



CITY OF SALINAS FINANCE COMMITTEE

DATE: MAY 6, 2025

DEPARTMENT: FINANCE DEPARTMENT

FROM: SELINA ANDREWS, FINANCE DIRECTOR

TITLE: FY 2025-26 PRELIMINARY BUDGET UPDATE

RECOMMENDED MOTION:

It is recommended that the Finance Committee receive the staff presentation and provide input on the Preliminary Fiscal Year 2025-26 General Fund Operating Budget.

EXECUTIVE SUMMARY:

This preliminary review of the Fiscal Year 2025-26 Proposed Operating Budget is being provided to the Finance Committee members to provide feedback to staff on the allocation of resources. The Proposed Budget will be discussed by the City Council at a public hearing on May 27, 2025, with adoption scheduled after the public hearing on June 17, 2025.

This report provides a preview of the preliminary budget recommendations for Fiscal Year 2025-26 with a focus on the General Fund. It also includes an overview of various reserves. This serves as an opportunity for Committee members to review the information and provide initial feedback.

BACKGROUND

The Fiscal Year 2025-26 General Operating Fund budget is projected to be balanced and continues to allocate resources to core Citywide functions, long-term service delivery, Council Strategic Priority areas, continuous organizational improvement efforts, and programs important to the Salinas community.

Although the preliminary budget is balanced for Fiscal Year 2025-26, projected revenues are conservative and bear close monitoring as there remains significant economic uncertainty. However, the City continues to exercise financial prudence while planning for the future and maintaining prudent reserves to weather potential economic challenges. This includes working towards a structurally balanced budget for the General Fund, which is the single largest fund of the City, providing core services to the community.

Building the Salinas of Tomorrow

As with most municipalities, repairs, maintenance, and eventual replacement of facilities and infrastructure 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.

While the preliminary Fiscal Year 2025-26 General Fund budget is projected to be balanced, there continues to be a need to provide sufficient financial resources to maintain current service levels.

A key step towards this will be ensuring the continuance of Measure G revenue. In Fiscal Year 2024-25, Measure G revenue is projected to bring in \$34.4 million. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year. Staff is currently developing a workplan to bring this forward to Council and the community in FY 2025-26.

The City recognizes the importance of planning for the organization of tomorrow to best serve the community. Staff is actively engaged in finding ways to creatively reimagine the approach to current business processes and systems in addition to effective use of and deployment of technology.

Staff recently re-established an internal Information Technology Governance and Steering Committee for purposes of reviewing technology resources. This resulted in the development of the FY 2024-25 IT Work Plan. The Work Plan provides a blueprint for IT to assess priorities and work with the City's executive team to ensure that its technical staff resources are allocated appropriately to meet business needs. There were 40 projects identified and 26 are actively being worked on. The remaining projects are at various stages with 9 completed. Projects not completed in this fiscal year will be evaluated in next year's IT Work Plan. The need to continue embracing technology in our day-to-day work and service delivery is as important now more than ever.

While the last several budgets have addressed some of our service delivery challenges through the addition of limited, yet critical staffing positions, in the coming years the ability to reinvent and automate many of our processes is what will enable Salinas to continue to provide a high level of service to the community. For example, one priority area includes prudently embracing Artificial Intelligence (AI) to enhance services.

Economic Update

An economic update was provided in the Fiscal Year 2024-25 Mid-year Budget Status Report presented to the City Council on February 25, 2025. Much has occurred since. Tariffs on other countries have been implemented, rescinded, and delayed; federal agencies and staff positions have been eliminated; and most equity indices in the United States stock market have experienced declines.

Economists are now warning that federal policy shifts, namely tariffs, federal job cuts, and strict immigration, could further slow future economic growth. As a result, some financial strategists and economic research teams, including Goldman Sachs, are lowering their forecasts for Gross

Domestic Product growth and their year-end price target for the S&P 500. While these forecasts are indicating slower growth, they are still projecting positive growth amounts. It is difficult to prepare a budget that would account for all the uncertainty; however, one can argue that in the midst of uncertainty, it is even more critical to maintain core services. As a result, this budget not only maintains reserves, but includes an economic stabilization contingency to help buffer against the uncertainty.

A more detailed and comprehensive economic update will be included in the Recommended Budget presented to the City Council on June 17, 2025.

Budget Transparency

The City maintains fiscally prudent budgeting practices of balancing ongoing expenditures with ongoing revenues and adopting balanced operating budgets. In recent years, the City has experienced strong revenue growth with a larger-than-normal net operating balance that has allowed the City to increase its reserves and address some of its infrastructure needs.

As the annual budget is typically considered the single most important policy document that a local government adopts, the City is introducing a new annual Budget-In-Brief document to supplement the budget. The new and innovative visuals will help provide a high-level overview of the Adopted Budget in a transparent and concise manner for the community without having to review the entire Budget document.

In addition, the budget document appearance has been reimagined to increase transparency. Staff is also preparing for the application of the Government Finance Officers (GFOA) Distinguished Budget Presentation Award Program. This GFOA award reflects national best practices in planning and communication and is granted to state and local governments across the country. These updates reflect staff's commitment to accurately reflect the City's financial and policy priorities in a transparent, accessible, and thorough annual budget document.

Additionally, staff prepared this Fiscal Year 2025-26 Preliminary Budget Review report as a new and additional step in the annual budget process, providing additional transparency to the community and giving City Council another opportunity to provide input on how to allocate City resources.

General Operating Fund (includes Measures E & G)

The General Operating Fund is the single largest City fund and provides funding for core community services, such as public safety (Police and Fire), Parks, Recreation, Library, some Planning, Public Works, Sustainability, and all City Administration support functions, including City Attorney, City Clerk, City Manager, Human Resources, Finance, and Information Technology. The General Fund financial health is shaped in large part by both positive and negative economic forces mostly beyond the City's control. Many General Fund revenues are driven by the economic climate of the Salinas Valley, the greater Bay Area, and the state. In strategically and proactively addressing ongoing structural deficits, the City was able to better position itself for the economic recovery in the ensuing years leading up to today.

Fiscal Year 2024-25

In the current year, revenues are estimated to moderately exceed budget, and expenditures are estimated to be on pace with the budget. This, combined with prior years activity, results in an estimated \$3.2 million operating fund balance. Revenue estimates have marginally increased primarily in Users Tax (UT) and investment earnings. The expenditure estimate increased by \$727,000.

Infrastructure Addressed in FY 2024-25

City Council addressed the sanitary sewer infrastructure deficiencies and funding shortfalls by approving the Sanitary Sewer Rate Study and directing staff to initiate the Proposition 218 process to increase fees. If approved, the increase in fees will provide the resources necessary to pay for ongoing operations & maintenance, address critical infrastructure needs, while maintaining adequate coverage for its debt service.

City Council appropriated \$16.0 million (includes carryover) from the General Fund, Measure X, Gas Tax, SB1 funding through the Road Repair Accountability Act, and Special Construction Assistance grant for street striping, slurry seal, pavement, and sidewalk maintenance. As with many larger capital projects, all of the work may not be completed in the current year and any unexpended budget will carry over to FY 2025-26 so that the work can continue.

Additionally, Public Works is developing a plan to allocate an estimated \$13 million in Gas Tax, Measure X, and SB1 funding for roadway projects which include sidewalk repair, pavement rehabilitation, ADA curb ramps, and address PG&E infrastructure throughout the City including but not limited to, Boronda Road, Abbott Street, and Williams Road.

Fiscal Year 2025-26

Fiscal Year 2025-26 revenues are projected to rise to \$185.0 million, and expenditures are projected to increase to \$185.4 million (including the City Manager preliminary budget recommendations). As part of the preliminary FY 2025-26 budget, staff is recommending the use of one-time money by re-allocating remaining budget on completed capital projects. Staff is further recommending additional contributions to the Economic Contingency, Infrastructure Maintenance, and Facilities Maintenance reserves. Combined, the revenues, expenditures, and reserve allocations produce a balanced budget.

Due to the need to address some critical staffing requirements within the City, staff is recommending the addition of 3.0 ongoing positions. This includes 1.0 position in the Police Department, 1.0 in Public Works, 0.5 in Community Development, and 0.5 in the Airport.

Additional personnel change recommendations include the deletion of 4.5 frozen positions and 5.0 reclassifications within Finance, Library and Community Services, and Public Works Departments.

Beyond Fiscal Year 2025-26

A financial forecast model was introduced in the FY 2024-25 Mid-Year Report. The model included revenues and expenditure projections based on the most current information available, considering historical trends, performance through mid-year, projected development growth, and scheduled changes in various fees and rates. Additionally, the forecast model indicated a conservative revenue estimate from the Amazon Fulfillment Center beginning FY 2026-27. The Amazon project is currently underway and while this revenue is yet to materialize, it remains important to consider future potential benefits.

As indicated in the forecast revenues are projected to continue growing; however, at a slower pace than expenditures. This continues a trend of the local economy showing signs of slowing. While the City's major revenues have generally remained consistent and have benefited from inflation as well as the increase in interest rates, there is evidence of slowing or minimal growth in the City's major revenue sources, specifically property tax and sales tax revenues. Local economic indicators continue to project stable revenues, but with slower-paced growth anticipated in the future.

Uncertainty associated with inflation, interest rates, national and state economic policies, and geopolitical conflicts all contribute to the projected slower-paced growth. Deficits are projected for Fiscal Years 2026-27 through 2029-30. Staff will continue to update and monitor the forecast, but near-term projected deficits are reasonable within the context of a \$294.5 million total budget. Any updates to future fiscal year projections will be included in the FY 2025-26 Mid-Year update.

Reserves

Most reserves are at their target or policy balance. However, several reserves, including the Economic Contingency Reserve, will need to be supplemented to keep pace with the balances designated in the reserve policy. Reserve allocations are discussed further in this report.

Fiscal Year 2024-25 Projected Available General Fund Balance

Although it is expected that the City will end the current fiscal year with an operating balance greater than budgeted, **it is important to note the carryover balance is the primary funding source for key organizational needs, such as limited-term expenditures, maintaining (or enhancing) reserve levels, funding one-time capital projects, and contributions towards unfunded liabilities.**

The estimated available carryover balance is recommended to be used as follows:

Total Preliminary Estimated Balance Available as of June 30, 2025	\$ 3,180,517
Revenues and Transfers In	185,010,800
Completed Projects & OPEB Reserve	2,616,146
Recommended Allocations:	
Economic Contingency Reserve ⁽¹⁾	(1,430,846)
Emergency Operations (911)	(3,985,000)
Animal Shelter JPA	(2,892,000)
General Liability Insurances	(7,015,000)
Debt Service	(10,416,800)
Other Operating Transfers	(3,750,000)
Capital Projects	(1,000,000)
Infrastructure Maintenance Reserve	(240,000)
Facilities Maintenance Reserve	(334,000)
Salaries & Benefits	(127,708,557)
Supplies & Services	(28,627,632)
Total Recommended Allocations	(187,399,835)
Estimated Remaining Balance Available as of June 30, 2026	\$ 3,407,627

(1) Final amount determined will be in the Adopted Budget.

Fiscal Year 2025-26 Budget Recommendations

As described below, there are recommended expenditure increases of \$16.4 million in ongoing costs and \$122,260 in limited-term positions, covering non-discretionary, discretionary, and limited-term items.

Departments have reviewed their programs, work levels, and proposed goals for the upcoming fiscal year and developed their budget requests accordingly. These items were reviewed by the City Manager and are recommended to be included in the Proposed Budget for City Council consideration. Please note that the budget is still under development, and additional items may be included in the Proposed Budget but are not listed below.

Recommended Non-Discretionary Expenditures

Non-discretionary increases totaling \$3,863,612 are recommended to fund existing and new required operational costs:

- Add to the Economic Contingency Reserve Allocation: \$1,430,846
- Emergency Operations (911): \$60,366
- Animal Shelter JPA: \$222,000

- General Liability Insurances: \$1,104,000
- Debt Service: \$1,046,400

Recommended Additional Expenditures

Expenditure increases totaling \$1.3 million are recommended for high-priority ongoing programs and another \$11.2 million for increased salary and benefit costs.

- *Administrative Analyst (1.0 FTE): \$149,329*

Adds capacity for Community Development to increase customer service efforts for the business community through the Small Business Hotline and email; increases resource for small businesses and entrepreneurs to help navigate regulatory processes and connections to technical and financial assistance through small business support providers; adds administrative capacity to update resources published by the Economic Development Division.

- *Management Analyst (1.0 FTE): \$161,848*

Adds capacity for the Police Department within the areas of financial reporting, grant management, purchasing, policy, procedural analysis, and internal administrative support.

- *Urban Forestry Crew Supervisor (1.0 FTE): \$165,200*

Provides funding for a Parks Maintenance Worker I/II position. This position will provide increased support and maintenance to City Parks.

- *Sewer Rate Payment Assistance: \$150,000*

Provides funding to assist residents experiencing financial hardship due to the increase in sewer rates.

- *Overtime Costs: \$1,841,009*

Provides funding for overtime costs within the Police and Fire Departments to maintain staffing levels while personnel are on leave.

- *After Hours and Special Events Code Enforcement: \$35,000*

Increases code enforcement capacity for afterhours, weekends, and special events.

- *Establishes the Budget Contingency Fund: \$1,000,000*

The establishment of a Budget Contingency Fund as a prudent measure to maintain the City's fiscal stability in the event that something unforeseen reduces revenue or creates obligations that significantly impact the current-year budget. Examples of such events include significant infrastructure repairs, a downturn in the economy, or actions taken by another governmental agency that reduce revenues and/or increase expenses for the City.

- *Professional Development: \$100,000*

Provides increased funding for professional development to improve customer service, leadership, enhance professional relationships, support the strategic direction of the City, and contribute to succession planning.

Recommended Limited-Term Personnel Expenditures

Funding of \$122,260 for limited-term positions are recommended for one-time, high-priority programs.

- *Community Outreach Specialist: \$64,360*

Provides funding to continue a limited-term position in the Police Department beginning January 1, 2026 through June 30, 2026. The position is currently being funded by a grant which is set to end on December 31, 2025. This position focuses on community engagement for events related to the youth cadet programs, active youth diversion cases and other outreach programs.

- *Administrative Analyst: \$57,900*

Provides funding to continue a limited-term position in the Police Department beginning January 1, 2026 through June 30, 2026. The position is currently being funded by a grant which is set to end on December 31, 2025. This position focuses on youth and families referred for support services, including education, advocacy and referral/linkage to services or resources.

Setting the path forward through fiscal stability, innovative services, and organizational resilience

The FY 2025-26 Proposed Budget balances continued unknowns that could impact the City's fiscal health such as economic uncertainty, tariffs, inflation, and federal spending reductions, requiring that the City prepare to adapt to changing environments. Impending deficits in coming years will require fiscal prudence. This may include evaluating how resources are deployed across functions, determining what sustainable service levels are, engaging in more robust public input in what the public desires from the City, evaluating how major cost drivers can be brought into alignment with available revenue, and identifying other strategies for bringing the City back into balance.

Capital Improvement Program Funding

The Capital Projects request process is designed to evaluate, prioritize, and budget for large equipment purchases and infrastructure improvements. Requests are evaluated by Public Works based on whether the project is essential or desirable to the City's operations, such as improving public health, welfare and safety, fulfilling regulatory requirements, enhancing services to the community, and increasing productivity.

For Fiscal Year 2025-26, staff is recommending expenses of \$21.1 million, of which \$1.0 million is from the General Fund and \$20.1 from other funds. Additionally, 19 new vehicles totaling \$1.4 million in appropriations are being allocated from the City's vehicle replacement fund. Below are the Capital Improvement Projects recommended to be appropriated from the General Fund.

Department	Project Name	FY 25-26 Allocation
Public Works	EV Charging Infrastructure at City Facilities	\$200,000
Public Works	Monterey Garage Improvements	\$100,000
Public Works	Cesar Chavez Park Dry Basin System Repair	\$100,000
Public Works	City Hall & PW Improvements	\$250,000
Fire	Fire Station Repairs	\$350,000

RESERVE RECOMMENDATIONS

The City has established reserves for various purposes in the General Fund. Those reserves are the Economic Contingency, Infrastructure Maintenance, Facilities Maintenance, and 115 Trust. Reserves are essential elements in maintaining financial stability, meeting long-term objectives, and providing the ability to respond to unanticipated situations. They are also a source of interest income that is used for operating needs or offsets for other funding requirements. Reserves are one element credit rating agencies use in determining the credit rating received by issuers.

Staff has performed a preliminary review of reserve levels and included funding recommendations for specific reserve requirements. In order to maintain the 12% reserve goal, an additional supplemental funding for the Economic Contingency Reserve will be required. The funding is currently estimated at \$1.4 million, which will be finalized with the Adopted Budget. Additional funding of \$240,000 is recommended for the Infrastructure Maintenance Reserve and \$334,000 for the Facilities Maintenance Reserves from the General Fund.

The table below details the estimated balance, recommended allocations, and recommended balance for each reserve:

	Est. Balance at 7/1/25	FY 25-26 Allocation	Est. Balance at 6/30/26
Economic Contingency	\$20,696,553	\$1,430,846	\$22,127,399
Infrastructure Maintenance	\$4,260,000	\$240,000	\$4,500,000
Facilities Maintenance	\$1,066,000	\$334,000	\$1,400,000
115 Trust	\$10,000,000	\$0	\$10,000,000
Total	\$36,022,553	\$2,004,846	\$38,027,399

FY 2024-25 Budget Carryover

Unexpended appropriations to Capital Projects and grant funding will carry over to FY 2025-26.

Staff will be recommending limited carryover from the Operating Budget that was unexpended in Fiscal Year 2024-25. Staff is currently reviewing the need to continue the funding for those programs or services.

CONCLUSION

Stable revenues with slower or flat growth are projected in the future. Even though the General Fund budget is currently in a stable financial position, the amount by which revenues exceed expenditures has declined considerably relative to prior years. For Fiscal Year 2025-26, General Fund revenues are expected to increase to \$185.0, a 4.74% increase compared to the current fiscal year's adopted revenues. Expenditures are projected to rise to \$185.4 million, or 5.31% higher than the Adopted Budget. The General Fund is projected to have an operating fund balance of \$3,407,627 at the end of Fiscal Year 2025-26.

While there are other areas where additional resources could be allocated, no further increases are recommended at this time in order to maintain a balanced budget, exercise financial prudence, and to be able to weather the expected increase in ongoing expenditures. The projected increase in expenditures, coupled with the large economic uncertainty, calls for minimal staffing additions and forgoing the addition of new programs. Staff will continue to evaluate enhancements to current programs through redirection or reallocation of existing resources and exploring one-time funding. Should staff identify revenue producing programs to offset ongoing expenditures, they will be brought forward at mid-year or another appropriate time for City Council consideration.

NEXT STEPS

City Council input and direction is sought on the material in this report at the May 6, 2025 Finance Committee meeting. Based on feedback from the Finance Committee, the Fiscal Year 2025-26 Proposed Budget will be prepared for distribution to the City Council prior to the budget public hearings. The evening of May 27, 2025 is scheduled for the first public hearing, and final adoption is scheduled for the City Council Special Meeting of June 17, 2025.

CEQA CONSIDERATION:

Not a Project. *The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.*

STRATEGIC PLAN INITIATIVE:

This memorandum aligns with City Council's Strategic Goal of striving for Economic Development - Sustain, encourage, and develop a diverse and thriving economy that benefits all Salinas residents and businesses and that contributes to the community's economic health.

DEPARTMENTAL COORDINATION:

This memorandum has been coordinated with the City Manager's Office.

FISCAL AND SUSTAINABILITY IMPACT:

There is no cost associated with receiving this preliminary budget update.

ATTACHMENTS:

None.