General Fund Summary

The General Fund is the City's primary operating fund and accounts for the City's discretionary funding sources (e.g., property tax, sales tax, business tax, transient occupancy tax, and franchise fees). As a rule, General Fund resources are used only to fund operations that do not have other dedicated (restricted) funding sources such as police, fire, and maintenance, as well as the administrative systems required to support them. Operations that rely heavily on non-General Fund resources, such as land development, recreation, and human services, are accounted for in other funds.

This section provides information on the Biennial General Fund budget, including budget assumptions, expenditure and revenue highlights, transfers to other funds, reserves, and a five-year financial forecast.

For FY 2026/27, General Fund revenue estimates (excluding Fund Balance) total $193.1 million, representing a 4.6% increase from the 2025-2026 Adopted Budget level. In FY 2027/28, General Fund revenue estimates (excluding Fund Balance) total $199.9 million, representing a 3.6% increase from the 2026/27 Proposed Revenue Budget level.

Estimates for each category are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections – an estimate for the amount to be collected in prior year and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for FY 2026/27 and FY 2027/28. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The Biennial General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Budget Assumptions

Based on the data available at this time and economic forecasts from a range of sources, the following key assumptions are included in the Biennial Budget:

1. The local economy will grow modestly during Years 1 and 2.

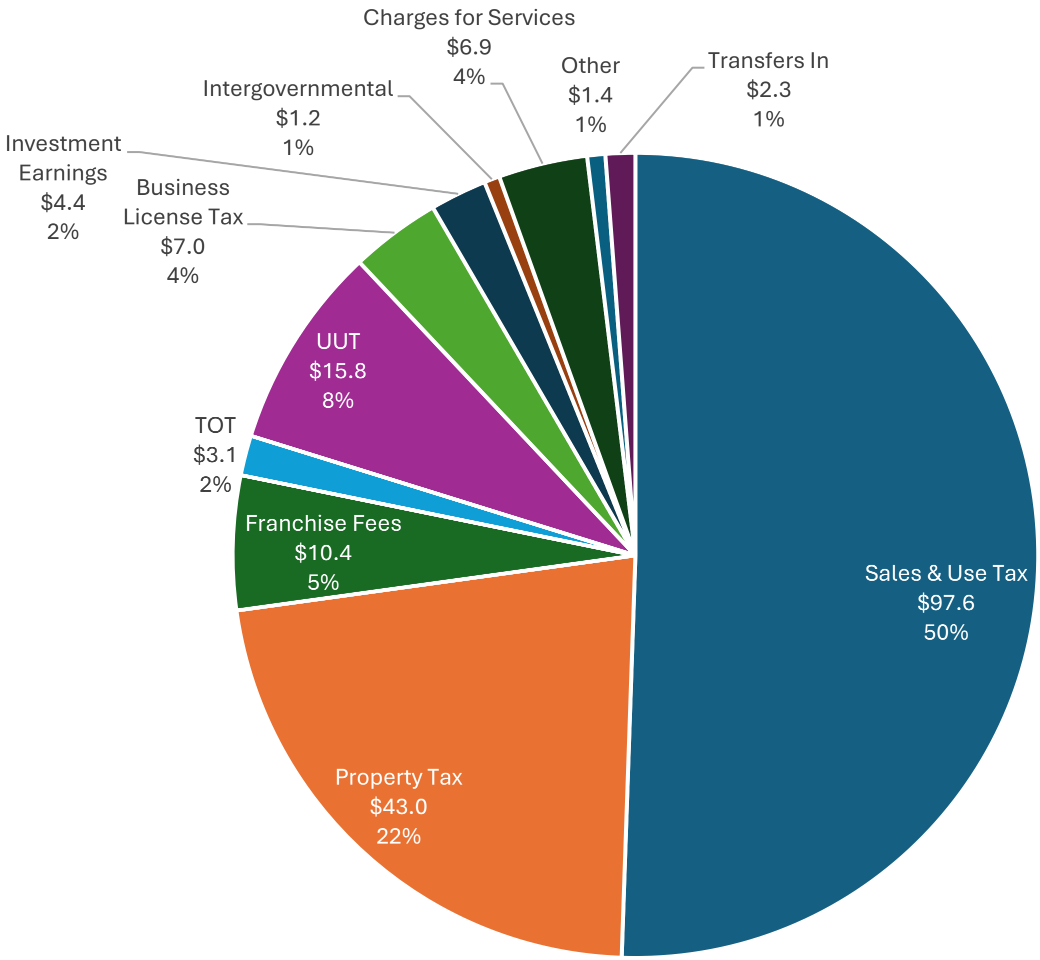
   Ongoing Biennial Budget resources are estimated to grow by 4.6%. The largest contributor to the increased resource estimate is sales tax. The General Fund's top three revenue categories, sales tax, property tax, and utility user tax, comprising 81.0% of total General Fund resources and are estimated to increase 6.7% in Year 1 from the FY 2025/26 level and 4.0% in Year 2 from the projected FY 2026/27 level.

2. The General Fund Contingency Reserve will be maintained at 12.0% of total budgeted Expenditures.

General Fund Overview

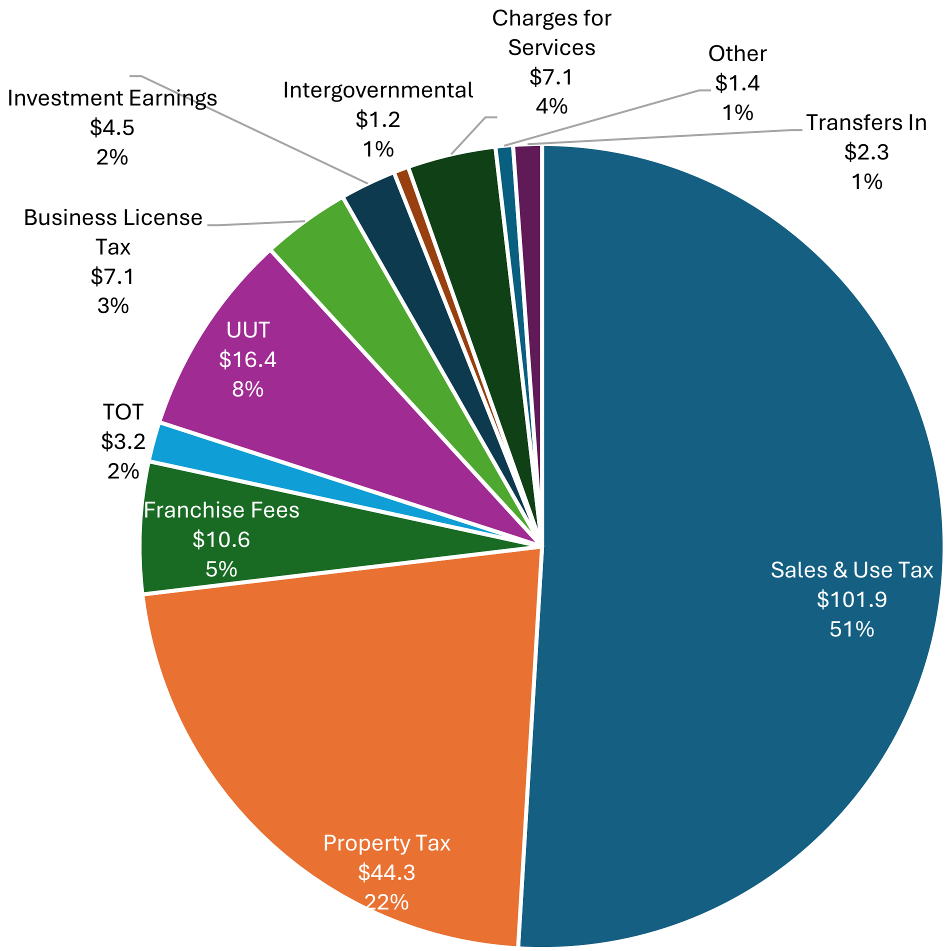
The two highest revenue sources combined are 73% for both years and include property tax and sales tax (inclusive of Measure E and Measure G revenues).

FY 2026/27 Projected Revenues: $193.1M
(in millions)



General Fund Overview

FY 2027/28 Projected Revenues: $200.0M
(in millions)



Top Two General Fund Revenues		
	FY 2026/27	FY 2027/28
Sales Tax	50.5%	51.0%
Property Tax	22.3%	22.2%
% of GF Revenues	72.8%	73.2%

General Fund resources include revenues and transfers into the General Fund from other funds. Sales tax revenue is anticipated to total $91.0 million in FY 2025/26. Staff projects sales tax will increase to $97.6 million in FY 2026/27, an increase of 7.2% and $101.9 million in FY 2027/28, and increase of 4.5%.

Property tax revenues are estimated to total $41.5 million in FY 2025/26, and staff projects those revenues will increase to $43.0 million in FY 2026/27, an increase of 3.5% and $44.3 million in FY 2027/28, an increase of 3.1%. Under Proposition 13, assessed values of all real property adjust with the California Consumer Price Index (CCPI), with a 2% limit, unless there is a change in ownership or new construction. The CCPI adjustment for the FY 2026/27 tax roll is an increase of 2%. Property tax revenue comprises approximately 22% of General Fund resources.

Expenditures

The proposed budget maintains the City Council's long-time funding priorities by allocating approximately 61% of the budget to direct costs for public safety and public works. Basic City services, such as police, fire, and maintenance, are labor-intensive. Consequently, the City's budget is largely driven by labor- related costs, including salaries, retirement system contributions, and health benefits.

Non-Departmental

Appropriations and expenditure savings not directly associated with specific departments are classified as "non-departmental." This includes expenditures such as the Emergency 911 Services, Animal Services JPA, rental and sewer utility assistance, the community sponsorships, the budget stabilization contingency, and more. The Proposed Biennial Budget also includes an estimate of County Registrar of Voters costs for the November 3, 2026, elections (Council Districts, 2, 3, and 5, Mayor and two ballot measures).

Please see to the non-department section of this document for detailed expenditures and additional information.

Transfer Out to Other Funds

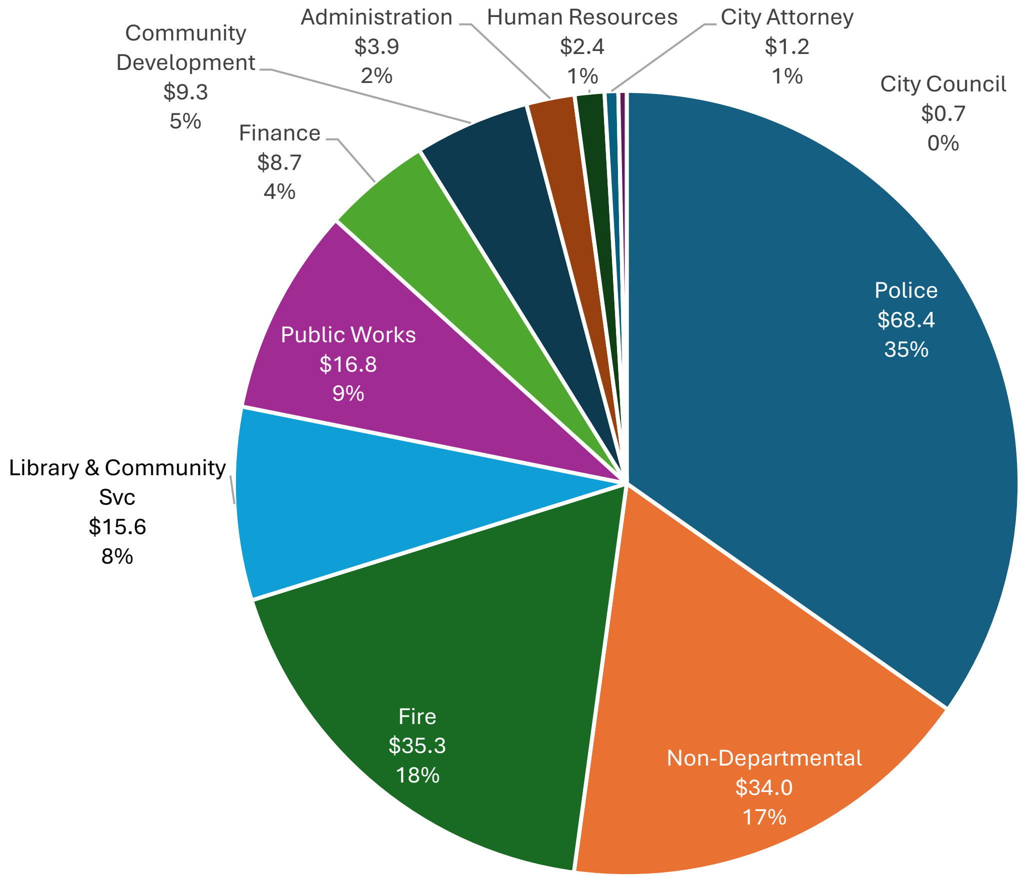
In addition to direct expenditures, the General Fund transfers resources to other funds to support activities that cannot be supported through fees, grants, or charges for service. These activities normally include capital projects and capital maintenance, fleet maintenance, Downtown Parking, National Pollutant Discharge Elimination System (NPDES) Program, debt service, fleet maintenance, vehicle replacement, and insurance premiums. The General Fund subsidizes a portion or all of these programs or activities as they provide a general benefit to the community.

Transfers Out	FY 2026/27 Proposed	FY 2027/28 Proposed
Debt Service	$9,186,000	$7,476,400
Insurances	5,475,000	7,017,000
Fleet Maint & Vehicle Replacement	2,767,000	2,770,000
Storm Sewer	1,570,500	1,524,500
Other*	175,800	418,000
Total	**$19,174,300**	**$19,205,900**

*Municipal Art, parking enforcement, water utility, vehicle abatement

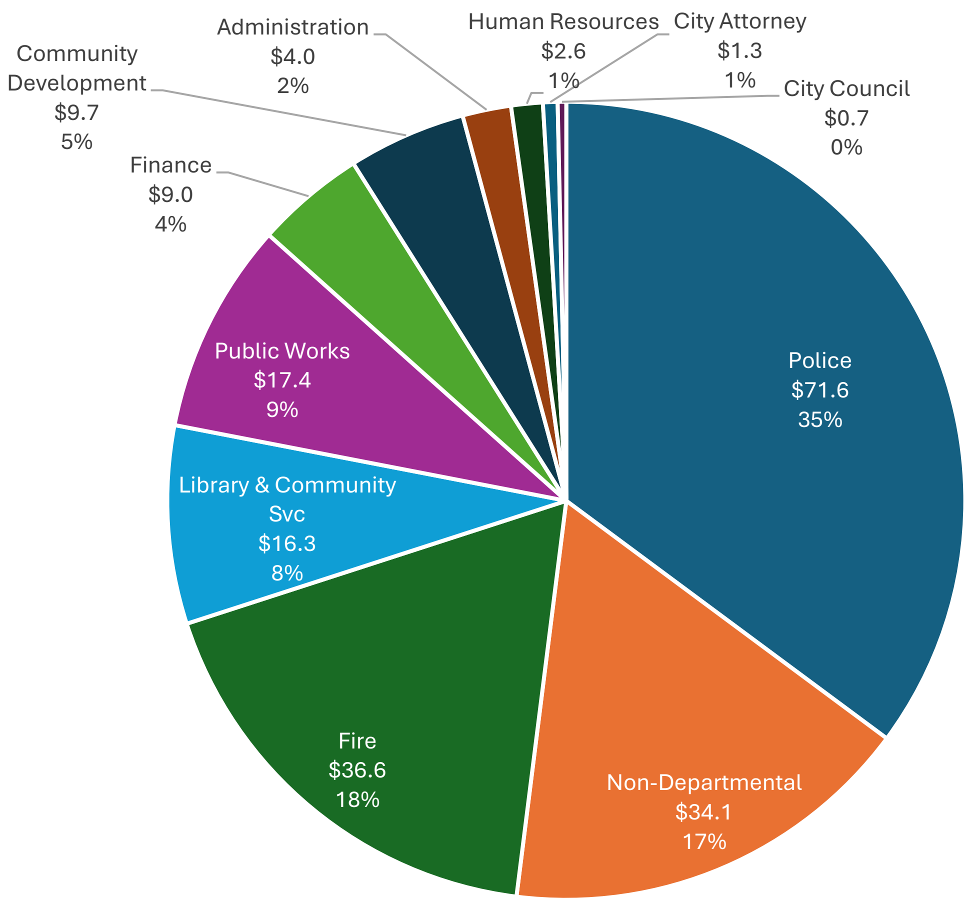
General Fund Overview

FY 2026/27 Projected Expenditures: $196.4M
(in millions)



Year 1 of the Biennial Budget General Fund expenditures are $196.4 million, 6.6% higher than the FY 2025/26 adopted budget.

FY 2027/28 Projected Expenditures: $203.2M
(in millions)



Year 2 of the Biennial Budget General Fund expenditures are $203.2 million, 3.5% higher than the FY 2026/27proposed budget.

General Fund Reserves

The General Fund Economic Contingency Reserve is intended to mitigate the effects of unanticipated situations such as natural disasters and severe unforeseen events. Economic Contingency Reserve funds are also available to provide a source of working capital for new programs or undertakings that have the potential for receiving significant funding from outside sources, and organizational retooling, process improvement, and strategic entrepreneurial opportunities. The General Fund Contingency Reserve is funded each year at 12% of budgeted expenditures and transfers out. There are three additional reserves – Infrastructure, Maintenance, and OPEB. Combined, the City has 20% in reserves, exceeding the minimum level recommended by the Government Finance Officers Association of the United States and Canada.

The table below summarizes the Biennial Budget projected funding levels for each reserve. The General Fund Economic Contingency Reserve will be established at $24.4 million, and the Infrastructure Reserves at $4.6 million, Facilities Maintenance Reserve at $1.5 million, and OPEB at $10.0 million at the end of Year 2.

General Fund Reserves

	Est. Balance at 7/1/26	FY 2026/27-2027/28 Addition/(Reduction)	Est. Balance at 6/30/28
General Fund	$25,811,843	$1,866,222	$27,678,065
Measure E	4,671,910	(226,348)	4,445,562
Measure G	7,730,795	630,888	8,361,683
Total	**$38,214,548**	**$2,270,761**	**$40,485,309**

This section provides additional background and forecast information for the 5 key General Fund revenue categories that together make up approximately 90% of General Fund ongoing revenues:

Sales & Use Tax	Assumes 7.2% (Year 1) and 4.5% (Year 2) increase from the prior year due to current year performance and projections from the City's sales and property tax consultant.
Property Tax & VLF	Assumes 3.5% (Year 1) and 3.1% (Year 2) increase from the prior year due to current year projected performance and Monterey County Assessor estimates.
Utility Users Tax	Assumes 13.0% (Year 1) and 3.5% (Year 2) increase from the prior year due to current year projected performance.
Franchise Fees	Assumes 1.9% (Year 1) and 2.0% (Year 2) increase from the prior year due to current year projected performance.
Business License Tax	Assumes 4.5% (Year 1) and 1.5% (Year 2) increase from the prior year due to current year projected performance.

Sales Tax

Sales and use taxes are collected by the State. Sales tax is collected on sales of taxable goods that take place within Salinas (sometimes referred to as "point-of-sale" transactions). Use tax is the corresponding tax on transactions involving taxable goods purchased over the internet or out of state for use or storage in Salinas. The State distributes sales tax revenue from point-of-sale transactions directly to the jurisdiction where the sale was made, while use tax revenue is allocated to countywide pools based on the location of the first functional use of the purchase. Each quarter, the countywide pool revenue is allocated to the cities within the county based on their share of that quarter's total countywide point-of-sale revenue. Sales and use taxes (collectively, "Sales Taxes" in the budget) are the City's first largest revenue source.

Sales and use tax is the largest revenue source for the City's General Funds, accounting for 50% of the budgeted General Funds projected revenues for Year 1 and 51% for Year 2. The City currently receives 2.5% of every 9.25% of sales tax paid per dollar on retail sales and taxable services transacted within Salinas, which includes Measures E and G. Measure E accounts for a half percent (0.5%) and was extended with no ending date on November 6, 2012 while Measure G accounts for one percent (1.0%) and was approved on November 4, 2014 for 15 years.

The table below identifies the projected sales tax by General Fund, Measure E, and Measure G for each year.

Sales Tax Category	FY 2026/27 Proposed	FY 2027/28 Proposed
General Fund Sales Tax	$44,387,000	$47,408,000
Measure G Transactions & Use Tax	35,442,000	36,338,000
Measure E Transactions & Use Tax	17,721,000	18,169,000
Total	**$97,550,000**	**$101,915,000**

Property Tax

Property tax is an ad valorem tax (based on value) imposed on real property (land and permanently attached improvements such as buildings) and personal (movable) property. Proposition 13, adopted by California voters on June 6, 1978, created a comprehensive system for the assessment and limitation of real property taxes. Property owners pay the tax based on their real property's adjusted assessed full value. Proposition 13 set the FY 1975/76 assessed values as the base year from which future annual inflationary assessed value increases would grow (not to exceed 2% for any given year). The County Assessor also reappraises each real property parcel when there are changes in ownership or new construction. The County Assessor may also temporarily reduce a property's assessed value if the market value falls below the Proposition 13 level (often referred to as a "Proposition 8" adjustment), but is required to restore the Proposition 13 assessment in subsequent years if the market value increases to that level or above. Proposition 13 limits the property tax rate to 1% of each property's full value plus overriding rates to pay voters' specifically approved indebtedness.

The City of Salinas receives approximately 14 cents of every dollar of property tax paid. Monterey County provides property tax collection updates and projections throughout the year. The current amount received for the first six months of the year is slightly ahead of pace compared to the adopted budget. This includes Redevelopment Agency (RDA) Residual Apportionment, VLF allocation, secured property tax estimates, property transfer tax, and the Educational Revenue Augmentation Fund (ERAF) estimates.

Property tax revenues are estimated to total $43.0 million in Year 1 and $44.3 million in Year 2. The assessed valuation for secured property is based on the value as of January 1, 2026. The change in total property tax from FY 2025/26 to FY 2026/27 is an increase of 3.5% and FY 2026/27 to FY 2027/28 is projected to increase 3.1%.

The most significant property tax revenue indicator is the change in property assessed full values, and the primary influences on that change are the annual inflation adjustment provided by Proposition 13, ownership changes, new construction, and temporary reductions or restorations of value by the County Assessor which are reported to the City by a consultant.

General Fund Forecast

The General Fund forecast is a planning tool that helps staff identify important trends and anticipate the longer-term consequences of budget decisions. The forecast has been instrumental in modeling the effects of such recent budget issues as rising retirement system costs, application of fiscal recovery funds, and potential scenarios for future revenue performance. The ability to model cost and revenue trends beyond the next budget year helps the City identify service levels that can be sustained through all phases of the business cycle.

The forecast is not a plan, but a scenario based on revenue and cost assumptions that are updated regularly as new information becomes available. Of these components, future cost projections, based on known costs, are relatively reliable. Revenue forecasts, on the other hand, are based on assumptions related to future economic conditions. Economic forecasts reported in the media frequently swing from optimistic to pessimistic and demonstrate the perils of committing to a specific prediction of the future. For this reason, the forecast is updated regularly and is the subject of periodic City Council discussion.

Five-Year Financial Forecast Through FY 2030/31

	Amended Budget	Projected				with Measure G	without Measure G
	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2030/31
Revenues:							
Sales Tax	$91,015,000	$93,845,567	$96,764,164	$99,773,529	$102,876,486	$106,075,945	$65,887,946
Property Taxes	41,531,000	42,880,758	44,231,501	45,624,794	47,066,537	48,553,840	48,553,840
Utility Users Tax	14,003,000	14,493,105	15,000,364	15,525,376	16,068,765	16,631,171	16,631,171
Franchise Fees	10,181,000	10,384,620	10,592,312	10,804,159	11,020,242	11,240,647	11,240,647
Licenses & Permits	7,552,500	7,665,788	7,780,774	7,897,486	8,015,948	8,136,187	8,136,187
Charges for Services	6,342,260	6,532,528	6,728,504	6,930,359	7,138,270	7,352,418	7,352,418
Transient Occupancy Tax	3,119,000	3,181,380	3,245,008	3,309,908	3,376,106	3,443,628	3,443,628
Other Revenue	10,808,200	10,826,790	10,845,752	10,865,093	10,884,821	10,904,943	10,904,943
Total Revenues:	**$184,551,960**	**$189,810,534**	**$195,188,378**	**$200,730,703**	**$206,447,174**	**$212,338,778**	**$172,150,780**
Potential Revenues:							
Amazon Revenue	$0	$4,000,000	$6,000,000	$8,000,000	$8,000,000	$8,000,000	$4,976,000
Total Potential Revenues:	**$0**	**$4,000,000**	**$6,000,000**	**$8,000,000**	**$8,000,000**	**$8,000,000**	**$4,976,000**
Total Revenues:	**$184,551,960**	**$193,810,534**	**$201,188,378**	**$208,730,703**	**$214,447,174**	**$220,338,778**	**$177,126,780**
Expenditures:							
Salaries	$65,955,085	$70,084,398	$73,411,731	$76,602,124	$79,647,026	$82,810,795	$82,810,795
Benefits	60,400,488	63,921,727	66,326,160	69,869,959	71,736,754	73,688,741	73,688,741
Services and Supplies	30,743,334	31,022,449	31,949,192	32,903,564	33,886,386	34,898,502	34,898,502
Other Operating	4,281,603	5,281,603	5,281,603	5,281,603	5,281,603	5,281,603	5,281,603
Internal Service Funds	2,668,559	2,701,931	2,735,969	2,770,689	2,806,102	2,842,224	2,842,224
Debt Service	10,562,900	8,735,828	8,104,826	7,757,036	7,835,972	7,885,105	7,885,105
Transfers Out	11,855,500	14,445,775	15,168,064	15,926,467	16,722,790	17,558,930	17,558,930
Total Expenditures:	**$186,467,470**	**$196,193,711**	**$202,977,546**	**$211,111,443**	**$217,916,634**	**$224,965,902**	**$224,965,902**
[Rev - Exp] Over / (Under):	**($1,915,510)**	**($2,383,176)**	**($1,789,168)**	**($2,380,740)**	**($3,469,461)**	**($4,627,123)**	**($47,839,122)**

Fiscal Outlook

The following is a discussion of the national and local economic outlooks used to develop the Biennial Budget revenue estimates. Various economic forecasts and models were reviewed in the development of the revenue estimates. The City also uses an economic forecasting consultant and additional consultants that focus on particular revenue categories, such as sales tax and property tax, to assist in the development of the revenue estimates and to provide information on the future outlook for all revenues.

National Outlook

The labor market has decelerated, with both hiring and separations remaining at low levels. Both labor demand and supply are declining simultaneously, creating a fragile balance. Higher artificial intelligence spending is expected to increase economic activity into 2027 and beyond. The unemployment rate may decline into 2027 before beginning a very gradual increase.

The City's revenue forecast assumes the economy will continue to grow at a moderate pace, supporting modest revenue growth for sales tax and business tax, but continued high mortgage rates and interest rates could suppress property sales and development activity at least through the end of 2026.

According to recent analysis from S&P Global Ratings, the escalation of conflict in the Middle East may function as a negative global supply shock, primarily through impacts to global energy markets and energy prices. While the United States' position as a net exporter of petroleum products may partially mitigate impacts to domestic economic output and real GDP growth, it does not eliminate the potential inflationary pressures associated with higher energy and transportation costs. Elevated energy prices could further impact consumer spending, business operating costs, and overall economic activity.

Uncertainty remains in the duration, scope, and potential escalation of ongoing geopolitical conflicts and their corresponding impacts on global markets, trade, and supply chains. As a result, the near-term economic outlook reflects heightened risk, increased market volatility, and reduced predictability compared to earlier forecasts. These conditions may continue to place downward pressure on economic growth while increasing uncertainty surrounding inflation, interest rates, consumer confidence, and future General Operating Fund revenues.

State Outlook

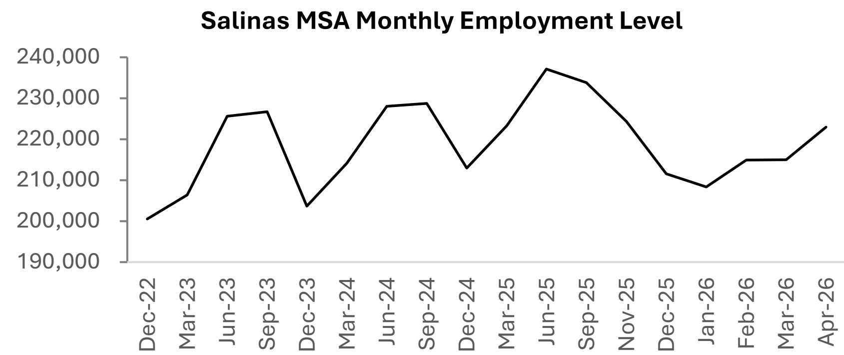
On January 9, 2026, Governor Newsom released the Administration's proposed State budget for consideration by the California Legislature. The proposal projects a General Fund shortfall of approximately $21.0 billion for Fiscal Year 2026-27, reflecting revenues that are not keeping pace with planned expenditures. Since release of the Governor's proposed budget, continued economic uncertainty, market volatility, evolving federal policies, and concerns regarding slower economic growth have further increased uncertainty surrounding the State's revenue outlook heading into the May Revision process.

The projected deficit is driven by both moderating revenue growth and continued increases in State spending commitments. Revenue projections remain highly sensitive to personal income tax collections, capital gains activity, stock market performance, and the continued strength of the technology sector and artificial intelligence-related investment activity. At the same time, expenditures are projected to continue increasing due to ongoing programmatic commitments, labor costs, healthcare costs, education funding obligations, and other statewide priorities, contributing to ongoing structural budget challenges for the State.

Staff will continue to closely monitor revisions to the State budget, economic conditions, proposed statewide initiatives, litigation affecting local government revenues, and other developments that could impact City revenues or expenditures. Financial projections and assumptions will continue to be evaluated and updated as additional information becomes available.

City of Salinas Outlook

The December 2025 employment level of 191,963 in the Salinas Metropolitan Statistical Area (Salinas MSA) grew slightly by 100 jobs. This net increase includes professional and business services eliminating 100 jobs and construction eliminating 5,300 jobs and information eliminating 1,100 jobs. Conversely, education and health services added 4,900 jobs and leisure and hospitality added 1,500 jobs. Due to seasonal trends, employment levels declined during the first few months of 2026 and started to rise again in April 2026 (preliminary employment numbers are provided).

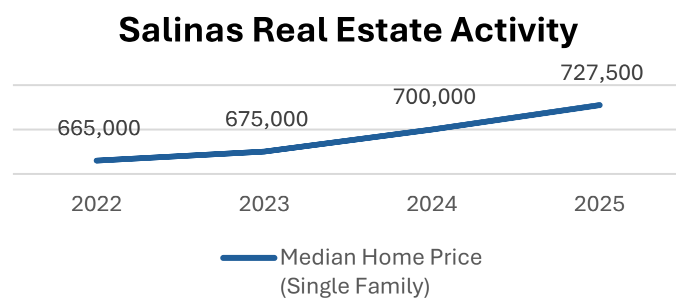


Due to the United States federal government shutdown that occurred from October 1, 2025 to November 12, 2025, the October 2025 employment data is unavailable.

Unemployment Rate (Unadjusted)			
	Dec. 2024	Nov. 2025	Dec. 2025**
Salinas Metropolitan Statistical Area*	8.5%	6.7%	9.3%
State of California	5.4%	5.5%	5.5%
United States	4.1%	4.6%	4.4%
* Bureau of Labor Statistics Data			

The local unemployment rate for December 2025 was 9.3%, which is higher than the November 2024 rate of 6.9% and the prior year unemployment rate of 8.5%. The December 2025 Salinas Metropolitan Statistical Area unemployment rate continues to be significantly higher than the unadjusted unemployment rate for the State (5.5%) and the national rate (4.4%). Given that Salinas is an agricultural community, the unemployment rates at the close of the calendar years are typically at higher levels. Unemployment rates ranging from 4.9% to 7.8% are experienced during the height of the season, which is generally between April and September.

Per the City's property tax consultant, the median sale price of Salinas detached single-family homes from January through September 2025 was $727,500 which was 3.9% more than 2024 price of $700,000. In 2022, the growth in price was 6.4%. In 2023, the price of homes increased an additional 1.5%,



followed by 3.7% in 2024 and 3.9% in 2025 (through September).

Economic conditions will continue to be closely monitored and are factored into the 2027/2031 General Fund Five-Year Forecast. The Proposed Biennial Operating Budget, Capital Budget, and Five-Year Capital Improvement Program were reviewed at the Budget Study Session on May 26, 2026 and will be presented for adoption on June 16, 2026.