



Fiscal Year 2026-27 budget public hearing

June 9, 2026



Agenda

- Budget team
- Fiscal year 2025-26 budget update
- City Council priorities
- Proposed fiscal year 2026-27 budget
- Five-year General Fund forecast
- Capital Improvement Plan (CIP)
- City workforce vacancies, recruitment and retention trends
- Next steps





Budget team

- Stephen Stolte, Assistant City Manager
- Brittany Mello, Administrative Services Director
- Fenny Lei, Assistant Administrative Services Director
- Katie Lee, Interim Finance and Budget Manager
- Adrian Patino, Management Analyst II





Budget contributors

- General Administration
 - Nicole Casados, Judi Herren
- Administrative Services
 - Anna Peluffo, Danny Daniels
- Community Development
 - Deanna Chow, Vanh Malathong, Adam Patterson, Kyle Perata, Tim Wong
- Library and Community Services
 - Nick Szegda, Rani Singh
- Police
 - David Norris, Dani O'Connor
- Public Works
 - Azalea Mitch, Eren Romero, Joanna Chen

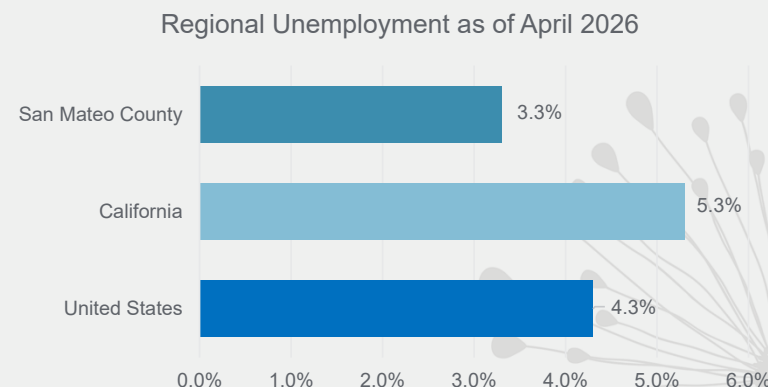
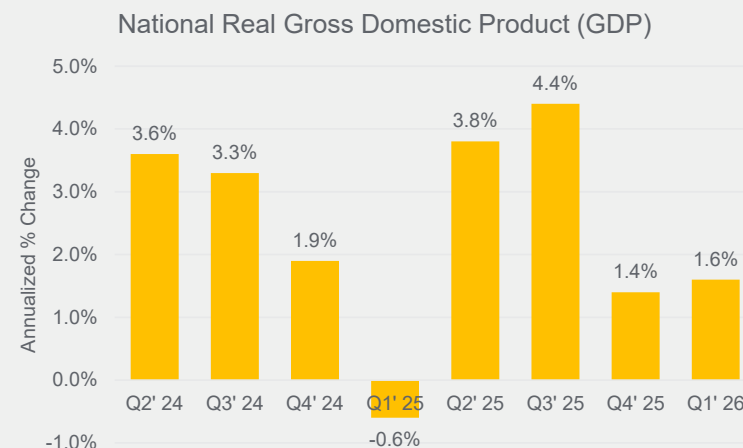




Economic overview

Economic overview

- Continuing conflict in the Middle East leading to higher energy prices and inflation
- Real GDP growth slowed sharply
- Declining Consumer Confidence Index and Expectation Index
- Comparatively weaker labor market in the state with higher than national unemployment rate
- Potential state and federal funding reductions
- Recession risk





Fiscal year 2025-26 General Fund budget update

Fiscal year 2025-26 General Fund year-end projection



- Fiscal year 2025-26 is projected to have a deficit of approximately \$2-2.6 million
 - Projected revenues of \$85 million, while projected expenditures of \$87 million, resulting in an estimated \$2 million shortfall.
 - The deficit will be offset with use of reserve in the unassigned fund balance, resulting in projected ending unassigned fund balance of 3.2 million
 - Projections remain in flux pending year-end closure and will be updated
- Year-end process and accruals will be completed by mid-September





City Council priorities



City Council priorities

During the annual priority-setting workshop March 21, the City Council identified the following priorities:

- **Climate action - mitigation, adaptation and resilience**
 - Reducing greenhouse gas emissions through community wide electrification program, EV charging at municipal parking lots, and more
 - Advancing Environmental Justice Element priorities
 - Supporting the Environmental Quality Commission
- **Downtown vibrancy**
 - Providing support to businesses in locating in Menlo Park, permitting processes, and more
 - Addressing maintenance issues downtown
 - Planning for resurfacing of parking plazas 7 and 8
 - Managing process for potential development of parking plazas 1, 2, and 3
- **Public safety (New*)**
 - Providing high quality safety for the entire public
 - Addressing staffing vacancies and assess workload
 - Advancing technology governance, accountability and transparency





City Council priorities

■ Housing

- Implementing the 2023-2031 Housing Element
- Enacting anti-displacement strategies
- Preparing a nexus and feasibility study to update the Below Market Rate (BMR) Program
- Supporting the Housing Commission

■ Safe routes

- Continuing enforcement and education efforts in collaboration with Menlo Park schools, school resource officer, Safe Routes to Schools program, and traffic enforcement unit
- Improving roadways with a focus on incorporating safety upgrades
- Delivering on the Vision Zero Action Plan and transportation capital improvement projects with a focus on connected, multimodal networks
- Supporting the Complete Streets Commission





Proposed fiscal year 2026-27 budget



Proposed fiscal year 2026-27 budget

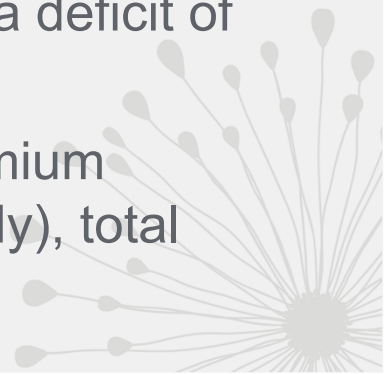
- Proposed budget includes revenues and expenditures across all funds

Fund Types	Description
General Fund	City's primary operating fund, reserve policy, unrestricted revenue sources
Special Revenue Funds	Revenues restricted to a specific purpose
Capital Project Funds	Revenues restricted to acquire or construct capital facilities
Enterprise Funds	Revenues from charges to users for services provided; similar to a private business
Internal Service Funds	Tracks goods or services provided to other departments for reimbursement and allocates overhead and shared items.
Debt Service Funds	Revenues collected to pay for debt payments
Fiduciary Fund	City acts as fiduciary on behalf of other



Proposed fiscal year 2026-27 budget

- The City has over 50 funds with a proposed expenditure budget of \$151.5 million, not including CIP carryforward budget (prior unspent City Council budget appropriations)
 - General Fund: \$90.5 million, all other funds: \$61 million
 - Capital Improvement Program (CIP): \$13 million new funding, approximately \$60 million carryforward funding
- The proposed fiscal year 2026-27 budget includes General Fund expenditures of \$90.5 million and revenues of \$88 million, with a deficit of \$2.5 million, balanced with use of reserve
- Three additional items (AFSCME MOU, BCJPIA insurance premium adjustment and downtown development financial feasibility study), total \$0.3 million





Fiscal year 2026-27 operating budget: revenue

The proposed budget anticipates revenues of \$88 million compared to \$82 million in the fiscal year 2025-26 amended budget

Key revenue assumptions:

- Total Property Taxes of \$37 million
 - Property Tax in Lieu of Vehicle License Fee (VLF) backfill revised to 0
- Transient Occupancy Tax (TOT): \$18.4 million
 - Increase of \$2.2 million from the prior fiscal year partly driven by higher tax rate from success of Measure CC in November 2024
- Sales Tax: \$7.2 million
 - Growth of 11% from the prior fiscal year due to adjustment in projection



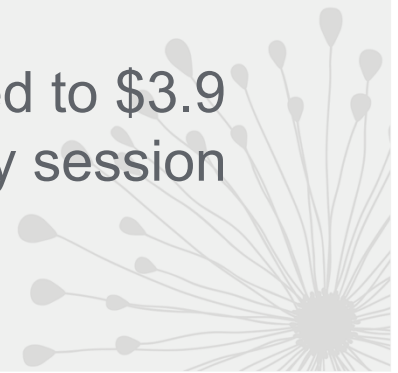


Fiscal year 2026-27 operating budget: expenditure

The proposed General Fund budget anticipates expenditures of \$90.5 million compared to \$84.6 million in the fiscal year 2025-26 amended budget

Key expenditure assumptions:

- Personnel
 - 297 full-time equivalent positions (FTEs)
 - General Fund supports an estimated 83% of City staff
 - Vacancy and turnover rate of 10%
- Transfer to General Capital Improvement Fund decreased to \$3.9 million as directed by City Council following May 12 study session
- Transfer to vehicle replacement fund of \$1.8 million

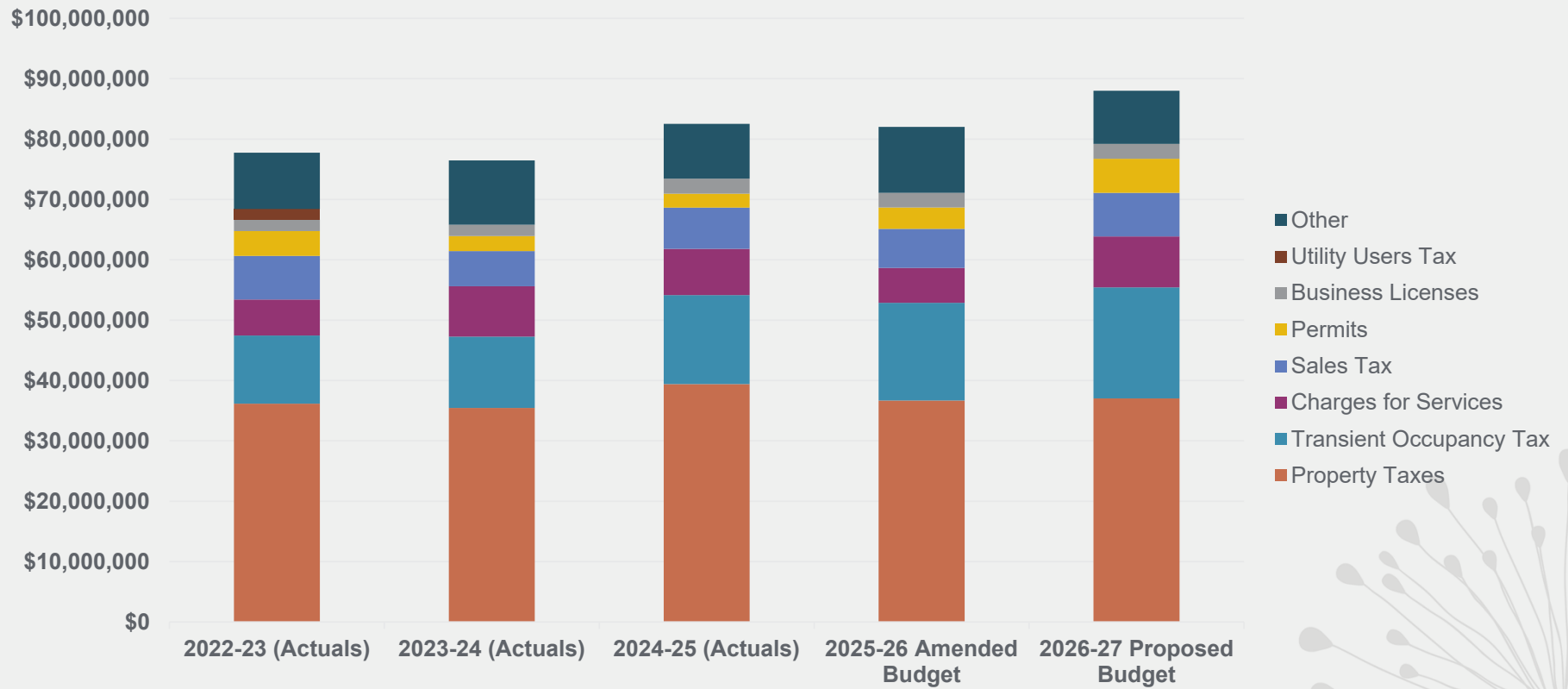




General Fund revenue and expenditure trends



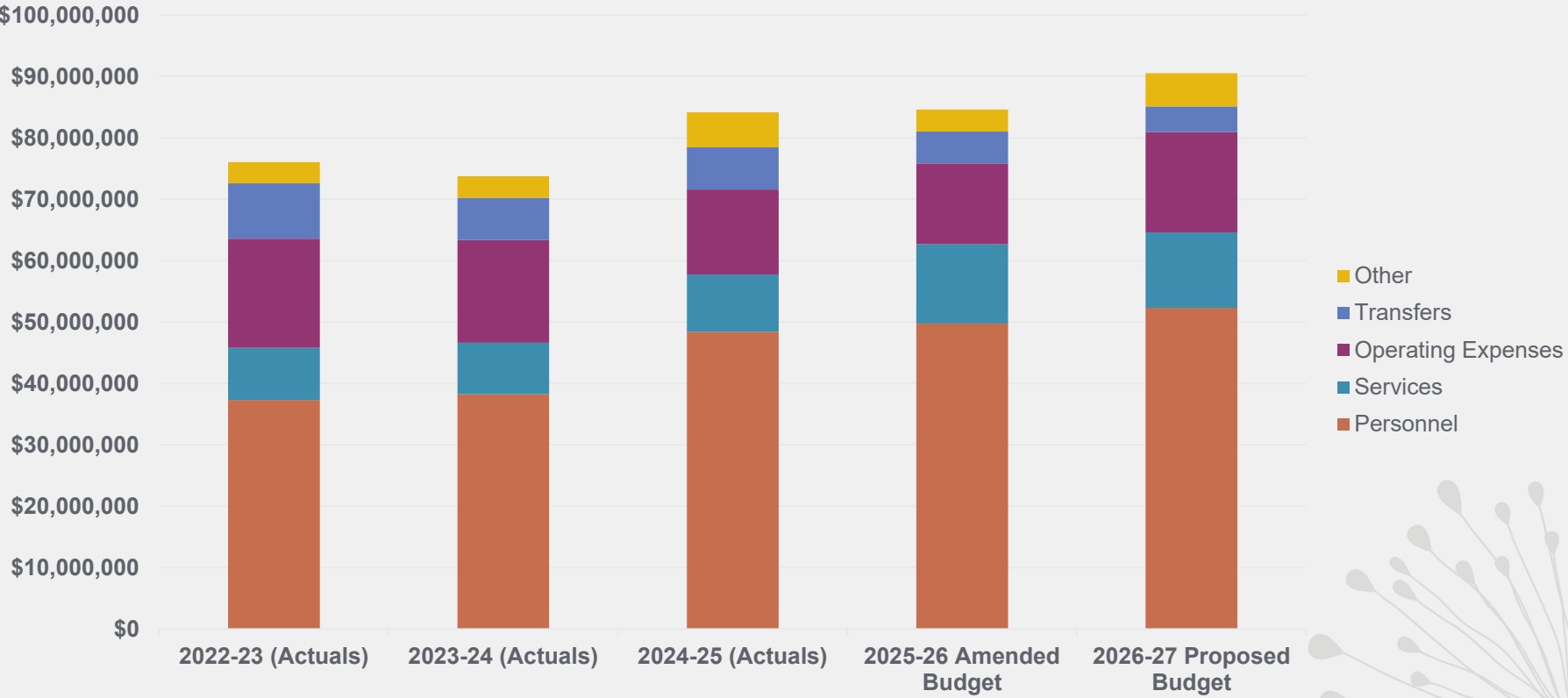
General Fund revenue trends



Other: Fines and Forfeitures, Franchise Fees, Use of Money & Property, Intergovernmental



General Fund expenditure trends



Other: Utilities, Repairs & Maintenance, Special Projects

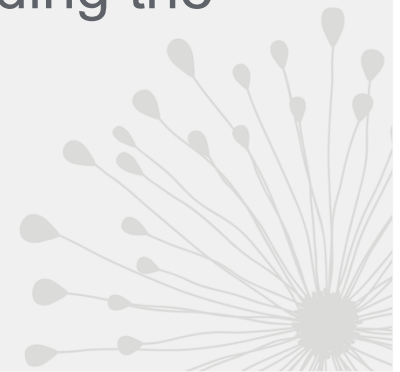




General Fund five-year forecast

Background

- Five-year forecast provides financial outlook of revenues and expenditures for the General Fund
- Serves as a planning tool to support long-range decision-making
- Based upon current policies, economic trends and known future obligations
- Developed with input from a variety of sources, including the subject matter experts and consultants

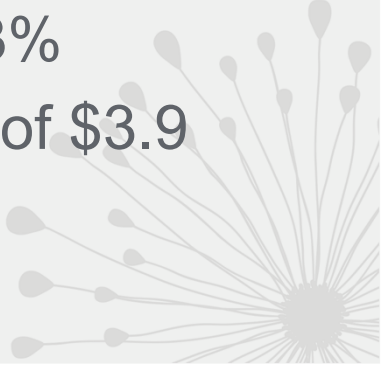


Revenue assumptions

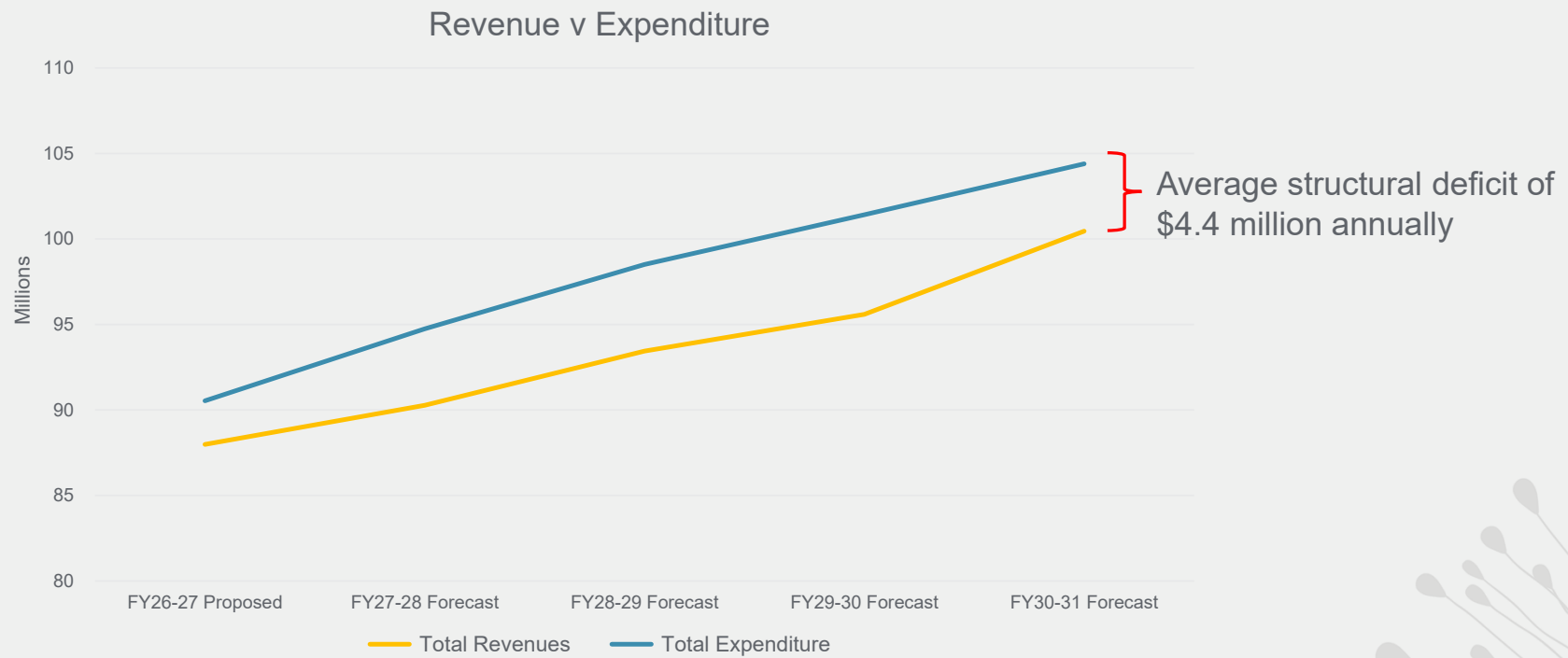
- Property taxes: average annual growth of 4.5%
- Transient Occupancy Tax (TOT): 15.5% tax rate effective Jan. 1
 - Does not consider planned addition of Hotel Moxy; estimated \$1.9 million additional revenue beginning 2027-28
- Sales tax: average annual growth of 3%
- Licenses and permits: increased to reflect new Master Fee Schedule in 2026-27; average annual growth of 3% thereafter
- \$1 million annual transfer from Developer Special Revenue fund through fiscal year 2028-29
 - Used for Belle Haven Community Campus (BHCC) operations
- Grant revenues reduced to reflect current funding levels



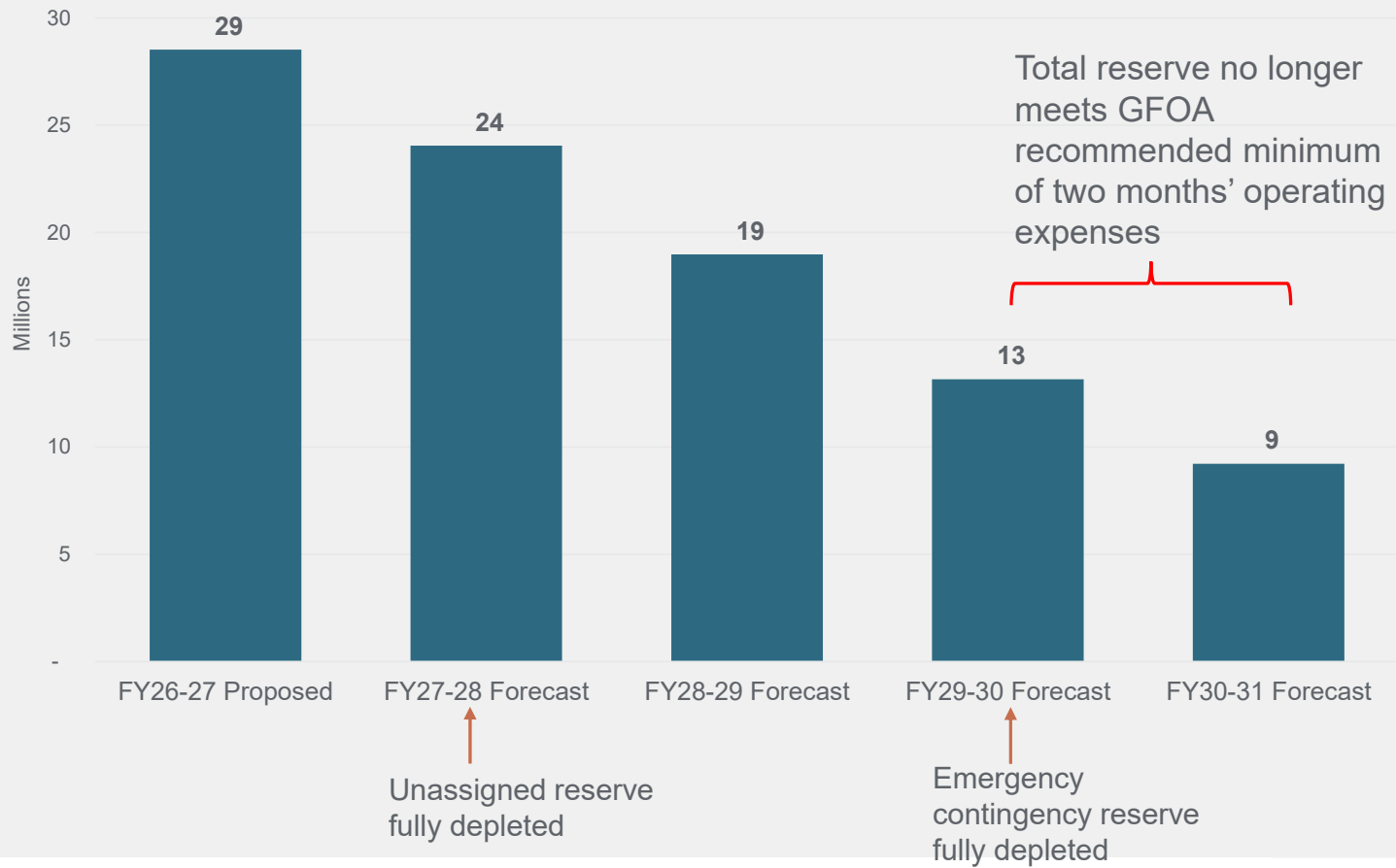
Expenditure assumptions

- Salaries and wages forecast using annual growth of 3%
 - Includes vacancy and turnover rate assumption of 10%, decreasing 2% annually until stabilizes at 6%
 - Non-retirement benefits: average annual growth of 3%
 - Health insurance premiums grow 6% annually
 - Retirement benefits and unfunded actuarial liability (UAL) payment forecast using most recent CalPERS actuarial data
 - Services and operating expenses: annual growth of 3%
 - Transfer to the General CIP Fund for capital projects of \$3.9 million in 2026-27; remains flat in out years
- 

Operating surplus/(deficit)



General Fund reserve impact



Fiscal year 2026-27 Operating budget: reserves



- Projected reserve levels
 - Strategic pension: \$0.66 million
 - Emergency Contingency Reserve: \$10.4 million at 11% (does not meet policy minimum 15%)
 - Economic Stabilization Reserve: \$13.9 million at 15% (does not meet policy minimum 20%)





Reserve comparison

City	General Fund reserve* as of June 30, 2025 (millions)	FY 2024-25 General Fund operating expenditure (millions)	General Fund reserve as % of operating expenditure
Foster City	\$71.1	\$62.4	114%
Belmont	\$31.6	\$29.1	109%
East Palo Alto	\$33.9	\$33.2	102%
San Bruno	\$53.4	\$65.5	82%
Burlingame**	\$54.5	\$95.9	57%
South San Francisco	\$92.4	\$162.9	57%
San Mateo	\$106.9	\$189.8	56%
Menlo Park	\$31.3	\$84.1	37%

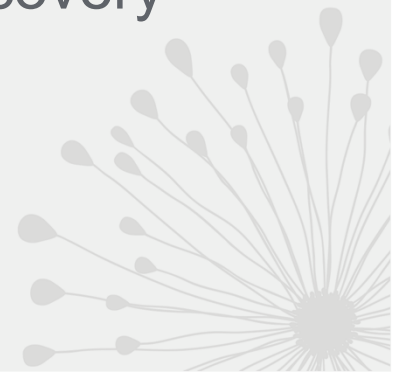
*Only includes reserves related to pension, economic stabilization, emergency contingency and unassigned.

**Burlingame is the closest benchmark based on budget size



Revenue generation and cost recovery

- Staff plans to further study and present revenue enhancement options for City Council consideration in the fall
 - Half cent sales tax
 - Business license tax modernization
 - Reauthorization and modernization of UUT
 - Other revenue measures focused on capital project funding
- Staff also plans to bring back updated user fee cost recovery policy in the fall



Department expenditure reductions

Targeted reductions of \$0.7 million incorporated by departments:

- Delayed technology hardware replacement cycles and transition from proactive to reactive replacement
- Reduced department supplies, contracts
- Placed community funding program on hold
- Reduced training, conferences and memberships
- Shifted costs to alternative funding sources whenever possible



Vehicle license fee

- On June 11, printed State budget will be available for review
- Any inclusion of VLF backfill would likely be one-time funding since department of finance is not currently open to long term legislative fix
 - With 2/3 VLF backfill of \$1.9 million, deficit for fiscal year 2026-27 will be reduced to approximately \$0.9 million
 - With 1/2 VLF backfill of \$1.4 million, deficit for fiscal year 2026-27 will be reduced to approximately \$1.4 million



Review potential service level reductions



Seeking City Council direction on:

- Reviewing potential service level reductions and identifying those to move forward
 - Selected reductions will be incorporated into the budget presented for adoption June 23
- Establishing target deficit to be achieved through these measures





Potential service level reductions

Department	Service	Proposed Change
Library and Community Services	Reductions to library program offerings, small reductions of materials and contract services	(169,255)
Library and Community Services	Reductions to contract services for indoor recreation programs, small reductions to materials, staffing efficiencies	(104,400)





Potential service level reductions

Department	Service	Proposed Change
Public Works	The Safe Routes to School reduction reflects a decrease in consultant services provided by Alta equivalent to a half-time position	(\$105,000)
Public Works	Eliminate the contract for maintaining the existing tree lights in the Santa Cruz Avenue medians between University Drive and Doyle Drive. Existing lights would remain in place and operational but not maintained. Failed lights would no longer be repaired or replaced.	(\$43,000)
Public Works	Fremont Park and Belle Haven Community Center Tree lighting	(\$70,000)
Public Works	General non-herbicide weed removal	(\$91,600)
Public Works	Landscape median and right of way maintenance	(\$69,800)
Public Works	Mechanical non-herbicide weed removal	(\$50,000)
	Total	(\$703,055)





Department budgets

Fiscal year 2026-27 General Fund: department budgets



Department	Revenues (millions)	Expenditures (millions)	General fund FTEs
Police	\$1.2	\$29.2	73.00
Public Works	\$1.8	\$19.2	45.94
Library and Community Services	\$6.1	\$17.9	55.25
Community Development	\$6.9	\$11.0	32.50
General Administration	\$0.05	\$7.1	18.36
Administrative Services	\$0	\$5.7	18.22
Non-Departmental*	\$72.0	\$0.5	0.00
Total	\$88.0	\$90.5	243.27

*Non-Departmental includes items not attributable to a specific department. Revenues include taxes, franchise fees, business licenses, and investment income. Expenditures include the vacancy and turnover factor, operating factor, and transfers to other funds.



Capital improvement program

Capital improvement program (CIP)

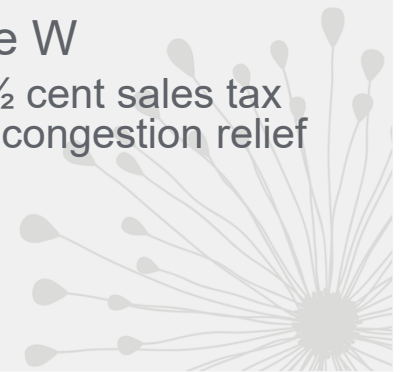
Seven project categories and ongoing programs:

- City buildings and systems
 - City buildings minor
- Environment
- Parks and Recreation
 - Aquatic center maintenance
 - Parks improvement minor
 - Sport field renovations
 - Sport court maintenance
- Stormwater
- Streets and sidewalks
 - Street resurfacing
- Transportation
 - Traffic signal modifications
 - Transportation projects
- Water
 - Water main replacement
 - Water system improvements



Funding the CIP

- General Fund
 - Decreased transfer from \$4.9 million to \$3.9 million
- Water Enterprise Fund
- Grants
- Special Revenue Funds
 - Highway Users Tax (Gas Tax)
 - Road Maintenance and Rehabilitation (SB1)
 - Transportation Impact Fees
 - Construction Impact Fee
 - Landfill Post-Closure
 - Recreation In-Lieu
- Downtown Public Amenity Fund
- In-lieu Payment for Community Amenities
- Heritage Tree in-lieu fee
- Landscape/Tree Assessment and Sidewalk Assessment Districts
- Downtown Parking Permits
- Measure T
 - Recreation general obligation (GO) bonds
- Measure A & Measure W
 - San Mateo County ½ cent sales tax for transit and traffic congestion relief projects





Funding the CIP

Summary of capital project requests for fiscal year 2026-27 by category

Category	Funding requested	Percent of total requests	Amount of General CIP Fund requests	Percent funded by General CIP
City buildings and systems	\$1,070,000	8%	\$800,000	26%
Environment	\$0	0%	\$0	0%
Parks and recreation	\$1,320,000	10%	\$500,000	16%
Stormwater	\$1,520,000	12%	\$1,520,000	49%
Streets and sidewalks	\$4,310,000	33%	\$0	0%
Traffic and transportation	\$1,285,000	10%	\$275,000	9%
Water	\$3,500,000	27%	\$0	0%
Total	\$13,005,000	100%	\$3,095,000	100%



Vacancies, recruitment and retention trends



AB 2561 overview

- Assembly Bill (AB) 2561 requires public agencies to:
 - Present the status of vacancies and recruitment and retention efforts during a public hearing at least once per fiscal year, before the annual budget is adopted
 - Identify any necessary changes to policies, procedures, and recruitment activities that may lead to obstacles in the hiring process
- Additional reporting requirements apply if the vacancy rate meets or exceeds 20% in a bargaining unit
- Labor groups entitled to make a presentation





Vacancy rates by Labor Group

Employee group	Budgeted FTEs	Vacant FTEs	Vacancy rate
SEIU	152.25	15.75	10.34%
AFSCME	57.75	6.5	11.26%
POA	35	6	17.14%
PSA	9	0	0%
Confidential (Unrepresented)	9	1	11.11%
Management (Unrepresented)	29	3	10.34%
City Council	5	0	0%
Total vacancies	297	32.25	10.86%

*Vacancy data is as of the last pay period in May (May 18, 2026)



Vacancy Rates by Department

Department	Budgeted FTEs	Vacant FTEs	Vacancy rate
Administrative Services	29.48	0	0%
Community Development	34	7.5	22.06%
General Administration	14	3	21.43%
Library and Community Services	68.25	2.75	4.03%
Police	73	9	12.33%
Public Works	73.27	10	13.65%
Total vacancies	297	32.25	10.86%

*Vacancy data is as of the last pay period in May (May 18, 2026)

Human Resources

- 6 budgeted FTEs and 1 temporary employee
- Currently, 2.0 FTEs focused on recruitment efforts



Recruitment and retention trends

- For the period of May 1, 2025 – April 30, 2026:
 - 33 total FTE recruitments

Methodology	Total
New hires	33
Promotions	5
Advancements in a flexibly-staffed job series	3
Total positions filled	41

- Employee Turnover Rate: 8.08%
- Employee Retention Rate: 91.78%
- The average tenure of employees is 8.30 years; the median tenure is 5 years
- Additional information in the staff report and Attachment F





Planned and ongoing recruitment and retention efforts

- Hiring incentives for lateral police officers and police academy graduates
- Conducting a citywide employee engagement survey and focus groups
- Developing new/revised classifications to meet evolving operational needs
- Conducting a citywide classification and compensation study
- Collaboration with City departments and external community partners to attend career and resource fairs





Next steps

City Council direction

- Staff requests direction from the City Council:
 - Provide direction on budget strategies and/or service level reductions to incorporate into the fiscal year 2026-27 budget for adoption June 23
 - Adopt resolution approving budget amendments for fiscal year 2025-26
- Consider information related to vacancies, recruitment and retention trends in compliance with AB 2561
- Proposed budget available online: menlopark.gov/budget
- June 23 City Council meeting agenda items:
 - Adopt the fiscal year 2026-27 budget that incorporates any direction provided this evening





Questions