unknown by how much in the future years.
- Health Insurance costs for the employees are increasing by nearly \$2.0 million (10%) from fiscal year 2025-26 to fiscal year 2026-27. The cost for health insurance has been increasing each year, and it is unknown by how much in the future years.
- The estimated total cost of the General Plan update is approximately \$6.5 million, including \$1.7 million for the current fiscal year to update the Baseline Data Report. Roughly half of the cost is projected to be covered by collected fees, resulting in a net General Fund cost of approximately \$3.2 million over an estimated six years.

- In the December 2025 storm event six roads were damaged. At the March 10th BOS meeting, your Board approved \$1,707,891 from the Roads Operations budget to the six project budgets for the design costs. It is anticipated an additional \$8.5 million will be needed for the construction phase. Construction of five projects is currently scheduled for the summer of 2026, with an additional one scheduled in 2027.
- Lake Berryessa Concessions budget was funded partially by a Federal grant. The cost to the County is currently around \$250,000. Due to the Federal grant expiring, the General Fund cost is expected to increase to \$700,000 by fiscal year 2027-28.
- The current labor agreement with the Napa Association of Public Employees - Public Service Employee unit, representing most County employees, expires in June 30, 2027.
- County facilities are aging and in need of renovation. Not only are major capital needs increasing, but this has also required the County to enter into leased space while still maintaining the current buildings.
- Excess ERAF revenue continues to be unpredictable and includes the uncertainty of VLF funding, without a State legislative fix, pending Napa County Unified School District becoming basic aid.
- Ongoing Federal and State financial pressures/reductions are greatly affecting the funding for our most vulnerable populations we serve through our Health and Human Services Agency and programs offered through Housing and Community Services. This includes, but is not limited to, Behavioral Health and Mental Health Service Transitions, and the new HR1 (Medicaid eligibility) changes. Staff will come back at a future meeting with more details on these programs.
- A half-cent sales tax increase to fund Parks and Fire prevention projects may be on the November 2026 ballot. If passed, it is expected to raise approximately \$23.0 million per year starting April 1, 2027. Currently, the General Fund includes approximately \$6.3 million in annual expenditures, and in certain years more, to support wildfire mitigation and prevention, and parks and open space preservation.

I want to thank our Department Heads and County staff for their work in reviewing their budgets and being proactive in looking for cost efficiencies while still maintaining superior services to our residents.