

# Budget Overview

Honorable Mayor and Members of the City Council:

I am pleased to present the Proposed Biennial Operating Budget for Fiscal Years (FY) 2026/27 – 2027/28 that meets the important objectives and directives of the City Council while also resolving the ongoing General Fund shortfall with minimal community or employee impacts. The City Council held a Budget Study Session on May 26, 2026, and was presented with the Proposed Biennial Budget, with formal adoption anticipated at a public hearing on June 16, 2026. This transmittal letter summarizes the key components of the Recommended Budget.

## Introduction

The Biennial General Fund Budget for Fiscal Years 2026/27 (Year 1) - 2027/28 (Year 2) is projected to be balanced, continues to allocate resources to core Citywide services and programs, Council Strategic Priority areas, and continuous organizational improvement efforts.

The Five-Year General Fund Financial Forecast (2026/27-2030/31) was used as the starting point in the development of the budget. For the General Fund, the Base Budget required the use of Fund Balance to balance expenditures with revenues.

However, a greater concern is the revenue loss of over \$40 million in 2030/31, due to the sunset of Measure G, if it is not renewed. This will be a significant challenge, requiring substantial reductions and reprioritization of services, programs, and projects.

With those considerations in mind, it is important to stress that the Proposed Biennial Budget follows City Council direction to focus on targeted, strategic spending, while resolving the ongoing shortfall in coming years and preserving critical core community services to the maximum extent feasible. Nevertheless, it is important to keep in mind that continued economic uncertainty requires thoughtful decision-making to maintain a balanced budget in the coming years and position the City to meet future challenges. To help mitigate continued economic uncertainty the Proposed Biennial Budget maintains reserves of \$39.6 million in Year 1 and \$40.5 in Year 2 or approximately 20% for both years.

As with most municipalities, repairs, maintenance, and eventual replacement of facilities and infrastructure will continue to be an ongoing need now and into the future. In addition, new initiatives to address the evolving nature of modern cities will require additional financial resources.

The City continues to exercise financial prudence when planning for the future and continues to prepare to weather possible tough economic times. This includes recommending a balanced budget for the General Fund - the single largest fund of the City and provider of core services to the community.

### **Budget Milestones**

**December - February**  
Community Budget Input

**April**  
Biennial Budget  
Workshop

**May**  
Biennial Budget Update  
Budget Study Session

**June**  
Adoption of Biennial  
Operating and Capital  
Budgets and 5-Year CIP  
Program

## Budget Overview

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While the Biennial General Fund Budget provides sufficient financial resources to maintain current service levels and even enhanced in some areas, it is important to continue exploring options to enhance and diversify the City's revenue in order to maintain fiscal stability and continue to provide the same level of services to the Salinas community. Examples of this work include growing our economic development effort to attract new business and industry, exploring tools such as Enhanced Infrastructure Financing District (EIFD), and intentionally leveraging public-private partnerships (P3). A workshop is planned with the Council by the end of 2026 to discuss these and other tools.

A significant step to maintaining the current level of service is the renewal of Measure G – a one-cent local transaction and use tax established in 2015 with a fifteen-year sunset. Work is underway for the renewal, and Council authorized placing it on the ballot for the voters to decide whether this revenue measure should be renewed and have the sunset removed. As identified in the five-year plan, Measure G has been and continues to be a significant revenue source for the City ranging from \$36 million in the current fiscal year to over \$40 million by 2030.

Recognizing the many needs of the community and the importance of Measure G, staff programmed goals and a revenue allocation plan for Measure G proceeds. The allocation includes 55% toward public safety, 20% towards public works to support various programs including capital improvement projects, followed by recreation, parks, permitting programs, code enforcement, and maintaining citywide fleet (25%). This includes ensuring a safe City, sidewalk and road maintenance, including bicycle and pedestrian safety improvements, recreation programs, among other things.

This transmittal letter is intended to provide a broad overview as well as incremental changes to the budget and new or reallocated funding to implement new or enhance existing services levels. Within the Proposed Biennial Operating Budget is a comprehensive document that contains budgetary data for each program area within departments across over 80 budgeted funds.

While the Proposed Biennial Operating Budget is balanced, there are certainly risks that will likely have future budgetary impacts that include unfunded capital maintenance needs, regulatory changes and economic uncertainty, increased benefit costs and retirement contributions due to market volatility. Staff will continue to work across departments to identify key risk areas and keep City Council apprised of any necessary changes to the Proposed Biennial Operating Budget.

### The Total Proposed Biennial Budget

The Proposed Biennial Budget totals \$323,915,494 in Year 1 and \$320,265,497 in Year 2 for all City funds. The General Fund budget is \$136,036,153, Measure E is \$21,166,700, and Measure G \$39,031,736 in Year 1. The General Fund budget is \$142,317,208, Measure E is \$21,879,680, and Measure G \$38,878,983 in Year 2.

## Budget Overview

<b>2026-2027 Proposed Budget — All Funds (Table 1)</b>					
	2025/26	2026/27	% Change	2027/28	% Change
General Fund	\$126,765,358	\$136,036,153	7.3%	\$142,317,208	4.6%
Measure E	23,765,920	21,166,700	(10.9%)	21,879,680	3.4%
Measure G	33,756,627	39,031,736	15.6%	38,878,983	(0.4%)
Other Operating Funds	71,354,175	80,517,105	12.8%	76,872,426	(4.5%)
<b>Total Operating Funds</b>	255,642,080	276,751,694	8.3%	279,948,297	1.2%
Capital Funds	29,351,297	47,163,800	60.7%	40,317,200	(14.5%)
<b>Total City Budget</b>	<b>\$284,993,377</b>	<b>\$323,915,494</b>	<b>8.3%</b>	<b>\$320,265,497</b>	<b>(1.1%)</b>

As with most municipalities, local services are provided directly by our employees, many of which live in or are from Salinas as they work to serve residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. The delivery of City services is highly dependent on recruiting and retaining talent, which comprises 68% to 70% of budgeted General Fund expenditures, respectively for Years 1 and 2 of the Biennial Budget.

Required payments to the state’s pension system, CalPERS, have consistently been one of the major cost drivers for most Cities over the past decade with persistent increases in pension costs, year over year. The City’s pension plans over the past several decades, like all other CalPERS participants, have experienced changes in actuarial assumptions, demographic changes, and volatile investment returns which have outweighed positive plan experiences. The outcome of these unfavorable economic and demographic conditions is the creation of unfunded pension liability and Other Post - Employment Benefits (OPEB) obligations for the City. To help mitigate this, budget reserves continue to include \$10 million in a 115 Trust. A 115 Trust is a specialized trust created under Internal Revenue Code Section 115 by public entities like cities to set aside funds primarily to cover Other Post-Employment Benefits (OPEB) and pension obligations. The assets in the trust are irrevocably committed to the designated government function, meaning they cannot be used for other purposes.

### Position Impacts

The Proposed Biennial Budget includes a net increase to the overall position count throughout the organization. The Base Budget included the addition of 8 positions (net), as these positions were added during the year. In Year 1, actions in the Proposed Biennial Budget increase a net 18 positions across departments for a total of 686.5 full-time equivalent positions. In Year 2, the total net positions are reduced by 7, bringing the total position count to 679.5. The reduction is due to the SAFER grant term ending however the City is in the process of applying for the SAFER grant again. In the interim, the City expects that these positions will be absorbed through attrition or its internal over hire process for the Fire Department. In summary, the net level of staffing increases from 660.5 full-time equivalent positions in the 2025/26 Adopted Budget to 686.5 at the end of Year 1 and 679.5 at the end of Year 2 in the Proposed Biennial Budget as shown in Table 2 below.

## Budget Overview

<b>Changes in Position Count (All Funds)</b> <b>from 2025-2026 Adopted to 2027/28 Proposed Budget</b> <b>(Table 2)</b>	
2025/26 Adopted Budget	660.5
2025/26 Base Budget Changes (net)	8
2026/27 Proposed Biennial Budget Changes	18
2026/27 Total Net Position Changes	26
<b>2026/27 Proposed Biennial Budget</b>	<b>686.5</b>
2027/28 Proposed Biennial Budget Changes	(7)
<b>2027/28 Proposed Biennial Budget</b>	<b>679.5</b>

### General Fund Forecast

In March 2026, staff released the 2026/27-2030/31 Five-Year Forecast to estimate the budget condition of the General Funds over the next five years. Many factors impact the forecast, including revisions to the base budget such as new labor agreements, addition of ongoing expenditures throughout the fiscal year, and other contractual services costs.

Table 3 below displays the incremental General Fund shortfalls as estimated by the forecast over the next five years.

**2026/27-2030/31**  
**General Fund Five-Year Forecast (in millions)**  
**(Table 3)**

	2026/27	2027/28	2028/29	2029/30	2030/31
Revenues	\$193.8	\$201.2	\$208.7	\$214.4	\$177.1
Expenditures	\$196.2	\$203.0	\$211.1	\$217.9	\$225.0
[Rev-Exp] Over/ (Under)	(\$2.4)	(\$1.8)	(\$2.4)	(\$3.5)	(\$47.8)

As with any forecast, these projections will vary in response to changing economic conditions, which primarily affect City revenues, changes in projected expenditures, particularly in salary levels and retirement costs, or other factors beyond the City's control. The City will continue to evaluate financial trends and other changes that could affect the City's budget situation and report to City Council regularly with updated information.

A conservative approach to ongoing costs is needed to ensure that current one-time surpluses are managed in a way that will not exacerbate future deficits and allow flexibility to revisit how the City provides services, as needed. With this approach in mind, this budget sets aside reserves. Moreover, the City maintains a vacancy rate that aligns with historical trends. Staff will continue to monitor expenditures throughout the year and bring recommendations to Council, as appropriate.

Additionally, the City started planning for the potential extension of Measure G. A feasibility study and initial polling survey has been coordinated to help evaluate voters' interest regarding the measure. As identified in the 5-year forecast, the elimination of Measure G is the major reason for the projected deficit for 2030-2031. As a result, should there not be support to renew the measure, staff will need to start developing a plan for the loss of revenue which will likely include a reduction in personnel. This includes reviewing City

## Budget Overview

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services, programs, and staffing. Thoughtful planning and preparation will need to be prioritized in the near-term.

Another major contributing factor in this budget is preparing for the development in the future growth area and the Amazon facility that is under construction. The Amazon facility is expected to be completed in the first quarter of calendar year 2027 and may begin generating revenue in FY 2026/27. A conservative revenue projection for the fulfillment center is included in the Five-Year Financial Forecast that was published in the FY 2025/26 Mid-Year report. It is more difficult to project revenue for future development until construction begins, therefore the financial forecast did not reflect revenue growth for future developments. Staff will continue to monitor and adjust the financial forecast to reflect any new activity in the FY 2026/27 Mid-Year Report.

### Proposed Budget Development Considerations

The Proposed Budget must balance a variety of competing community and organizational needs while ensuring that the resources contained within most City funds remain in balance and thoughtfully deployed. While the budget development process was informed by a variety of factors, City Council's Strategic Plan are the key drivers that provided the strategic approach to address the many needs of the community.

On June 4, 2026, Council reaffirmed the six strategic priorities and added one additional priority for Fiscal Years 2026/27 and 2027/28. Budget recommendations are based on these priorities and objectives by investing in key actionable and time bound efforts that deliver community services. The continuation and development of many objectives provide the foundation for the budget strategies contained in the Proposed Biennial Operating Budget. Continued emphasis remains for the City's quality of life through ensuring a safe City, maintaining parks, traffic safety for all users, thoughtfully planning street and sidewalk repairs, prudent fiscal management, and planning for the future.

### General Fund Budget Balancing Plan

During FY 2025/26, additional ongoing expenditures were added, and new labor agreements were successfully negotiated. These items have been included in the Base Budget. When balancing the Biennial Operating Budget, there was an initial shortfall of \$13.6 million in Year 1 and \$14.4 million in Year 2. To alleviate these shortfalls, the below budget balancing strategies were implemented.

- ❖ **New or increased revenues.** The Proposed Biennial Budget recognizes new and increased revenues. This action includes additional Utility User Tax (UUT) revenues of \$1.8 million and \$0.5 million, respectively in Years 1 and 2. This budget also includes Amazon revenue. The facility is anticipated to begin its operations in the winter of FY 2026/27 and the revenues are projected at \$4 million and \$6 million in Years 1 and 2, respectively.
- ❖ **Strategic use of fund balance.** At the close of 2025, the City experienced a higher than usual fund balance. This was due to one-time higher than usual sales tax receipts and unexpended appropriations in the prior year. This action allowed the City to use some of its fund balance to balance the Biennial budget.

## Budget Overview

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- ❖ **Use of Police Development Impact Fee.** This fund has a balance of \$3.7 million and is intended to fund the cost of new or expanded public facilities such as the new police building which serves the community at large. The Proposed Biennial Budget allocates \$1.2 million in Year 1 and \$2.5 million in Year 2, and will be used to fund the Police Services Building Debt.

The Proposed Biennial Budget balancing plan resolves the projected budget shortfalls for FY 2026/27 and 2027/28.

### Key Budget Actions

While much of this message and conversations surrounding the budget involve incremental changes to existing service levels, it is important to keep in mind that most of the City's budget is allocated to delivering basic services, year after year. In the context of a \$196.2 million General Fund budget and \$323.9 million total operating and capital budget, only a small percentage is allocated to new actions. The overwhelming majority of the City's limited resources are dedicated to the daily, critical effort to serve the Salinas community.

The Proposed Biennial Budget balances continued positive momentum and preserves valued services which include public safety, economic development, community development, libraries and parks, and community services. Generational investments in wastewater infrastructure, economic development, and preparing for future growth continue as key initiatives.

### Fiscal Year 2026/27 (Year 1) Recommendations

#### City Council Strategic Goal of Housing

**SHARE Center (\$1,895,000):** This funding continues the coordination of the SHARE Center operations. The SHARE Center is a low-barrier navigation shelter designed to help people experiencing homelessness achieve permanent housing and stability through a Housing First approach. This program has previously been funded through general fund contributions in addition to other funding sources such as ARPA, and housing grants.

**Rental assistance program (\$500,000):** This maintains the rental assistance program at the level that was previously recommended by Council.

## Budget Overview

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### Fiscal Year 2026/27 (Year 1) Recommendations (continued)

#### City Council Strategic Goal of Economic Development

**Community Sponsorship (\$150,000):**

This maintains the same level of support for those programs that benefit the community through an application process.

#### City Council Strategic Goal of City Services

**Administrative Analyst I (\$144,370):**

This position is anticipated to address increased operational demands stemming from the City's new communication and outreach strategy, including AI pilots support, increased fiscal compliance, and growing contract and records management workload.

**Administrative Clerk I (\$130,390):** This position is funded by the **Permit Enterprise Fund**. This position is expected to staff the front desk at the Permit Center and serve as the first point of contact for the public.

**Association of Management Personnel (AMPS) Labor Group Projection (TBD):** Staff is working on the appropriation to ensure funding is included in the budget.

**Combo Building Inspector I (\$142,040):**

This position is funded by the **Permit Enterprise Fund**. The City is projecting an increase of approximately 8,000 permits issued for construction projects in the future growth areas. This position supports the additional capacity needed to meet demands.

**Sanitary Sewer Payment Assistance (\$150,000):**

This maintains the sanitary sewer assistance subsidy program at the level that was previously recommended by Council.

## Budget Overview

### Fiscal Year 2026/27 (Year 1) Recommendations (continued)

#### City Council Strategic Goal of Public Safety

**Code Enforcement Officer I (\$142,040, Measure G):** The Code Enforcement Division continues to experience a growing workload related to blight abatement, housing inspections, zoning compliance, and public health and safety complaints. This position is expected to provide additional capacity. While this position is identified as cost neutral in FY 2026/27, it will be an ongoing cost going forward.

**Deputy Police Chief (\$375,100, Measure G):** The Police Department has seen an increase in the annual calls for service as well as investigative activities. The position is expected to address additional supervisory needs to ensure effective oversight of divisions and personnel for operational continuity during absences, emergencies, or critical incidents.

**International Association Firefighters (IAFF) Labor Group Projection (\$1,214,323):** This labor agreement was successfully negotiated and approved by Council on May 12, 2026.

**Mobile Crisis Unit (\$400,000):** This funds the Mobile Crisis Team in Salinas in coordination with the Monterey County Behavioral Health ACCESS program. The team provides in-person crisis intervention for individuals experiencing mental health emergencies that do not require an urgent law enforcement or hospital response.

**Police Officer – 4 positions (\$759,590, Measure G):** The City recommends unfreezing four Police Officer positions to increase its workforce in order to manage the public safety needs of the community.

**Staffing for Adequate Fire and Emergency Response - SAFER (\$426,000, Measure G):** This funds Fire personnel after the SAFER grant expires in March 2026.

### Fiscal Year 2027/28 (Year 2) Recommendations

#### City Council Strategic Goal of Housing

**SHARE Center (\$1,895,000):** This funding continues the coordination of the SHARE Center operations. The SHARE Center is a low-barrier navigation shelter designed to help people experiencing homelessness achieve permanent housing and stability through a Housing First approach. This program has previously been funded through general fund contributions in addition to other funding sources such as ARPA, and housing grants.

**Rental assistance program (\$500,000):** This maintains the rental assistance program at the level that was previously recommended by Council.

## Budget Overview

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### Fiscal Year 2027/28 (Year 2) Recommendations (continued)

#### City Council Strategic Goal of Economic Development

**Community Sponsorship (\$150,000):**

This maintains the same level of support for those programs that benefit the community through an application process.

#### City Council Strategic Goal of City Services

**Combo Building Inspector I (\$142,040):** This position is funded by the **Permit Enterprise Fund**. The City is projecting an increase of approximately 8,000 permits issued for construction projects in the future growth areas. This position supports the additional capacity needed to meet demands.

**Sanitary Sewer Payment Assistance (\$150,000):** This maintains the sanitary sewer assistance subsidy program at the level that was previously recommended by Council.

#### City Council Strategic Goal of Public Safety

**Code Enforcement Officer II (\$155,170, Measure G):** The Code Enforcement Division continues to experience a growing workload related to blight abatement, housing inspections, zoning compliance, and public health and safety complaints. This position is expected to provide additional capacity.

**Mobile Crisis Unit (\$400,000):** This funds the Mobile Crisis Team in Salinas in coordination with the Monterey County Behavioral Health ACCESS program. The team provides in-person crisis intervention for individuals experiencing mental health emergencies that do not require an urgent law enforcement or hospital response.

## Budget Overview

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### Capital Projects

The City has an ongoing Capital Improvement Program (CIP) that provides investments to improve infrastructure related to the City's streets & sidewalks, traffic calming, parks, and building facilities.

Primary funding for these investments comes from sources such as:

- ❖ Development impact fees;
- ❖ State gas taxes;
- ❖ State and County transportation funds;
- ❖ Grants from federal, state, and regional sources; and
- ❖ Other City Operating Funds.

Recently completed projects include:

- ✓ Continued work on traffic calming
- ✓ Continued work on streets and sidewalk improvements
- ✓ Closter Park Revitalization
- ✓ Hebbbron Family Center
- ✓ Closter Park Recreation Center Accessibility Improvements
- ✓ City Hall Build Back and Gas Relocation
- ✓ Natividad Creek Park Restroom Rehabilitation
- ✓ North Main Street and Lamar Street Pedestrian Improvements
- ✓ Garner Avenue Bus Bulb Out
- ✓ East Salinas Street Sweeping Pilot Project
- ✓ Urban Forestry Management Plan (tree planting)
- ✓ Sanitary Sewer Spot Repair

Based on the previously approved Capital Budget, work is underway on several multi-year projects and programs which include:

- ❖ Streets and sidewalks repairs;
- ❖ District 5 Community Center;
- ❖ Safe routes to schools;
- ❖ Williams Road Corridor;
- ❖ Sherwood Recreation Center Building Improvements;
- ❖ Solar PV System at the El Gabilan Library and Police Department;
- ❖ Industrial Wastewater Treatment Facility Influent Pump Station;
- ❖ Electrical Improvements;
- ❖ Firehouse Recreation Center Improvements;
- ❖ El Gabilan Park Improvements;
- ❖ Lake Street Lift Station Replacement; and
- ❖ Street restriping and lighting projects.

## Budget Overview

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Looking ahead, the City's proposed five-year CIP (FY 2026/27 - FY 2030/31) includes projects and programs totaling \$265.5 million. Highlights of the proposed CIP include \$17.3 million in streets and sidewalks, \$16.5 million in sanitary sewer projects, and \$8.6 million for engineering and transportation related projects in Year 1. Furthermore, \$15.3 million for the sanitary sewer, \$13.0 million for engineering and transportation related projects, and \$9.5 million in streets and sidewalks are included in Year 2.

### Conclusion

The Proposed Biennial Budget reflects a cautious approach to growth, positioning the City to both sustain quality service delivery today, and thoughtfully invest in tomorrow, while continuing to strengthen and improve the organization to better serve the evolving needs of the community. It also recognizes that more work remains ahead, and difficult fiscal and policy decisions may still be necessary to align ongoing expenditures with ongoing revenues. The City is addressing this by expanding economic development efforts to attract new businesses and industry, exploring tools such as Enhanced Infrastructure Financing District (EIFD), and leveraging public-private partnerships (P3).

I would like to thank City Council for its leadership and our Executive Team who worked on the recommendations and materials to respond to the City Council and community priorities. The Salinas community should be proud of your leadership and commitment to service.

A biennial budget requires countless hours of teamwork, collaboration, and patience to produce. I would like to offer special thanks to the Finance Budget Team, including Finance Director Selina Andrews, Assistant Finance Director Abe Pedroza, Finance Management Analyst Yesenia Nunez, and Administrative Analyst Nick Luciano; and Public Works Director David Jacobs and Assistant Public Works Director/City Engineer Adriana Robles for their assistance with the capital budget process. The team's dedication, expertise, and willingness to continue to adapt to evolving circumstances is a testament to their commitment to this organization and to the community.

Sincerely,

*René Mendez*

René Mendez, City Manager