

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Council

FROM: Aaron Adams, City Manager

DATE: February 14, 2023

SUBJECT: Approve Fiscal Year 2022-23 Mid-Year Budget Adjustments

PREPARED BY: Jennifer Hennessy, Director of Finance

RECOMMENDATION: That the City Council adopt the following resolutions entitled:

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, AMENDING THE FISCAL YEAR 2022-23 ANNUAL OPERATING BUDGET

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA AMENDING THE CAPITAL IMPROVEMENT PROGRAM FISCAL YEARS 2023-27 AND AMENDING THE CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR 2022-23

BACKGROUND: In accordance with Budget Policy II.B.- Interim Reporting, City staff conducted a comprehensive Mid-Year review of its Annual Operating Budget and Capital Improvement Program Budget. The purpose of the review is to analyze revenue and expenditure trends to identify variances from the Adopted Budget and ensure that the City maintains a healthy fiscal position. The Mid-Year Budget includes a review of all City funds. The requested adjustments are summarized in the attached exhibits and discussed in further detail below.

MID-YEAR HIGHLIGHTS:

The attached Mid-Year Budget Update reflects adjustments to revenue projections to better align with the current economy and revenue trends experienced through December 31, 2022. Appropriation adjustments are reflected on the attached Exhibit A, which summarizes each request by Fund and Department, and are described in further detail below.

Several Capital Improvement Program adjustments are requested due to higher than anticipated construction bids, due to economic inflation. Where possible, funding is recommended to be diverted from existing projects to supplement the funding shortfalls.

GENERAL FUND:

General Fund Revenue includes an increase of \$2,712,848, bringing total FY22-23 Revenue to \$111,178,650. Major adjustments by revenue category are noted below:

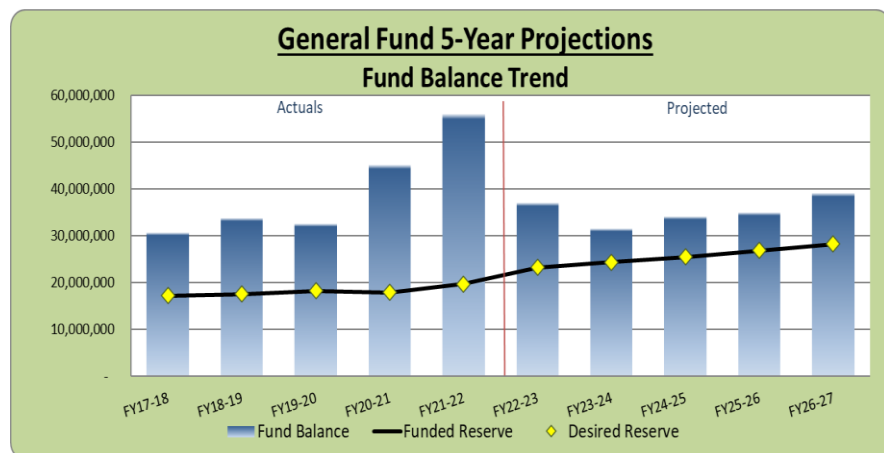
- **Property Tax** – decrease of \$487,191 to reflect contraction in the housing market.
- **Sales Tax** – increase of \$2,323,200 to reflect current trend in sales tax receipts, which is a 2% growth rate over the prior year.
- **Transient Occupancy Tax (TOT)** – increase of \$583,514 to reflect current trend in hotel occupancy rates.
- **Land Development/Building/Fire** – increase of \$1,617,032 due to higher permit/building activity.
- **Transfers In** – decrease of \$802,896 from Measure S due to the reduced cost of staffing at Fire Station 95 as a result of the County cost-sharing agreement, plus a decrease of \$457,175 from the Gas Tax Fund due to lower Gas Tax revenue projected by the State.

General Fund Expenditures include an increase of \$117,295, bringing total Expenditures and Transfers Out to \$130,064,543. Major adjustments by expenditure category are noted below:

- **Salaries and Benefits** – decrease of \$345,508 to reflect net salary savings realized through December 31, 2022.
- **Operations and Maintenance** – increase of \$711,323 due to increased legal services, plan check consulting services and the health flex contribution forfeiture.
- **Capital Outlay** – decrease of \$248,520 for the NPDES inlet filter project, which will be deferred to next fiscal year.

General Fund Ending Fund Balance is projected to be \$37,140,443, with Reserves fully-funded at \$23,258,197. With revenues exceeding expenditures each year, the General Fund is structurally balanced and reserves are fully funded over the ensuing five years.

As illustrated on the chart, the decline in Fund Balance from 2021-22 shows the paydown of the Civic Center and MRC facility debt, as well as the additional contribution to the City's unfunded pension liability with CalPERS. As the debt is paid off, fund balance begins to increase by 2024-25.



MEASURE S FUND:

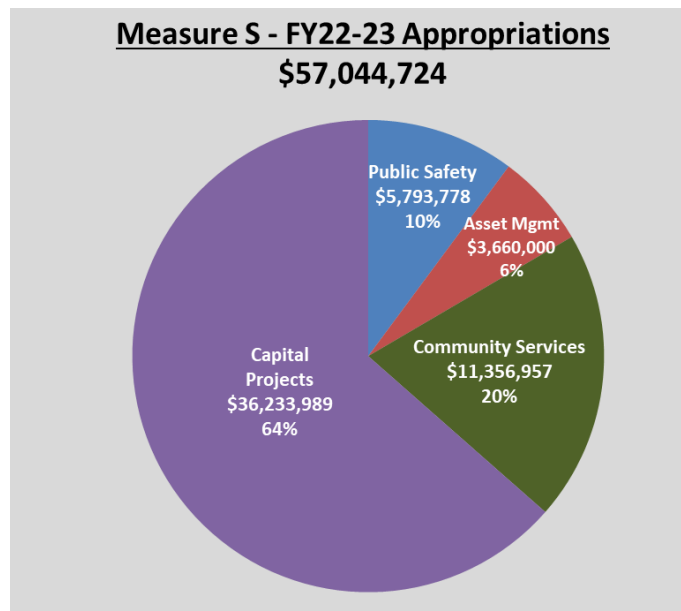
Measure S Revenue includes an increase of \$2,290,539, bringing total FY22-23 Revenue to \$39,971,000, which reflects a 2.5% growth rate over the prior year.

Measure S Expenditures include a decrease of \$1,345,605, bringing total FY22-23 Expenditures to \$57,044,723. Mid-Year adjustments include a reduction in the transfer to TCSD of \$1,488,709 as the TCSD beginning fund balance was higher than anticipated; a reduction in the transfer to the General Fund of \$802,896 related to the funding of Fire Station 95 staffing; and various adjustments for several existing and new Capital Improvement Projects, as noted below:

- CRC Splashpad & Shade Structure – \$300,000
- Dog Park Renovation - \$200,000
- MPSC Renovation - \$1,025,000
- Playground Enhancements and Renovation - \$300,000
- Ronald Reagan Sports Park Hockey Rink - \$500,000
- Traffic Signal-Park & Ride Access - \$250,000
- Flood Control Channel Reconstruction – (\$125,000) transferred to MPSC Renovation
- Park Restroom Renovations – (\$900,000) transferred to MPSC Renovation
- The MERC Kitchen Upgrade – (\$604,000) project cancelled

As illustrated in the pie chart, and in accordance with Council’s Measure S Appropriation Guidelines, a total of 64% of Measure S appropriations are allocated to fund Capital Projects, 20% is allocated to fund Community Services, 10% is allocated to fund Police and Fire services and the remaining 6% is allocated to the City’s various asset replacement funds.

Total Measure S Ending Fund Balance is estimated to be \$17,602,050.



SPECIAL REVENUE & DEBT SERVICE FUNDS:

The City maintains 16 separate Special Revenue Funds and two Debt Service Funds. Activities in these funds are legally required to be accounted for in separate and distinct funds. Below is a summary of the Mid-Year requests for each Special Revenue and Debt Service Funds.

Gas Tax reflects the reduction of \$457,172 in revenue and transfers, per the estimates received from the State. These funds are transferred to the General Fund to support street and road maintenance.

Road Maintenance Rehabilitation Account (RMRA) reflects the reduction of \$200,747 in revenue, per the estimates received from the State.

Development Impact Fee revenue reflects a reduction of \$5,224,717 due to delays in development projects.

Community Development Block Grant reflects an increase of \$87,653 in revenue to correct the CDBG-CV allocation from HUD, and an increase of \$116,348 in expenditures to reflect updated contractual obligations.

Affordable Housing reflects an increase of \$329,000 in revenue to reflect the anticipated Supplemental Educational Revenue Augmentation Fund (SERAF) payment received from the former Redevelopment Agency, and an increase of \$50,000 in legal services anticipated due to the sale of an affordable housing unit.

Measure A reflects an increase of \$1,053,500 in revenue to reflect RCTC's update projection.

INTERNAL SERVICES FUNDS:

The City has nine Internal Service Funds, used to account for services provided internally between departments. Below is a summary of the Mid-Year requests for each Internal Service Fund.

Insurance Fund reflects an increase of \$200,000 in expenditures as a result of higher litigation claim activity than anticipated in the Adopted Budget.

Workers' Compensation Fund reflects an increase of \$40,000 in expenditures as a result of higher than anticipated claim activity.

Technology Replacement Fund reflects an increase of \$300,000 in expenditures to replace the failed UPS Battery System.

CAPITAL IMPROVEMENT PROGRAM

Adjustments to the Fiscal Years 2023-27 Capital Improvement Program include the following:

- CRC Splashpad & Shade Structure – \$300,000 in additional Measure S funding
- Dog Park Renovation - \$200,000 in additional Measure S funding
- MPSC Renovation - \$1,025,000 in additional Measure S funding
- Playground Enhancements and Renovation - \$300,000 in additional Measure S funding
- Ronald Reagan Sports Park Hockey Rink - \$500,000 in additional Measure S funding
- Traffic Signal-Park & Ride Access - \$250,000 in additional Measure S funding

- Flood Control Channel Reconstruction – (\$125,000) transferred to MPSC Renovation
- Park Restroom Renovations – (\$900,000) transferred to MPSC Renovation
- The MERC Kitchen Upgrade – (\$604,000) project cancelled
- Ynez Road Improvements-Phase I – shift \$1,400,000 from Fiscal Year 2022-23 to Fiscal Year 2023-24 to better align with available funding source revenue
- Ynez Road Improvements-Phase II – shift \$1,665,000 from Fiscal Year 2022-23 to Fiscal Year 2023-24 to better align with available funding source revenue
- Americans with Disabilities Act (ADA) Transition Plan Implementation - \$7,352 in additional CDBG funding
- Rancho California Road Median Improvements – shift \$385,000 from Fiscal Year 2022-23 to Fiscal Year 2023-24 to better align with available funding source revenue
- Mary Phillips Senior Center Outdoor Recreational Area - \$32,774 in additional CDBG-CV funding

The following new projects are recommended to be added to the CIP:

- De Portola Road/Jedediah Smith Road Roundabout - \$1,000,000, which utilizes \$800,000 in federal grant funds from the Economic Development Incentive/Community Project Fund program, plus \$200,000 in DIF-Street Improvement Funds.

FISCAL IMPACT: The Fiscal impact of each fund is noted in the attached Exhibits.

ATTACHMENTS:

1. Summary of FY 2022-23 Mid-Year Appropriation Requests
2. Resolution – Annual Operating Budget Mid-Year Budget Amendments
 - a. Exhibit A – General & Measure S Fund
 - b. Exhibit B – Special Revenue & Debt Service Funds
 - c. Exhibit C – Internal Service Funds
3. Resolution - Capital Improvement Program Mid-Year Budget Amendments
 - a. Exhibit 1 – CIP Mid-Year Adjustments