



CITY OF MERCED

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City Manager Budget Message - Fiscal Year 2026-2027

General Overview

The Fiscal Year 2026-27 Recommended City Budget totals approximately \$461.5 million and reflects the City of Merced's ongoing commitment to maintaining essential public services and investing in critical infrastructure and priority community programs. The proposed General Fund budget totals approximately \$71.2 million and continues to prioritize public safety, neighborhood quality of life, economic development, parks and recreation, transportation infrastructure, and strategic capital investments.

The City of Merced remains a service-driven organization supported by a dedicated workforce committed to serving residents, businesses, and visitors. The Fiscal Year 2026-27 Recommended Budget includes 566 full-time positions citywide, representing a net increase of 4 positions compared to the prior fiscal year. Staffing recommendations focus on maintaining critical services, supporting operational efficiencies, enhancing cybersecurity and technology infrastructure, and strengthening maintenance operations within Public Works and enterprise services. The proposed budget reflects the City Council's commitment to preserving essential services while responsibly managing increasing operational costs associated with inflation, employee benefits, insurance, fleet maintenance, and retirement obligations. Personnel costs remain the City's largest expenditure category, accounting for approximately 72% of General Fund operating expenditures.

The City continues to actively seek resident feedback regarding community priorities and service expectations. Through public meetings, community engagement, surveys, and strategic planning discussions, residents have consistently identified several key priorities for City Council consideration during budget development, including:

- Addressing homelessness and encampments throughout the community;
- Responding quickly to neighborhood fires and emergency incidents;
- Preventing gang activity and improving neighborhood safety;
- Protecting and maintaining 911 police response times and the City's ability to respond to natural or medical disasters;
- Repairing streets and fixing potholes;
- Maintaining Merced's local quality of life and neighborhood appearance;
- Keeping City parks, trails, and public spaces safe, clean, and accessible.

These community priorities continue to guide budgetary decisions and operational planning as the City works to maintain a safe, clean, and economically vibrant community.

Revenues and Financial Outlook

General Fund revenues for Fiscal Year 2026-27 are projected at approximately \$67.2 million. Sales tax remains the City's single largest General Fund revenue source, accounting for approximately 26% of total revenues, followed by property taxes and vehicle license fee in-lieu revenue. While revenues remain stable overall, the City continues to monitor broader economic trends, consumer spending patterns, and development activity that may impact future revenue growth.



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Secured property tax revenues continue to show moderate growth as residential and commercial development activity proceeds throughout the community. Continued investment in retail, industrial, and housing development remains important to maintaining long-term fiscal sustainability.

The City also continues to evaluate and implement strategies to improve cost recovery and long-term financial stability. During Fiscal Year 2026-27, the City will continue implementing development service fee updates, evaluating Community Facilities District (CFD) options for services, reviewing enterprise rate structures, and identifying operational efficiencies that help preserve essential services while limiting impacts on residents.

The projected General Fund operating shortfall for Fiscal Year 2026-27 is approximately \$1.3 million. The Merced City Council discussed options to address this and received public input at the public hearing on June 1, 2026. After deliberations, direction was provided to staff to bridge this gap using funds from the Trust 115 account and General Fund Reserve.

The proposed FY 2026-27 budget does not include staffing reductions related to the Federal Emergency Management Agency (FEMA) Staffing for Adequate Fire and Emergency Response (SAFER) Grant expiration or other service areas. The City will continue evaluating long-term funding strategies for public safety operations, including future grant opportunities and revenue growth associated with new development and Community Facilities Districts (CFDs).

The Recommended Budget includes approximately \$9.1 million in projected General Fund reserves at year-end, with approximately \$5.7 million in available unassigned funds after committed reserves. Maintaining strong reserves remains essential to protecting the City's financial stability, preserving service levels during economic uncertainty, and responding to emergencies or unexpected operational impacts.

Funding for future public safety infrastructure, including Fire Station 56, is separate from the General Fund operating budget and is anticipated to be funded primarily from development impact fees and grant funding. Fire Station 56 remains a multi-year project, and planning efforts will continue as the community grows and additional revenues are generated to support future construction and operational needs.

Public Safety Investments

Public safety remains the City Council's highest operational priority and continues to represent the largest area of General Fund investment. The Fiscal Year 2026-27 budget continues significant investment in police, fire, emergency preparedness, code enforcement, and neighborhood safety programs.

Our public safety officers are also tasked with assisting individuals experiencing homelessness, an issue consistently identified as a high priority by the community. Our team coordinates closely with County service providers to ensure resources are available. When necessary, our Disruptive Area Response Team (DART) and Code Enforcement teams also work with our Public Works to ensure our community is safe by addressing encampments that become public health issues and ultimately impact quality of life in our neighborhoods and surrounding businesses. The Fiscal Year 2026-27 budget continues our investment in these priority areas.

The Merced Police Department will continue operating with 143 total positions, including 98 sworn officers, funded through a combination of General Fund, Measure C, Community Facilities Districts, and Measure Y revenues. Budget priorities include maintaining patrol staffing, supporting code enforcement operations, replacing duty weapons, addressing fleet repair needs, and preserving emergency response capabilities.



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The Merced Fire Department will continue operating with 93 positions, including 88 sworn firefighters and paramedics. The budget continues to support Advanced Life Support (ALS) paramedic deployment, fire prevention operations, emergency medical response services, and regional emergency preparedness capabilities. Staffing modifications within the department are intended to improve operational oversight and emergency response management.

Full-time public safety positions for Police and Fire services remain relatively unchanged from the Fiscal Year 2025-26. This has been an ongoing trend for many years. The Police Department has seen a net increase of three full-time sworn police officers since 2009-10 when the department had 95 officers compared to 98 today. Fire staffing has seen a slightly higher increase, growing from 82 full-time positions in 2008-09 to 88 this year. Of those full-time fire positions 24 are grant-funded from a FEMA SAFER grant which is set to expire in March 2027. The pending grant expiration is a critical concern and a priority area for future consideration to ensure current service levels are maintained.

The City remains committed to preserving rapid emergency response times and maintaining readiness for large-scale natural disasters, medical emergencies, and public safety incidents. Continued investment in communications systems, emergency equipment, and strategic planning efforts remain a critical component of the City's operational priorities.

To support this effort, during the Fiscal Year 2026-27, funding from impact fees collected over many years, along with a public safety grant, will be used to help advance the design and engineering of Fire Station 56. This location in Bellevue Ranch is critical to ensure response times in north Merced and overlapping coverage throughout the city. The proposed Progressive Design-Build approach is intended to provide greater flexibility, lower costs, and advance the project with anticipated completion in Fiscal Year 2028-29.

Community Priorities and Quality of Life

The Fiscal Year 2026-27 Budget continues investments that preserve and improve quality of life throughout Merced neighborhoods. Street maintenance, pothole repairs, park maintenance, trail improvements, code enforcement, and community beautification remain core service priorities.

The City continues to allocate Measure C and transportation-related funding toward roadway

rehabilitation and traffic safety improvements. Current and planned roadway projects include pavement rehabilitation, sidewalk improvements, ADA accessibility upgrades, school crossing enhancements, bicycle and pedestrian infrastructure, and traffic signal modernization and synchronization.

Roadway conditions are a high priority to our residents. The City has an active Capital Improvement Project (CIP) list for the fiscal year which will continue to address these needs. This upcoming year, the road maintenance approach will include some seal projects to help extend the life of our pavement avoiding more costly reconstruction projects. Our City Public Works Department works diligently with an active painting and sign repair program and on average performs 2,000 to 4,000 pothole repairs per month.

The City annually receives close to \$12 million for roadway and pedestrian improvements from a variety of funding sources. During the fiscal year, a countywide road assessment study will be completed which will help provide policy options where investments may be made to help get the maximum return on investment. With increasing costs each year, it will become more challenging for this limited resource pool to keep up with an aging roadway and bicycle – pedestrian path system.



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Parks and Community Services programs remain an important component of maintaining community wellness and neighborhood vitality. The Recommended Budget continues support for park maintenance operations, recreation programming, youth activities, community events, and improvements to public facilities and open spaces.

Additional investments are also included for tree trimming, bike path maintenance, playground improvements, pool safety fencing, and expanded recreation opportunities. The City will continue collaborating with community partners, schools, and nonprofit organizations to maximize recreational opportunities and improve access to community services.

This upcoming year, the community will celebrate new park investments and some long-deferred needs. General Vang Pao Park, located in Bellevue Ranch, will be under construction with support from a state parks grant. The Merced Zoo will reopen after a successful renovation using one-time American Rescue Plan Act (ARPA) funds which will better enhance guest and educational experiences. During the upcoming fiscal year work will also be underway using Community Development Block Grant (CDBG) funds on deferred improvements for Joe Herb Park.

The Recommended Budget balances continued focus on core neighborhood services and resident priorities. However, addressing deferred investment and future needs will continue to be a challenge that may impact future budgets. The City has approximately 30 acres of dedicated vacant park space. Each budget year park and recreation funding is fully allocated to maintaining existing parks and supporting recreation services. A lack of additional resources will continue to delay the City's ability to improve and develop these additional park areas. The City would need approximately \$1 million per acre, or \$30 million in total, to develop these neighborhood parks. New development will help provide public facility impact fees, which, combined with aggressive grant efforts and community support, will continue to be the approach used to add new park and recreational spaces for Merced residents.

Capital Improvement Projects and Community Investment

The City continues to make substantial investments in capital infrastructure projects designed to improve public safety, economic opportunity, transportation, recreation, and community development. One of the City's most significant recreational investments funded through the American Rescue Plan Act (ARPA), Community Park 42 (CP42), is now in the final stages of completion. Developed through a collaborative partnership between the City of Merced, Merced County, Merced County Office of Education, and the Merced Union High School District, this major regional sports and recreation complex will provide expanded recreational opportunities, tournament capabilities, and enhanced amenities for residents and visitors while supporting economic activity throughout the community. CP42 may become the core of a future family entertainment zone that will help support expanded economic development activity and investment.

The Merced Yosemite Regional Airport Terminal Improvement Project also continues toward completion, with a pending grand opening anticipated in July 2026. This transformative project leveraged substantial federal and regional investment to modernize the airport terminal and improve regional transportation connectivity. In conjunction with the terminal project, the City is pleased to welcome new Essential Air Service provider Contour Airlines, which is expected to begin service connecting Merced with Las Vegas (LAS) and Los Angeles International Airport (LAX) in July 2026. These improvements are expected to strengthen regional economic development opportunities, improve transportation accessibility, and support tourism and business growth throughout the region.



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Additional capital improvement efforts during Fiscal Year 2026-27 include:

- Roadway rehabilitation and pavement maintenance projects;
- Traffic safety and pedestrian improvement projects;
- Public facility repairs and modernization;
- Water, wastewater, and refuse infrastructure improvements;
- Downtown enhancement projects;
- Park and recreational facility upgrades;
- Technology and cybersecurity investments;
- Ongoing General Plan Update and long-range planning initiatives.

The City will continue aggressively pursuing grant funding and regional partnerships to maximize infrastructure investment opportunities while minimizing impacts on local taxpayers.

Challenges and Strategic Planning

Like many California communities, Merced continues to face economic and operational challenges associated with inflationary pressures, rising insurance and retirement costs, economic uncertainty, and evolving service demands. Increased costs associated with liability insurance, workers' compensation, healthcare, fleet maintenance, and infrastructure operations continue to place pressure on City finances.

Development activity remains active but continues at a slightly slower pace than peak periods experienced in previous years. This has affected certain development-related revenues and capital funding programs. The City continues evaluating operational efficiencies and fee structures to ensure services remain financially sustainable.

In addition, uncertainty regarding federal and state funding programs may impact future grant opportunities and infrastructure financing efforts. The City will continue monitoring legislative and economic developments while maintaining prudent reserve levels and conservative budgeting practices.

Despite these challenges, Merced remains well-positioned for long-term growth and economic opportunity. Continued investment associated with UC Merced, Merced Community College, transportation infrastructure, downtown revitalization, industrial development, and airport improvements provides strong opportunities for future economic expansion.

Governance and Organizational Excellence

The City Council continues to emphasize transparent governance, operational accountability, and strategic planning. Fiscal Year 2026-27 priorities include improving customer service, enhancing public communication, expanding technology capabilities, and modernizing City operations.

The City continues implementation of its Enterprise Resource Planning (ERP) systems, cybersecurity enhancements, records management improvements, and online permitting capabilities. These investments are intended to improve efficiency, transparency, and service accessibility for residents, businesses, and development partners.



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The City also remains committed to maintaining strong partnerships with educational institutions, community organizations, regional agencies, business leaders, and residents to support long-term community success.

Conclusion

The Fiscal Year 2026-27 Recommended Budget reflects the City Council's priorities, resident feedback, and the City's commitment to responsible fiscal stewardship. The budget balances operational needs with long-term planning while continuing investments in public safety, infrastructure, parks, economic development, and neighborhood quality of life.

As the city continues to grow and evolve, maintaining financial flexibility and operational resilience remains critical. Through strategic investment, collaboration, and continued community engagement, the City of Merced remains focused on building a safe, vibrant, and economically strong future for residents and businesses alike.

I would like to thank the City Council for its leadership and policy direction, City staff for their professionalism and dedication, and the residents of Merced for their continued engagement and support. Together, we continue working toward a stronger future for the City of Merced.

In Service,

A handwritten signature in blue ink, appearing to read "D. Scott McBride".

D. Scott McBride
City Manager