

**CITY OF MERCED
2025-2026 CITY COUNCIL APPROVED BUDGET**

TAB 1

CITY MANAGER BUDGET MESSAGE



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City Manager's Budget Message – Fiscal Year 2025/2026

General Overview

The Fiscal Year 2025-26 City Council Budget totals \$439.9 million, reflecting a plan that supports the City's core services, capital investments, and organizational stability. Of this amount, \$67.6 million is allocated from the General Fund for operations, which support public safety, parks and community services, economic development, and community enrichment.

The City is a public service organization which relies on its many specialized employees. This fiscal year, the City will have **561** full-time employees. These are allocated to the various departments across the City, such as Police, Fire, Public Works, Finance, Development Services, IT, Parks and Community Services, City Attorney's Office, and the City Manager's office. This fiscal year has a net increase of three employees, who are being allocated to Public Works and the Police Department.

To help achieve a balanced General Fund budget for the 2025-26 fiscal year, the Merced City Council authorized the use of fund balances from Measure C, a voter-approved initiative to support public safety and roads. This action allowed the restoration of three vacant police positions from the 2024-25 fiscal year. Those positions were swapped from sworn officers to non-sworn staff supporting Code Enforcement efforts and administrative roles within the Police Department. Both the Police and Fire department staffing levels are at or very near the high mark of 2008.

As a result of continued investment in public safety, the community is seeing the benefits of this strategic plan. For the calendar year of 2025, the Police Department is seeing lowered crime statistics in nearly every category. The Fire Department is maintaining response times and continuing to implement Advanced Life Support (ALS) paramedic services, which will continue expanding into each fire company.

As part of the budget approval, the Merced City Council provided direction to amend two fiscal policy documents. These included the General Fund Reserve Policy and the Affordable Housing Fund. The housing policy change will allow for administrative costs to implement the programs, which are allowed under the guidelines, ensuring ongoing commitment to affordable housing. The General Fund Reserve Policy was amended from a 35% reserve to 30%. This change allows the City to meet Government Finance Officers Association (GFOA) recommendations. This reserve reduction has led to increased funding of \$1.4 million for operations and one-time costs. That includes funding to maintain a Zookeeper position which was previously funded by a foundation donation and the General Fund. Maintaining a reserve allows the flexibility to address funding needs during uncertain times. The projected year-end fund General Fund reserve is \$18 million.



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Revenues

Total City revenues from all sources for the fiscal year are continuing to grow, increasing over the prior year by approximately 9.6%. The City relies on various revenue types, including fees for service, property and sales tax, grants, and others. Sales tax revenues are the largest but most volatile component of the General Fund, representing 25%, approximately \$17 million. Annual revenue has been consistent but plateaued over the last couple of years. This is attributed to changing consumer habits, with retail spending increasingly shifting online, affecting brick-and-mortar sales tax collections. During this fiscal year, new private investment is anticipated in the former Merced Mall – Marketplace at Merced. New opportunities are also planned in the Campus Parkway – Merced Gateway area. Investment in downtown Merced also continues to be strong. These new retail options should lead to some additional gains.

Secured Property tax revenue continues to grow at a steady rate but has slowed compared to prior years. Compared with the prior year, the rate increased by 7%. The estimated property tax revenue for the fiscal year 2025-26 is anticipated to be \$10 million. Finished lots for new development have been absorbed over the past couple years. New residential development is requiring the processing of new final maps and construction of public improvements. This creates a delay in getting new housing units into the marketplace, which also slows property taxes as well as Community Facility District (CFD) Fees, which have been created to ensure that new development pays a fair share for public safety services and other general services. To counter delays, the City is identifying options to streamline the development process and will bring forward options for the City Council to consider during fiscal 2025-26.

Challenges

Similar to fiscal 2024-25, the City continues to face several economic and operational challenges, including the sustained impacts of inflation, slow development activity, high interest rates, and state funding uncertainties. While building permit activity remains steady, it is below the peak levels between 2019 and 2021. This reduction is affecting the fund balance in the Planning, Engineering, and Inspection Services areas of the Development Services Fund. No General Fund contribution is planned for this fund during fiscal year 2025-26. To potentially help stabilize the fund balance, the department is undertaking a permit fee study and other user-fee-supported programs. To help improve operations and meet the needs of customers, the division is completing the transition to the Tyler Enterprise Resource Planning (ERP) - online permitting system. This enhancement will allow quicker turnaround times and better tracking by customers.

The City is also preparing for possible reductions in federal support. The proposed federal budget includes potential cuts to critical programs such as the Community Development Block Grant (CDBG), HOME Investment Partnership, and Essential Air Service (EAS). Additionally, uncertainty surrounding the State Water Revolving Fund (SRF) could impact the City's ability to finance major wastewater infrastructure projects, such as those identified in the Wastewater Collection System Master Plan.



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The City will also continue comprehensive fee reviews, including Water, Refuse, Wastewater, to ensure that annual revenues are offsetting service costs. These models will also assess future capital needs.

Opportunities and Investments

The slower pace of development has led to reduced revenue in the Public Facility Fees Program (PFFP) revenues. These have a direct impact on the ability to fund infrastructure, parks, and capital improvements. However, the first six months of the fiscal year will see the completion of many American Rescue Plan Act (ARPA) projects, including Community Park 42 - a new sports complex; expansion of Bob Hart Square in Downtown; Merced Zoo renovations; and Main Street enhancements.

The Airport Terminal will also be completed midway through the fiscal year. This project leveraged over \$14 million in federal grants and will serve as an additional gateway into the community. The Essential Air Service (EAS) contract will expire at the end of 2025. The new terminal will help leverage new investment and potentially add more air service options. This will also help airport operations to be more self-sufficient, potentially reducing the need for General Fund supplements.

The City has continued to pursue funding opportunities for road maintenance and repairs, one of the highest priorities established by the Merced City Council. The budget will allow for continued progress on many capital projects contained in the Capital Improvement Program (CIP). There is a new significant roadway project which would collaborate with Merced County to address McKee Road Rehabilitation. By working cooperatively, this project can be delivered quicker and at a lower cost. It will renovate the roadway from Olive Avenue south to Santa Fe Drive.

During the upcoming year, several building maintenance projects will be essential to providing services to the public. These include repairs to the Civic Center skylight, exhaust replacement, and safety enhancements in the City Clerk's Office. During the upcoming fiscal year, renovations will also take place at the Stephen Leonard Community Building to help promote community and economic opportunities. This facility has been closed for three years due to fire, water, and vandalism. The Council's commitment will create a safe and inviting space.

The Parks and Community Services Department will also relocate to the Merced Senior Center. This move will provide enhanced programmatic access for seniors and expand program opportunities to other age groups, creating a pilot for a multi-generational center. It will also ensure public safety at the facility.

Planning for the future will also be accomplished through the ongoing comprehensive General Plan Update. This multi-year project will complement the Station Area Plan for the proposed High Speed Rail station in downtown Merced. The General Plan update is essential to provide a roadmap to economic vitality, preservation of park and open space, transportation investment, and ensuring housing opportunities. These efforts will also support the long-term growth at University of California, Merced.



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Council Goals & Priorities

The City Council, through community engagement and strategic planning sessions, has identified a number of key priorities that guide this year's budget. These goals help shape our resource allocation and service delivery strategies. Council priorities include:

Governance: Foster effective governance, transparent processes, and a high-performing organization. Key goals include launching the updated City website, improving access to city records, and strengthening the City's internal capacity in legal, planning, and engineering services. Refinements to Council processes and branding initiatives are also planned.

Economic Development and Strategic Operations: Stimulate private investment and job creation through coordinated economic strategies and public-private partnerships. Major initiatives include the completion of the airport terminal, property marketing, economic roundtables, retail recruitment, and branding enhancements. The City will collaborate with UC Merced and Merced College and pursue business investment opportunities that complement education, training, and businesses ventures cultivated at these institutions. The City will also enhance downtown with support from the Property Based Business Improvement District (PBID) and tourism through the Tourism Based Improvement District (TBID).

Public Safety: Strengthen community safety through modern emergency services, proactive policing, and infrastructure improvements. Investments in key public safety priorities, including site identification and financing for new Police and Fire facilities, acquisition of emergency vehicles, expansion of school resource officers, and enhancements to radio communications, continue to be a priority. During the upcoming year, the City will also engage in strategic planning for post-SAFER grant efforts. Coordination on homelessness and community policing efforts will continue.

Pedestrian & Traffic Safety: Improve pedestrian and cyclist safety through targeted infrastructure investments and traffic control enhancements. Fiscal Year 2025-26 includes sidewalk and crosswalk improvements, ADA upgrades, speed survey completion, and planning for elevated bike lanes. These efforts will improve connectivity and reduce transportation-related risks across the city. To improve pedestrian and traffic safety citywide, installation of flashing school beacons at key crosswalks and the replacement of aging signal controllers is planned. These improvements are vital for ensuring the safety of students and maintaining efficient traffic operations.

Affordable Housing Development: Expand access to affordable housing by accelerating production, leveraging incentives, and securing outside funding. The City continues to support new housing construction, maintain infill and affordable housing incentive programs, and advocate for state and federal grants. These efforts align with broader strategies to address homelessness and housing insecurity.



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Parks and Community Services, Open Space, Public Spaces: Improve community wellness and public space usability through facility upgrades and expanded programming. Merced is upgrading key park amenities, completing a comprehensive Parks and Recreation Open Space Master Plan (PROS), investing in community buildings, and advancing large-scale projects such as CP42 and the Merced Zoo renovation. Ongoing maintenance, safety enhancements, and planning for new recreational facilities remain top community and City Council priorities.

Capital Projects – Community Investment: Deliver essential infrastructure projects that support safety, mobility, and future growth. This year's capital investment plan includes completion of critical roadway, sewer, and facility projects, along with planning and permitting for future infrastructure needs. Emphasis remains on project readiness and alignment with funding sources.

Financial Strategy and Outlook

To ensure continued service delivery and fiscal stability, over the upcoming year the City will consider several measures:

- Identifying opportunities for increased cost recovery through revised fee structures
- Exploring cost-saving measures
- Considering deferral of non-essential capital acquisitions and expenditures
- Conducting the Prop 218 process to address unsustainable CFDs and maintenance districts
- Updating the City's CFD for services
- Evaluating the feasibility of transferring non-revenue-neutral programs to alternative providers
- Conserving fund balances to support operations during economic downturns
- Exploring new revenue sources, both one-time (e.g., sale of surplus property) and ongoing (e.g., potential ballot measure for operations and capital)
- Maintaining our commitment to economic development and development services to facilitate investment and plan for the future

I want to thank the City Council for its leadership, and City staff for their continued dedication to serving our residents. This budget reflects our shared values and long-term vision for the City of Merced.

Respectfully submitted,

Scott McBride
City Manager
City of Merced