

**CITY OF TEMECULA/TEMECULA COMMUNITY SERVICES DISTRICT
AGENDA REPORT**

TO: City Council/TCSD Board

FROM: Aaron Adams, City Manager/Executive Director

DATE: February 27, 2024

SUBJECT: Approve Fiscal Year 2023-24 Mid-Year Budget Adjustments

PREPARED BY: Jennifer Hennessy, Director of Finance/Treasurer

RECOMMENDATION: That the City Council/Board of Directors adopt the following resolutions entitled:

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, AMENDING THE FISCAL YEAR 2023-24 ANNUAL OPERATING BUDGET

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA AMENDING THE CAPITAL IMPROVEMENT PROGRAM FISCAL YEARS 2024-28 AND AMENDING THE CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR 2023-24

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA REVISING THE SALARY SCHEDULE

RESOLUTION NO. CSD

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE TEMECULA COMMUNITY SERVICES DISTRICT OF THE CITY OF TEMECULA AMENDING THE FISCAL YEAR 2023-24 ANNUAL OPERATING BUDGETS

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, 2023. Appropriation adjustments are reflected in the attached FY2023-24 Consolidated Mid-Year Requests, which summarizes each request by Fund and Department, and are described in further detail below.

Also included are four Capital Improvement Program adjustments requested due to higher than anticipated construction bids, the creation of a new project and to shift funding from FY24-25 to FY23-24.

GENERAL FUND:

General Fund Revenue includes a decrease of \$6,283,815, bringing total FY23-24 Revenue to \$108,028,233. Major adjustments by revenue category are noted below:

- **Sales Tax** – decrease of \$1.5 million to reflect current trend in sales tax receipts, which are coming in below budget projections and below the prior year.
- **Transient Occupancy Tax (TOT)** – increase of \$700,000 to reflect a payment plan for a major hotel who had prior year delinquencies. Overall, TOT revenue is flat compared to the prior year.
- **Land Development/Building/Fire** – decrease of \$1,056,045 due to less permit/building activity than anticipated.
- **Transfers In** – decrease of \$4.5 million from Measure S due to the reduced need to utilize Measure S to balance the General Fund, plus a decrease of \$162,488 from the Gas Tax Fund due to lower Gas Tax revenue projected by the State.

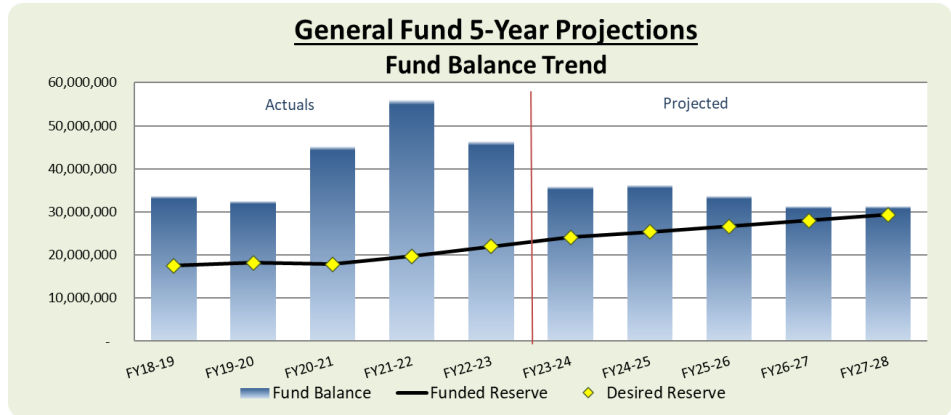
General Fund Expenditures include a decrease of \$3,905,666, bringing total Expenditures and Transfers Out to \$118,427,688. Major adjustments by expenditure category are noted below:

- **Salaries and Benefits** – decrease of \$389,077 to reflect net salary savings realized through December 31, 2023.
- **Operations and Maintenance** – increase of \$40,578 due primarily to increased legal services, offset by decreases in consulting costs.
- **Internal Service Fund Allocations** – decrease of \$209,693 to reflect corrections made to the Adopted Budget ISF allocation amounts.
- **Transfers Out** – decrease of \$3,337,474 for the pay down of the Other Post Employment Benefits (OPEB) unfunded liability. The unfunded liability amount was decreased in the latest actuarial valuation report received in January 2024, as a result of favorable investment earnings and prior contributions to the OPEB Trust.

General Fund Ending Fund Balance is projected to be \$35,902,924, with Reserves fully-funded at \$24,106,546. With revenues exceeding operating 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, in accordance with the Council-approved Debt/Liability Paydown Strategy adopted in December 2022. The Strategy is revisited twice per year to account for changes in the unfunded liability, as calculated by CalPERS. The City is still on track to be debt/liability free in seven years.



MEASURE S FUND:

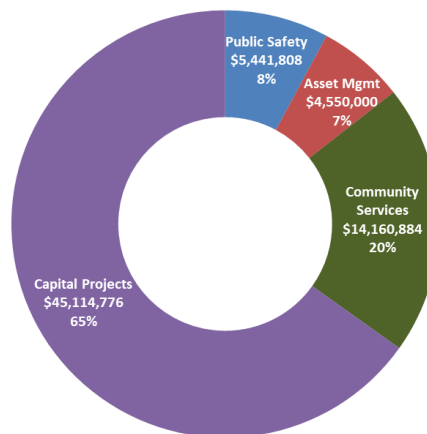
Measure S Revenue includes an decrease of \$200,988, bringing total FY23-24 Revenue to \$39,841,800, which reflects a 0.5% decrease from the prior year.

Measure S Expenditures include a decrease of \$5,623,109, bringing total FY23-24 Expenditures to \$69,267,468. Mid-Year adjustments include a reduction in the transfer to TCSD of \$1,049,830 as the TCSD beginning fund balance was higher than anticipated; a reduction in the transfer to the General Fund of \$4.5 million is included as the General Fund balanced without this transfer.

As illustrated in the pie chart, and in accordance with Council’s Measure S Appropriation Guidelines, a total of 65% of Measure S appropriations are allocated to fund Capital Projects, 20% is allocated to fund Community Services, 8% is allocated to fund Police and Fire services and the remaining 7% is allocated to the City’s various asset replacement funds.

Total Measure S Ending Fund Balance is estimated to be \$16,566,671.

Measure S - FY23-24 Appropriations
\$69,267,468



SPECIAL REVENUE & DEBT SERVICE FUNDS:

The City maintains 17 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 major Mid-Year requests for each Special Revenue and Debt Service Funds.

Gas Tax reflects the reduction of \$162,525 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 \$78,381 in revenue, per the estimates received from the State.

NPDES In Lieu Fees reflect a reduction of \$878,581 in revenue as the project anticipated in the Adopted Budget to create these fees will not occur this fiscal year.

Uptown Temecula New Streets In Lieu Fees revenue reflect an increase of \$255,648, related to development activity occurring in the Uptown Temecula area.

Development Impact Fee revenue reflects a reduction of \$949,104 due to delays in development projects.

Community Development Block Grant reflects an increase of \$1,604,087 in revenue to cover the roll-over of prior year Capital Project expenditures.

Affordable Housing reflects an increase of \$219,341 in revenue to reflect the payment of Residual Receipts from an affordable housing complex not anticipated in the Adopted Budget.

Measure A reflects an increase of \$55,868 in revenue to reflect interest earnings.

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 major Mid-Year requests for the Internal Service Funds.

Insurance Fund reflects an increase of \$600,000 in expenditures as a result of higher litigation claim activity than anticipated in the Adopted Budget.

Technology Replacement Fund reflects a decrease of \$500,000 in revenue from a Measure S contribution, as adequate reserves have accumulated in this fund for the future replacement of technology equipment.

Facilities Replacement Fund reflects an increase of \$500,000 in revenue from Measure S, previously budgeted to the Technology Replacement Fund, in order to increase the reserve balance in the Facilities Replacement Fund.

TEMECULA COMMUNITY SERVICES DISTRICT (TCSD) FUNDS:

TCSD Operations Fund reflect a decrease of \$874,586 in revenue, mostly due to the decreased Measure S transfer due to a higher than anticipated beginning fund balance. A decrease in expenditures of \$389,085 is reflected due to a correction to the Internal Services Fund allocation amounts included in the Adopted Budget.

TCSD Ending Fund Balance is projected to be \$100,004 for Fiscal Year 2023-24.

CAPITAL IMPROVEMENT PROGRAM

Adjustments to the Fiscal Years 2024-28 Capital Improvement Program include the following:

- **Nicolas Road Multi-Use Trail Extension** – reflects an increase of \$1,050,000 in construction costs, funded with an increase of \$600,000 from Measure A and \$450,000 from Assembly Bill 2766 which is being transferred from the Bike Lane and Trail – Citywide capital project.
- **Traffic Signal – Safety Lights and Signal Communications Upgrade-Citywide** – reflects an increase of \$114,503 in funding, advanced from Fiscal Year 2024-25; \$29,580 in HSIP grant funding and \$84,923 in DIF-Traffic Signal funding.

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

- **Temecula Creek Fencing** – reflects the transfer of \$500,000 in funding from the Community Reinvestment Fund from the Operating Budget to the Capital Budget. The new Capital Project will include the construction of a commercial grade wrought iron fence along the north side of Temecula Creek, between Pechanga Parkway and east of Jedediah Smith Road.

FISCAL YEAR 2024-25 SALARY SCHEDULE

In accordance with Compensation Adjustments section in both the Memorandum of Understanding Between the City of Temecula and Teamsters Local 911 and the Management Compensation Plan, an annual cost of living adjustment (COLA) will be provided on July 1, 2024. The COLA is calculated based on the lesser of (1) the annual percentage change in the Consumer Price Index for Urban and Clerical Workers (CPI-W) for all items in Riverside-San Bernardino-Ontario, CA for the prior calendar year as compared to the annual CPI-W of two calendar years prior, or (2) the percentage change in Recurring Revenue of the City's primary operating funds of the prior fiscal year as compared to two fiscal years prior.

For July 1, 2024, the COLA has been calculated to be 4.4%, which was lower than the 4.5% change in Recurring Revenue. This adjustment is applied to the base salary for all eligible employees and is reflected in the attached Salary Schedule.

FISCAL IMPACT:

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

ATTACHMENTS:

1. Summary of FY 2023-24 Mid-Year Appropriation Requests
2. Resolution – City Mid-Year Budget Amendments
3. Exhibits A, B and C – City Fund Summaries
4. Resolution – TCSD Mid-Year Budget Amendments
5. Exhibit A – TCSD Fund Summaries
6. Resolution - Capital Improvement Program and Mid-Year Budget Amendments
7. Exhibit 1 – Mid-Year Capital Improvement Program Amendments
8. Resolution - Revising the Salary Schedule
9. Salary Schedule