



May 27, 2025

Honorable Mayor and Members of the City Council:

I am pleased to submit the Annual Operating Budget for the Fiscal Year 2025-26. This budget document was developed to serve as the financial plan for the City's programs and policies. It reflects the resources necessary to meet the goals, programs, and service priorities that the City Council is committed to providing its citizens.

The Fiscal Year 2025-26 Annual Operating Budget has been developed after a considerable review process. Departmental budget submittals were prepared and reviewed by line item in connection with projected revenues. Detailed performance objectives and accountability measures were developed consistent with the City's Quality of Life Master Plan. Five-year revenue and expenditure projections were developed to identify the future impacts of proposed staffing and program changes, as well as the impact of proposed capital improvement projects. The resulting budget is realistic and balanced and continues to provide quality services to the community while effectively utilizing available resources.

As you will read below, the City's General Fund is not only balanced for the ensuing fiscal year, but also projected to be balanced for the next five fiscal years. Additionally, the City's reserve funds are fully funded across all five years of the long-range financial forecast.

CITY OF TEMECULA PROFILE

The City of Temecula is a dynamic community comprised of approximately 112,220 citizens. The City maintains 42 parks on 337 developed acres throughout the community, which provide recreation opportunities for both the citizens of Temecula, as well as surrounding communities. Law Enforcement and Fire Protection services are provided through contracts with the County of Riverside.



Known as Southern California's Wine Country, the City of Temecula is a nationally and internationally known tourist destination welcoming over 3 million visitors a year. Temecula is also an innovative, dynamic economic powerhouse and job center for the region, all the while retaining its small-town charm and character that residents cherish. Offering the finest quality of life, Temecula is listed among the safest cities in the State and Nation per FBI statistics. With a diverse population, citizens enjoy picturesque neighborhoods, a vast array of beautifully manicured parks and trails, multi-cultural dining options, retail stores that include the region's premier shopping destination Promenade Temecula, the highest rated School District in Riverside County for its outstanding academic scores, higher education opportunities including Mount San Jacinto College's Temecula Campus and Cal State San Marcos at Temecula. As a visitor destination, Temecula also offers a vibrant Old Town with boutique shops, outdoor markets, and a distinct foodie district, Pechanga Resort Casino, Southern California's Wine Country speckled each



morning with hot air balloons hovering over grapevines and equestrian trails, championship golf courses, Vail Ranch Historic Headquarters comprised of turn-of-the-century old west structures restored into specialty restaurants and retail, and City of Temecula signature events, parades, museums and a theater. Temecula's scenic landscape of rolling hills, vineyards and wineries are swept clean each afternoon with fresh ocean breezes that funnel through the Santa Margarita gap of the coastal mountains providing an ambience that magnifies the beauty of the City and Temecula Valley.



ECONOMIC INDICATORS

The City of Temecula monitors several economic and demographic indicators, which play a role in the development of revenue projections.



Population
112,220



Median Age
37.5 years



Households
36,914



Average
Income
\$145,129



Median
Home Price
\$771,000
(Apr'25)



of Jobs
54,400
(Mar'25)



Unemployment
Rate 4.6%
(Mar'25)

- Estimated Population: up 1.2% from 2024 (Source: State Department of Finance)
- Median Age: down from 37.7 in 2024 (Source: Pop-Facts Report, 2-13-25)
- Number of Households: down 0.7% from 2024 (Source: Pop-Facts Report, 2-13-25)
- Average Household Income: up 2.3% from 2024 (Source: Pop-Facts Report, 2-13-25)
- April Median Home Price: up 6.2% from 2024 (Source: Southwest Riverside County Association of Realtors)
- Number of Jobs: up 0.2% from April 2024 (Source: EDD)
- March Unemployment Rate: up from 4.1% in April 2024 (Riverside County: 5.1%, CA: 5.3%, Nation: 4.2% (Source: EDD & BLS))

Temecula has experienced slight increases in the majority of the above economic indicators. Population has increased 1.2% after two consecutive years of declines. Housing prices continue to climb due to the low inventory, with a 6.2% increase in the median home price. Temecula's average household income has increased by 2.3%, while the number of jobs has remained relatively flat over the prior year. Unemployment has increased slightly, but remains lower than both Riverside County and the State.

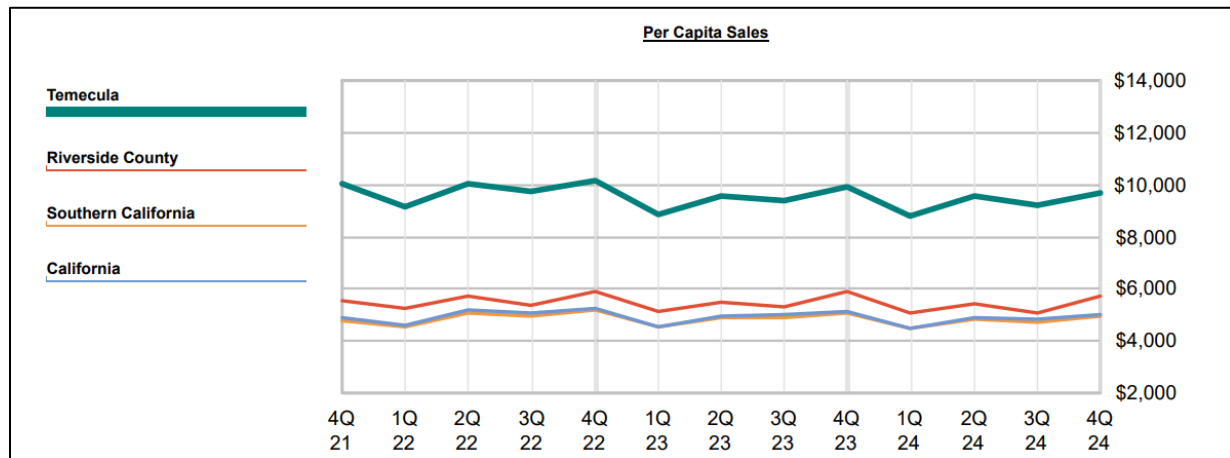
LOCAL ECONOMY AND LEGISLATIVE IMPACTS

Local Economy

As the economic indicators noted above have improved over 2024, the impact to the local economy is evident in the retail activity and sales tax trends. Despite a flattening of Sales Tax revenue in the current year, it is projected to grow at a modest 2.5% next fiscal year, as both national retailers and local entrepreneurs continue to invest in Temecula by opening businesses, undergoing expansion projects and starting new construction. Currently, there are seventeen new businesses slated to open soon, including a hotel, multiple retailers, restaurants and breweries. In addition, several auto dealers are undergoing expansions within the Temecula Auto Mall.



With Temecula’s regional shopping mall, Old Town district, and auto mall, shoppers from the entire Temecula Valley region contribute to the City’s sales tax base. Temecula residents generated \$37,209 in sales tax per capita in 2024, which far outpaced neighboring cities and statewide averages.



Source: HdL Companies

Legislative Impacts

The City of Temecula actively follows state and federal legislative proposals each year and works closely with the League of California Cities and the National League of Cities to stay informed and engaged to ensure the City supports legislation that aligns with the City’s local legislative platform guiding principles:

I. Preservation of Local Control - Support measures that preserve and protect the City's general law powers and duties to enact legislation and policy direction concerning local affairs. Oppose measures that preempt local authority.

II. Promotion of Fiscal Stability - Support measures that promote fiscal stability, predictability, and financial independence. Support measures that preserve and promote the City's revenue base. Oppose measures that mandate costs with no guarantee of local reimbursement or offsetting benefit. Oppose measures that shift local funds to the county, state, or federal government, without offsetting benefit.

III. Support Funding Opportunities - Support measures that allow the City to compete for its fair share of regional, state and federal funding including competitive grants and other funding programs. Support measures that promote dedicated funding streams at the regional, state and federal levels allowing the City to maximize local revenues, offset and leverage capital expenditures, and maintain City goals and standards.

Recent legislation that potentially impacts the City's operations include the following:

Senate Bill 937 Impact Fee Deferral - SB 937 was signed into law on September 19, 2024 and became effective January 1, 2025. This new law prohibits the local agencies from collecting the fees or charges from a Designated Residential Development Project for the construction of public improvements or facilities until the first occupancy certificate or first temporary certificate of occupancy is issued. The local agency may collect utility service fees at the time of application for service. It may charge the fees prior to the certificate of occupancy if construction does not begin within five years of the date the building permit is issued. The local agency may require the payment of these fees or charges at an earlier time if the conditions specified in the code are met.

Assembly Bill 1868 Property Taxation on Affordable Housing – AB 1868 was enacted in 2024 and became effective on January 1, 2025. The bill primarily deals with property taxation and affordable housing, specifically focusing on how county assessors value property for tax purposes when its subject to restrictions for affordable housing. It establishes a rebuttable presumption that the value of property subject to certain affordable housing contracts is no more than the sum of the first mortgage and down payment


GOALS AND OBJECTIVES

The City Council recently adopted the Temecula 2040 Quality of Life Master Plan (QLMP) in November 2022. The Temecula 2040 Plan is a living document that reflects the vision and long-term goals of the City. As Temecula continues to grow and mature, the Temecula 2040 Plan will be a crucial part of not only maintaining the City's quality of life, but to take a proactive approach and identify specific community needs, goals, and possible improvements. The City of Temecula utilizes the QLMP to formulate and budget Citywide projects. In addition, the QLMP is used to guide planning, investment decisions, to provide vision and continuity for the next phase of the City's journey, and for continuous process improvement in partnership with Temecula's residents.




To incorporate the QLMP into the City’s budget process, the QLMP includes specific goals based on the Core Values of the QLMP. These goals are used by each department to develop short-term objectives and performance measures for completion in the upcoming fiscal year and are reflected in the Department Information and Performance Measures sections of the budget document.

The QLMP outlines 7 Core Values:

- 

Healthy & Livable City
- 

Sustainable & Resilient City
- 

Economic Prosperity
- 

Transportation Mobility & Connectivity
- 

Safe & Prepared Community
- 

Accountable & Responsive City Government
- 

Equity

BUDGET OVERVIEW

The Fiscal Year 2025-26 Annual Budget reflects a structurally balanced, healthy fiscal outlook across all major funds for the City of Temecula. General Fund, Special Revenue Funds and TCSD Fund revenues are growing, albeit at a modest pace, and expenditures include all contractually obligated increases offset by various budget reductions necessary to partially absorb rising costs in Public Safety departments.

Major changes from the prior Operating Budget are summarized below.

Fund Category	Revenue & Transfers In Change from Prior Year	Expenditures & Transfers Out Change from Prior Year	Change in Fund Balance from Prior Year	Variance Analysis
GENERAL FUNDS	9,119,015	(22,028,106)	(4,082,295)	Revenue growth attributable to Sales Tax, Measure S Tax and Interest Earnings. Expenditure reduction due to reduced Capital Project funding, offset by 5.2% increase in Operating Expenditures.
SPECIAL REVENUE FUNDS	3,437,195	(13,157,830)	1,745,437	Revenue growth attributable to Development Impact Fees. Expenditure reduction due to reduced Capital Project funding from Development Impact Fees, Measure A, Affordable Housing and Road Maintenance Funds.
TEMECULA COMMUNITY SERVICES DISTRICT (TCSD)	636,008	573,888	(627,045)	Revenue growth attributable to the TCSD Operations and Library Funds. Expenditure growth due to higher salaries, benefits and internal service fund allocations.
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY	(595,660)	429,997	55,382	Revenue decline due to reduced Redevelopment Property Tax Trust Fund distributions due to the wind down of the former Redevelopment Agency. Expenditure increase due partly to Depreciation which had not been budgeted in the prior year.
INTERNAL SERVICE FUNDS	(4,210,438)	(3,351,405)	212,877	Revenue decline due to one-time transfers in the prior year from the Information Technology Fund to the Technology Replacement Fund, and a reduced Transfer in from the Measure S Fund to the Facilities Replacement Fund. Expenditure decline due to reduced Capital Project funding and one-time transfers.
ALL BUDGETED CITY FUNDS	8,386,120	(37,533,456)	(2,695,645)	



Assumptions, combined with known contractual obligations are used in forecasting revenue sources, expenditure trends, as well as the long-term financial forecasts.

Current year revenue assumptions are based on multiple factors, including input from the City’s Sales Tax and Property Tax consultants, input from the State of California, local economic trends and development activity. Assumptions beyond the current year include general inflationary growth projections plus any known development projects, new hotels, expanding businesses and any other specific data that may impact revenue growth. The table below summarizes the growth assumptions for the General Fund Five-Year Revenue Forecast:

Summary of Revenue Assumptions	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Property Tax	4.4%	4.0%	4.0%	4.0%	4.0%
Sales and Use Tax	2.5%	3.0%	3.0%	3.5%	3.5%
Less: Sales Tax Sharing Agreement	3.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	-7.4%	1.0%	1.0%	1.0%	1.0%
Transient Occupancy Tax	1.6%	3.0%	3.0%	5.0%	-1.9%
Special Tax (Measure C)	9.0%	0.5%	0.5%	0.5%	0.5%
Licenses, Permits and Service Charges	13.0%	2.0%	2.0%	2.0%	2.0%
Fines and Forfeitures	13.7%	1.0%	1.0%	1.0%	1.0%
Use of Money and Property	29.2%	1.0%	1.0%	1.0%	1.0%
Intergovernmental Revenues	4.2%	4.0%	4.0%	4.0%	4.0%
Reimbursements	5.1%	4.6%	4.9%	4.4%	3.9%
Miscellaneous	-17.9%	1.0%	1.0%	1.0%	1.0%

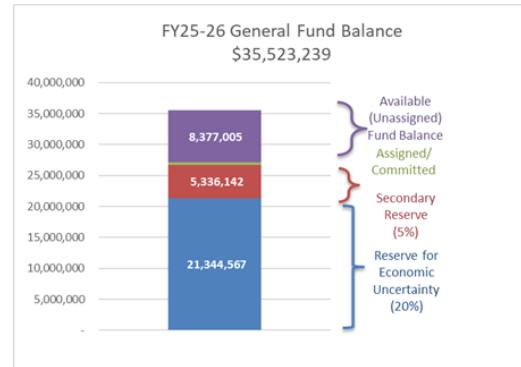
Assumptions used in forecasting Operating expenditures include the following:

- Contractual obligations:
 - Negotiated cost of living adjustment of 2.3% for City employees
 - Public Safety labor contracts (9.5% for Sheriff positions, 17.5% for Fire positions)
 - Reclassification of 23 full-time authorized positions
 - CalPERS Pension cost sharing of 3% for eligible employees
- Council policies:
 - Continuation of the Debt/Liability Paydown Strategy (\$8,267,833 in FY25-26 for additional discretionary payments towards the City’s CalPERS unfunded pension liability)
 - Annual Replacement allocations for Fleet, Technology, Facilities, Support Services, Street Maintenance and Street Light assets.
- Expected savings achieved from the Debt/Liability Paydown Strategy (\$18.5 million over the ensuing five fiscal years)
- Actuarially determined contributions to the City’s pension and retiree health programs
- Estimated inflation for non-personnel related expenditures

GENERAL FUND ANALYSIS

The General Fund forecast over the coming five years is balanced, with its Reserve for Economic Uncertainty and its Secondary Reserve fully funded in all five years.

Ending fund balance for Fiscal Year 2025-26 is projected to be \$35,523,239, of which \$26,680,709 is committed to fulfilling the Fund’s policy-level reserves of 25% of Operating Expenditures. A total of \$465,524 of fund balance is committed to cover the costs of a Sheriffs Deputy position funded by the Pechanga Tribe.



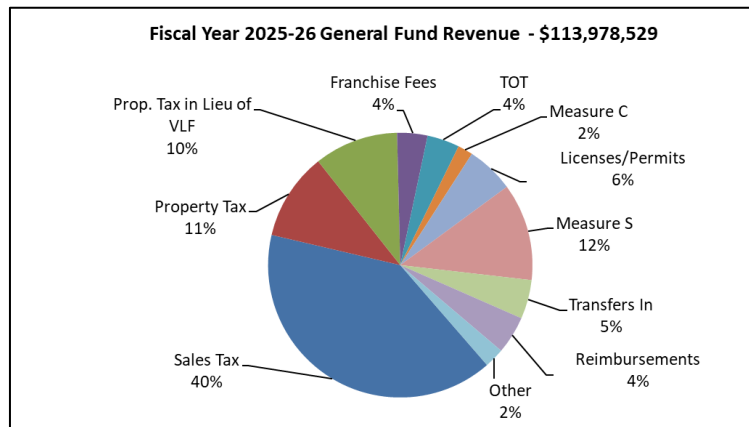
A total of \$8,377,005 in fund balance is unassigned and available for one-time appropriations.

General Fund Revenue Highlights

General Fund revenue is projected to increase by 7.6% over the prior year with a total of \$113,978,529. Tax revenues, excluding the transfer from Measure S Fund, are projected to increase by 3%. The transfer of Measure S increases significantly to fund contractual increases in Public Safety expenditures.

The General Fund major revenue sources are summarized below:

- **Sales Tax (\$47,340,358)** is projected to increase by 2.5% over the prior fiscal year as taxable retail sales are projected to increase slightly, although there are still concerns about the overall trajectory of the economy.
- **Property Tax (\$12,164,898)** is projected to increase by 4.4%, due to a stable housing market. Property Tax revenue for Fiscal



Year 2025-26 is based on assessed valuation from the year prior, which have shown steady growth, as inventory is still low and home prices continue to rise slightly.

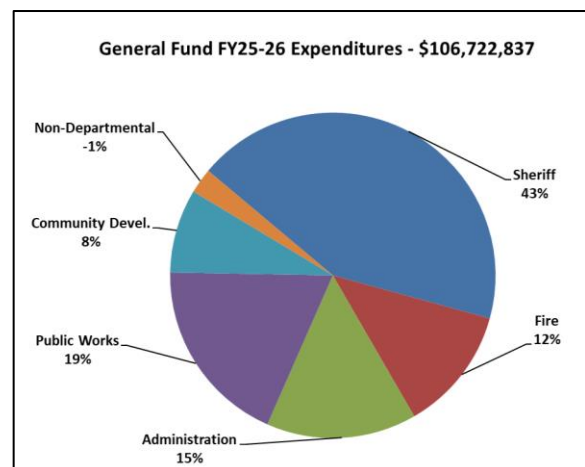
- **Franchise Fees (\$4,229,094)** are projected to decrease by 7.4% due to lower natural gas rates and continuing declines in cable subscribers.
- **Transient Occupancy Tax (\$4,500,000)** is projected to increase by 1.6% over the prior year. Both occupancy rates and the average daily hotel rates have leveled off recently due to concerns over the economy. With the opening of a new hotel in Fiscal Year 2025-26, Transient Occupancy Tax is expected to grow.

- **Licenses, Permits & Service Charges (\$6,623,241)** are projected to increase by 13% due to the continuation of development activity within the City.
- **Intergovernmental Revenues (\$11,713,171)** are projected to increase by 4.2% due to the increases expected in Property Tax In Lieu of Vehicle License Fees which is driven by property value assessments within the City.
- **Operating Transfers In (\$5,428,738)** are projected to decrease by 35.5% due to a \$3 million reduction in the transfer from the City's Pension Trust, in accordance with the City's Debt/Liability Paydown Strategy to fully fund the accrued pension liability by Fiscal Year 2028-29.
- **Operating Transfers In - Measure S (\$13,548,319)** will continue to fund 11 Sheriff Deputies, staffing for Fire Station No. 95, funding for the future replacement of the newly acquired fire ladder truck and inspection vehicles, and enhanced park maintenance services.

General Fund Expenditure Highlights

The largest expenditure of the General Fund is Public Safety, making up 55% of total General Fund expenditures. In accordance with the Measure S ballot language and City Council appropriation guidelines, the City has invested heavily in Public Safety over the past several years and continues to hold Public Safety as its highest priority.

In addition to the ongoing Measure S-funded Public Safety expenditures, the Sheriff Department will continue to exceed the staffing goal of one officer per 1,000 residents and the Fire Department will continue to provide four firefighter personnel per engine at all five fire stations.



General Fund expenditures total \$106,722,837, which represents an 8% increase over the prior fiscal year.

- **Sheriff Department (\$48,474,402)** is increasing by 11.1% over the prior year due to inflationary adjustments in the contract with Riverside County, including a new multi-year labor agreement which includes successive pay adjustments. The budget reflects 117 Sworn Deputies, which includes continued patrol coverage of 210 hours per day, and full staffing for the Metro and CORE Teams. The budget also includes the replacement of four motorcycles.
- **Fire Department (\$13,923,013)** is increasing by 25.6% due to inflationary adjustments in the contract with Riverside County combined with the reversal of a one-time CalPERS Retirement offset administered by the State in FY2024-25. The total Fire budget of \$26.4 million is offset by the Structural Fire Tax Credit of \$12.4 million. The department employs 79 positions and provides four firefighters per engine/truck staffing model.

- **Non-Safety Departments (\$47,128,746)** represents a 3.1% increase over the prior year, due primarily to the reclassification of several positions and the calculated 2.3% cost of living adjustment in accordance with the City’s labor agreements.
- **Non-Departmental (-\$2,803,324)** includes the projected savings in the CalPERS unfunded liability offset by the Retiree Medical Contribution and Property Tax Administrative fees.

Operating Transfers Out & One-Time Payments

This category of expenditures reflects funds that are transferred to meet the Debt/Liability Paydown Strategy, to the Capital Improvement Program and the Fire Facility Acquisition Fund.

- **CalPERS Unfunded Pension Liability (\$8,267,833)** to further reduce the City’s annual pension costs by an estimated \$3.5 million per year.
- **Capital Improvement Fund (\$500,000)** to support the General Plan Update project.

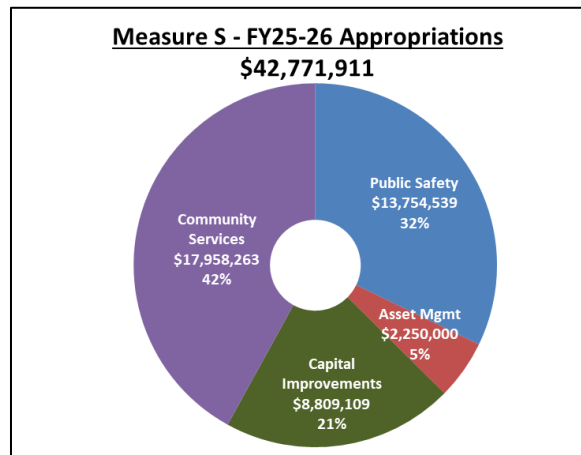
Overall, the General Fund remains structurally balanced, with revenues exceeding expenditures, and reserves are fully-funded each year of the ensuing five-year financial forecast. The City continues to budget in a conservative, yet realistic, manner while keeping close watch on several economic indicators. As conditions change throughout the fiscal year, adjustments to revenue or expenditure budgets will be recommended to the City Council for their approval.

MEASURE S FUND

With the approval of a one-cent transactions and use tax measure in November 2016, the Measure S Fund was established to account for this new revenue source. Fiscal Year 2025-26 Measure S revenue is projected to be \$40,028,469.

Measure S appropriations of \$42,771,911 reflect the priorities established in Budget Policy IV – Transactions and Use Tax Funding.

Public Safety (32%) The budget includes \$13,754,539 of Measure S funding to support the contracts for the Sheriff and Fire Departments. Measure S provides for 11 Sheriff’s Deputies, staffing for Fire Station No. 95, and funding for the future replacement of the newly acquired fire ladder truck and inspection vehicles.



Asset Management/Investment (5%)

As noted in Council’s appropriation guidelines for Measure S, ensuring adequate reserves are set aside for the future replacement of City-owned assets is critical to the long-term viability of the City’s operations. For Fiscal Year 2025-26, Measure S is contributing \$1,250,000 to the Facilities Replacement Fund, and \$1,000,000 to the Streets Maintenance Fund.



Capital Improvement Program (21%)

The budget includes an additional \$8,809,109 appropriation in Fiscal Year 2025-26 to complement the current year budget of \$34,283,385 to fund multiple CIP projects. The influx on Measure S funding has allowed the City to leverage other funding sources, such as Development Impact Fees and various grant funds, to complete projects in a timelier manner.

Major Projects funded by Measure S include:

- Fire Station 73 Gym/Garage - to construct a gym, storage room and a second garage at the station to house the squad and additional vehicles.
- Fire Station 84 Renovation – to completely renovate the existing station including the addition of a gym, upgraded electrical, windows, paint and renovated living quarters.
- Ronald Reagan Sports Park Hockey Rink - to renovate the existing outdoor hockey rink by installing new flooring, dasher boards, scoreboard and a roof structure.
- Ronald Reagan Sports Park Skate Park – to remove and replace the existing skate park and install state-of-the-art street skate plaza elements.

General/Community Services (42%)

The Temecula Community Services District (TCSD) has historically been funded with voter-approved Measure C funding and program-related revenue. Measure S funding is used to augment Measure C, in order to maintain the award-winning programs, activities and events TCSD provides to the citizenry.

- TCSD Operations contribution - \$16,480,467
- Library contribution - \$1,384,016
- Enhanced Custodial Services - \$93,780

The ending fund balance within the Measure S Fund is projected to be \$24,605,093, which will carry-forward to the ensuing fiscal year. Over the forecasted five-year period, Measure S is projected to have adequate resources to fund public safety, asset management, capital projects and general services.

OTHER GENERAL FUNDS

Fund 006 – Fire Facility Acquisition Fund: This fund was established in Fiscal Year 2021-22 to accumulate resources to acquire and/or construct property for a future Fire Station. The ending fund balance is projected to be \$5,031,293 for Fiscal Year 2025-26.

Fund 110 – COVID-19 Pandemic Community Reinvestment Program Fund: This fund was established in Fiscal Year 2021-22 to provide grant funding to support the local economy to rebound from the global pandemic. A total of \$14,080,000 was transferred into this fund from available General Fund balance. The Council approved six funding categories, including: (1) Business Support (\$3,080,000); (2) Non-Profit Support (\$1,000,000); (3) Homeless Services (\$1,000,000); (4) Housing Assistance (\$5,500,000); (5) Behavioral Health Services (\$1,500,000) and (6) Higher Education/Workforce Development (\$1,000,000), leaving \$1,000,000 subject to further Council appropriation.



MAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on use according to law. The City has several Special Revenue Funds. The major Special Revenue funds are highlighted below.

Fund 100 - Gas Tax: Gas Tax revenue is projected to be \$3,143,671, which reflects an increase of 0.4% as volume of gasoline sales is projected to remain steady. These funds are transferred to the General Fund to support street and road maintenance.

Fund 102 – Road Maintenance Rehabilitation Account (RMRA): Per the Road Repair and Accountability Act of 2017 (SB1-Beall), increased gas tax and vehicle registration fees were imposed to fund street and road projects and other transportation uses Statewide. RMRA revenue is projected to be \$3,037,266, which is an increase of 4.4%. These funds are allocated to the Pavement Rehabilitation Capital Improvement Project.

Fund 103 – Street Maintenance: This fund was established in Fiscal Year 2018-19 to accumulate resources for the future replacement of streets and roads throughout the City. Measure S contributes annually to this fund, which has a projected Fiscal Year 2025-26 ending balance of \$4,763,355. FY2025-26 appropriations of \$1,927,477 is to partially fund the Overland Drive Widening capital project.

Fund 105 – NPDES In Lieu Fees: This fund was established in Fiscal Year 2019-20 to account for the collection of In Lieu fees associated with the National Pollutant Discharge Elimination System (NPDES). Revenue is received as private development subject to NPDES requirements occur. Fiscal Year 2025-26 expenditures of \$114,150 is programmed to install storm drain inlet filters throughout the City.

Fund 106 – Uptown Temecula New Streets In-Lieu Fees: This fund was established in Fiscal Year 2019-20 in conjunction with the adoption of the Uptown Temecula Specific Plan New Streets In-Lieu Fee. Developers within the Specific Plan who cannot build new streets will be charged the In Lieu Fee. No activity is anticipated in this fund for 2025-26, and the ending fund balance totals \$983,842.

Fund 120 – Development Impact Fees (DIF): DIF revenue is projected to be \$8,073,996, which reflects an increase of 194.6% due to the higher level of activity in the prior year occurring in the Altair, Elderberry Park and Sommer’s Bend developments. DIF revenue varies from year-to-year as it is based on anticipated development projects. DIF Revenues are transferred to the CIP to fund capital projects. Fiscal Year 2025-26 ending fund balance is projected to be \$20,237,550.

Fund 125 – Public, Education & Government (PEG): PEG Fund revenues are received from local cable operators for the sole purpose of supporting the access facilities within the City. PEG Revenues are projected to be \$215,436, which will be spent on various technology equipment used to support the broadcast of City Council meetings and events. Fiscal Year 2025-26 ending fund balance is projected to be \$1,261,637.

Fund 140 – Community Development Block Grant (CDBG): CDBG grant revenues are received from the U.S. Department of Housing and Urban Development (HUD). Fiscal Year 2025-26 revenue is projected to be \$612,781 and will support operations, community grants and capital projects.



Fund 145 – Temecula Energy Efficiency Asset (TEAM) Fund: This fund was established to capture energy efficiency rebates to be used to fund future energy efficiency projects. In Fiscal Year 2020-21, the City received a rebate of \$640,754 for the acquisition of street lights and conversion to LED bulbs. There is no activity programmed for Fiscal Year 2025-26, and the ending fund balance is projected to be \$126,157.

Fund 150 – AB2766 Motor Vehicle Subvention Fund: This fund was established to account for subvention funds used to implement programs/projects to reduce air pollution from motor vehicles. Fiscal Year 2025-26 revenue is projected to be \$166,694. The majority of these funds are programmed for capital projects, including the Citywide Bike Lane and Trail Program, and to support the Clean Cities Coalition.

Fund 160 – Supplemental Law Enforcement Services Fund: This fund was established to account for state grant funds to assist cities in delivering front-line law enforcement services. Fiscal Year 2025-26 revenue is projected to be \$283,502 and will be transferred to the General Fund to support law enforcement.

Fund 165– Affordable Housing Fund: The Affordable Housing Fund reflects the housing-related activities of the former Temecula Redevelopment Agency. Total Revenue for Fiscal Year 2025-26 of \$488,091 includes the State Department of Finance allocation of \$250,000 designated for the administration of the wind down of redevelopment obligations, plus \$238,091 in investment interest. Expenditures reflect the ongoing administration of the City’s Affordable Housing program.

Fund 170 – Measure A: Measure A revenue is projected to be \$4,242,301 which reflects a 7.1% decrease over the prior year, due to a slower economy. This revenue is restricted for use on local streets and roads and is programmed to support street and road maintenance. Fiscal Year 2025-26 ending fund balance is projected to be \$976,020.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the funding of goods and services provided by one department to other benefitting departments on a cost-reimbursement basis. Additionally, the City maintains several Replacement Funds designed to accumulate resources for the future replacement of City equipment, technology, and facilities.

Fund 300 – Insurance: Projected expenses total \$3,800,317, which covers the cost of administering the City’s liability and property insurance programs. The projected fund balance is \$2,077,725 exceeds the desired reserve level of \$1.5 million, which is three times the City’s self-insured retention of \$500,000 per incident.

Fund 305 – Workers’ Compensation: Projected expenses total \$657,169, which covers the cost of administering the City’s self-insured Workers’ Compensation program. The projected fund balance is \$1,478,521 and nearly meets the desired balance of \$1.5 million, which represents three times the City’s self-insured retention of \$500,000 per incident.

Fund 310 – Vehicles and Equipment: Projected expenses total \$799,527 to replace several fleet vehicles and heavy equipment that have reached the end of their useful lives. The projected fund balance is \$5,575,061. Replacements planned for 2025-26 include a Boom Truck, Construction Dump Truck and a



Ford F-150 Lightning. Additionally, depreciation expense has been budgeted this year, adding \$429,527 in expenditures for this Fund.

Fund 320 – Information Technology: Projected expenses total \$7,227,781, which provides for the management of the City’s computers, audio-visual equipment, cyber security, and telephone systems. The projected fund balance is \$850,797.

Fund 325 – Technology Replacement: Projected expenses total \$516,158 to replace the City’s phone system, network switch, audio equipment at the Community Recreation Center Amphitheater and to fund the annual computer replacement program. The projected fund balance is \$4,030,642.

Fund 330 – Support Services: Projected expenses total \$387,827, which provides for the management of the City’s central reception, printing and mail activities. The projected fund balance is \$22,976.

Fund 335 – Support Services Replacement: Projected expenses total \$72,200 to replace the Central Services copy machines and includes \$42,200 in depreciation expenses. The projected fund balance is \$383,895.

Fund 340 – Facilities: Projected expenses total \$1,645,947, which provide for the operations and maintenance of the City’s buildings and parking structure. The projected fund balance is \$92,364.

Fund 350 – Facility Replacement: Projected expenses total \$1,087,338 for Capital Outlay to support the City Facilities Rehabilitation capital project and includes \$87,338 in depreciation expenses. The projected fund balance is \$3,548,715.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY (SARDA)

Fund 380 – SARDA: Projected expenses total \$7,090,641 primarily to pay debt service expenditures on the outstanding 2017A and 2017B Redevelopment Agency Tax Allocation Bonds, plus the addition of \$1,179,997 budgeted for expected depreciation expense, not included in the prior year.

TEMECULA COMMUNITY SERVICES DISTRICT (TCSD)

The Temecula Community Services District was established as an assessment district to provide a comprehensive neighborhood and community park system, as well as a complement of recreational and cultural programs and events. TCSD also provides street lighting, median and slope maintenance, refuse hauling and a recycling program, and library services (known as Service Level Funds).

Combined revenue for TCSD totals \$36,143,057, which reflects an increase of 1.8% over the prior year. The majority of the increase is from TCSD Operations and the Temecula Public Library. Combined expenditures for TCSD total \$36,770,101 and reflect an increase of 1.6% due primarily to the addition of one new Signal Technician I position to support Service Level B (Street Lights), and higher waste hauling costs reflected in the Service Level D (Refuse/Recycling) Fund.

Ending fund balance for TCSD is projected to be \$4,849,853 for Fiscal Year 2025-26.



TCSD Operations, excluding the Service Levels and Library Funds, is projected over a five-year period, as summarized below.

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	Actuals	Revised	Proposed	Projection	Projection	Projection	Projection
Measure C Revenue	1,908,085	1,926,088	1,935,718	1,955,076	1,974,626	1,994,373	2,014,316
Measure S Revenue	13,254,402	15,864,726	16,480,467	17,388,215	18,151,038	18,945,152	19,771,855
<u>Program Revenue</u>	<u>2,779,695</u>	<u>2,836,576</u>	<u>2,860,431</u>	<u>2,889,036</u>	<u>2,917,926</u>	<u>2,947,105</u>	<u>2,976,576</u>
Total Revenue	17,942,182	20,627,390	21,276,617	22,232,326	23,043,590	23,886,630	24,762,748
Operations Expenditures	16,459,137	19,166,127	19,303,385	20,164,533	20,914,238	21,693,679	22,504,086
<u>Maintenance Expenditures</u>	<u>1,775,748</u>	<u>1,950,588</u>	<u>2,008,203</u>	<u>2,067,793</u>	<u>2,129,353</u>	<u>2,192,951</u>	<u>2,258,662</u>
Total Expenditures	18,234,885	21,116,715	21,311,588	22,232,326	23,043,591	23,886,630	24,762,748
Beginning Balance	916,999	624,296	134,971	100,000	100,000	100,000	100,000
Ending Balance	624,296	134,971	100,000	100,000	100,000	100,000	100,001
% Revenue from Measure S	74%	77%	77%	78%	79%	79%	80%

The Five-Year Forecast shows the various revenue sources and projected operating expenditures, which are increasing between 2.0 – 4.3% per year. The contribution from Measure S increases from 74% in 2023-24 to 80% by 2029-30. A long-term fiscal strategic plan is recommended to address the increased reliance on Measure S to balance this Fund into the future.

CAPITAL IMPROVEMENT PROGRAM (CIP)

The City’s five-year Capital Improvement Program (CIP) is presented to the City Council under separate cover. This program provides a five-year plan for capital improvements that is updated annually to ensure compliance with the program. The impact of capital projects on maintenance and operating costs were taken into consideration in the development of the operating budget.

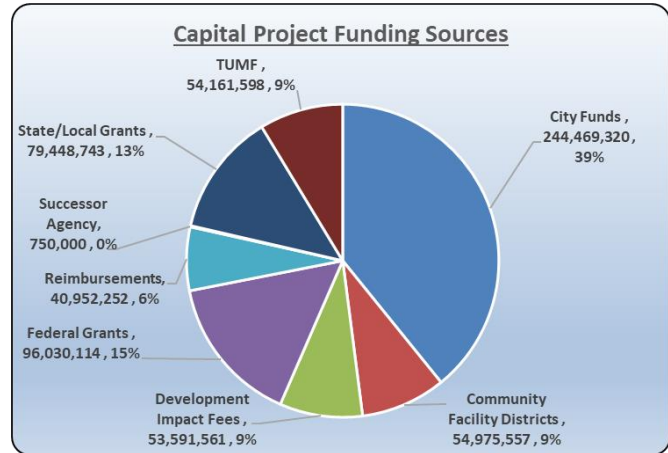
The CIP includes a total of \$894,070,582 in identified capital projects, with a total of \$624,379,144 in project funding, representing 70% of all Project Costs. There is \$269,691,438 in “Unspecified” project funding, indicating that a revenue source has not yet been secured for these projects, which have been identified as necessary infrastructure for the City, and will require that funding be secured before the project construction can commence. Capital projects are categorized into five Project Types, as noted in the adjacent table.

Project Type	Number of Projects	Total Project Cost
Circulation	24	632,429,570
Housing	4	20,401,000
Infrastructure	49	117,740,242
Parks/Rec	18	59,908,080
CFD-Funded	2	63,591,689
Total CIP	97	894,070,582

Various sources contribute to the funding of the Capital Improvement Program, including many City Funds, State and Federal Grants, Community Facility District Funds, Successor Agency Funds, and Transportation Uniform Mitigation Fee (TUMF) Funds. The City seeks all available funding sources for



projects, including federal, state, and local grants, outside contributions and City funds. Total funding for the Fiscal Years 2026-30 CIP program reflects 61% from outside funding sources, with the remaining 39% provided by various City funds, including Measure S, Measure A, Development Impact Fee Funds, General Fund, Capital Financing, and several other sources.



Only one new project has been added to the CIP, the Local Roadway Safety Plan Update (\$155,000) which is designed to bring the Plan in line with federal safety requirements.

As part of the development of the Capital Improvement Program budget, each project is evaluated to identify any ongoing impacts to the Operating Budget. The amounts identified in the table below are incorporated into the Annual Operating Budget and the Five-Year Financial Projections.

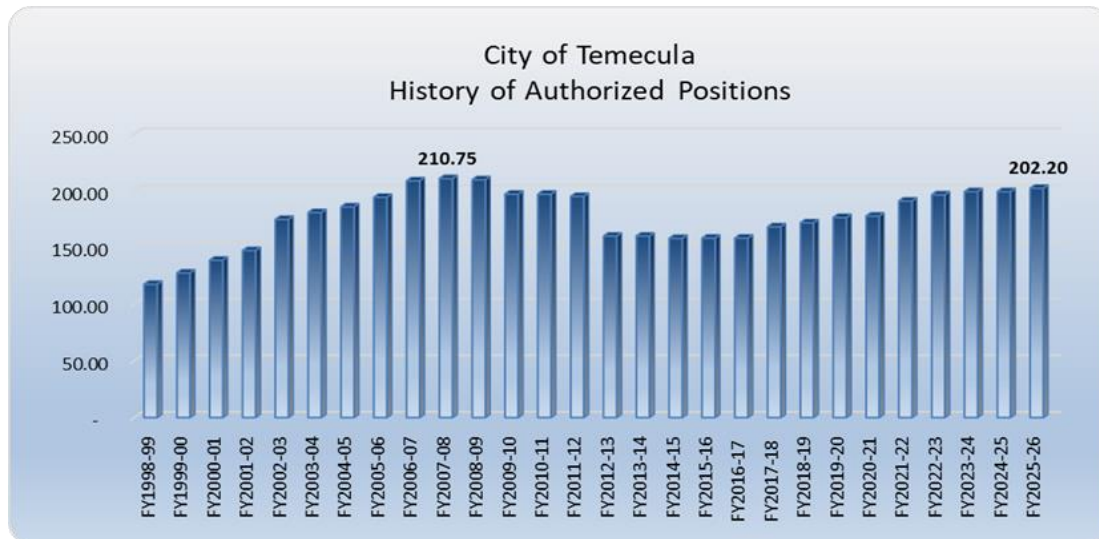
Summary of Operating & Maintenance Impacts

Capital Project	Description	2025-26 Proposed*	2026-27 Projected	2027-28 Projected	2028-29 Projected	2029-30 Projected
PW17-01/711 - CITY SECURITY CAMERA SYSTEM	Maintenance and Operations of Security Camera System	300,000	300,000	300,000	300,000	300,000
FN19-01/724 - CITYWIDE FINANCIAL SYSTEM UPGRADE	Annual Software Maintenance	86,000	86,000	86,000	86,000	86,000
ACQUISITION & LIGHT EMITTING DIODE (LED) RETROFIT	Electricity Savings	(695,286)	(709,475)	(723,665)	(738,138)	(752,901)
PW21-09/683 - ELECTRIC VEHICLES CHARGING STATION	Electric Charging Vehicles Fees	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)
PW17-19/690 - I-15/STATE ROUTE 79 SOUTH INTERCHANGE ENHANCED LANDSCAPING	Required by Caltrans	60,805	62,046	63,289	65,188	67,144
PW17-21/692 - MARGARITA RECREATION CENTER	Staffing for MRC (4 positions)	526,609	548,551	570,493	591,600	614,370
	Project Staffing for MRC (45 positions - 13.07 FTEs)	705,946	735,361	764,775	795,366	825,978
	Additional Utility Costs	71,371	72,828	74,285	77,034	79,999
	Janitorial/Security	129,251	131,888	134,526	139,504	144,873
		1,433,177	1,488,628	1,544,079	1,603,504	1,665,220
IT20-01/780 - OLD TOWN SECURITY CAMERA & SOUND SYSTEM	Maintenance fee for Old Town Sound System	75,000	75,000	75,000	75,000	75,000
PWPE07-03/PW23-18 - LONG CANYON CREEK PARK RESTROOMS	Janitorial Services	29,866	30,475	31,085	31,706	32,340
PWPE-07/155 - PARK RESTROOMS RENOVATIONS, EXPANSION AND ADA IMPROVEMENTS	Janitorial Services	27,591	28,154	28,717	29,292	29,878
PWPE07-02 - VAIL RANCH PARK RESTROOMS	Janitorial Services	29,866	30,475	31,085	31,706	32,340
Total Incremental Operating & Maintenance Impacts		1,343,919	1,388,203	1,432,490	1,481,158	1,531,921

2025-26 AUTHORIZED STAFFING

Total authorized Full Time Equivalent (FTE) positions total 202.2 authorized positions, including five Council Members. The increase reflects 1 new position (Signal Technician I) compared to the prior year.

Public Safety personnel is provided through contracts with Riverside County and CalFire. A total of 117 sworn Sheriff's Deputies and 18 Community Service Officers are included in the Sheriff's budget, and a total of 79 personnel are reflected in the Fire Department budget for Fiscal Year 2025-26.



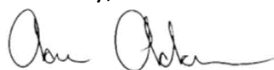
In addition to the Authorized Positions, the City employs three Limited-Term-Assignment positions related to the implementation of a new Human Resources/Payroll software system. A significant number of part-time, non-benefitted Project employees are also employed to assist with the multitude of programs offered by the Temecula Community Services District. For Fiscal Year 2025-26, an estimated 90 full-time equivalents will be hired as seasonal and part-time support.

CONCLUSION

In conclusion, the City of Temecula is in a solid fiscal position with the General Fund balanced and all reserves fully funded not only in Fiscal Year 2025-26 but throughout the ensuing five-year period. The Capital Improvement Program is robust, with 70% of all Project Costs funded, and will deliver a wide array of improvements to infrastructure, facilities, affordable housing, enhanced parks, new trails and many other amenities the citizens of Temecula enjoy.

I would like to express my appreciation to the City Council for providing the direction and support crucial to achieving the City's goals. I would also like to recognize the contributions of City staff for not only creating a responsive operating budget, but also for their commitment to providing top quality services to all who live, work, and play in Temecula. I would like to give special thanks to the City's Budget Team: Jennifer Hennessy, Director of Finance; Ward Komers, Assistant Director of Finance; Paula Majors, Finance Manager; and Catlin Dorset, Budget Manager for their long hours and dedication to the City and this budget process.

Sincerely,



Aaron Adams
City Manager