

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

TO: City Council/TCSD Board

FROM: Aaron Adams, City Manager/Executive Director

DATE: February 24, 2026

SUBJECT: Approve Fiscal Year 2025-26 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 2025-26 ANNUAL OPERATING BUDGET

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA AMENDING THE CAPITAL IMPROVEMENT PROGRAM FISCAL YEARS 2026-30 AND AMENDING THE CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR 2025-26

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 2025-26 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, 2025. Appropriation adjustments are reflected in the attached FY2025-26 Consolidated Mid-Year Requests, which summarizes each request by Fund and Department, and are described in further detail below.

Also included are three Capital Improvement Program adjustments discussed in further detail below.

GENERAL FUND:

General Fund Revenue includes a decrease of \$3,589,028, bringing total FY25-26 Revenue to \$119,637,936. Major adjustments by revenue category are noted below:

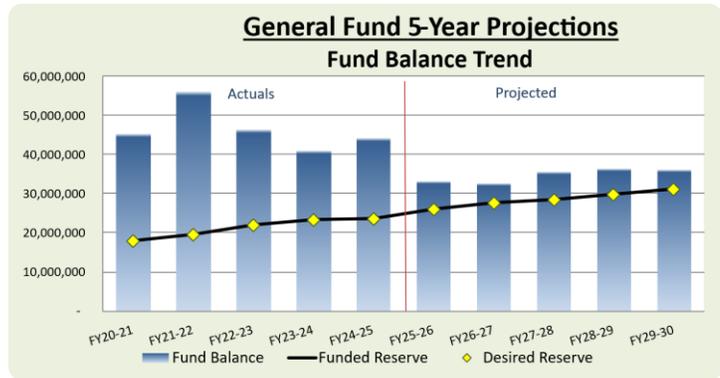
- **Sales Tax** – increase of \$1.8 million to reflect the current favorable trend in sales tax receipts, which are above budget projections and above the prior year.
- **Transient Occupancy Tax (TOT)** – decrease of \$579,997 to reflect lower occupancy rates than originally projected.
- **Licenses, Permits and Service Charges** – increase of \$447,252 due to more development activity in the Building, Land Development and Planning departments than anticipated, offset by a reduction in Fire Inspection and Plan Check fees.
- **Pechanga Intergovernmental Agreement (IGA)** – increase of \$1.8 million to reflect the newly adopted agreement.
- **Contribution from Measure S** – decrease of \$7,250,000 due to revised public safety expenditure projections and higher General Fund revenues.

General Fund Expenditures include a decrease of \$3,997,444 bringing total Expenditures and Transfers Out to \$130,724,903. Major adjustments by expenditure category are noted below:

- **Salaries and Benefits** – decrease of \$776,244 to reflect vacancy savings across several departments throughout the City.
- **Fire and Police Contracts** – decrease of \$1,584,000 in the Fire Contract reflecting updated County budget estimates and delayed hiring related to the 66-hour workweek transition; and a \$693,232 decrease in the Sheriff Contract due to revised County estimates and vacant positions.
- **Operations and Maintenance** – decrease of \$530,240 reflecting updated SCFA animal shelter budget estimates, the elimination of the Retiree Medical Contribution budget due to a fully funded trust, and the rescheduling of EMS enhancements to FY26–27.

General Fund Ending Fund Balance is projected to be \$33,174,603, with Reserves fully funded at \$26,125,984, which represents 25% of Total Operating Expenditures.

As illustrated on the chart, General Fund is projected to be fiscally stable, and Fund Balance is expected to exceed the Desired Reserve levels over the ensuing five-year forecast.



MEASURE S FUND:

Measure S Revenue includes a decrease of \$678,611 due to lower than expected Measure S tax revenues, bringing total FY25-26 Revenue to \$39,349,858.

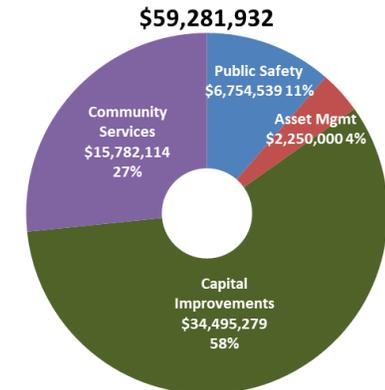
Measure S Expenditures include a decrease of \$9,485,771, bringing total FY25-26 Expenditures to \$59,281,932. Mid-Year adjustments include:

- \$7,250,000 reduction in the transfer to the General Fund due to reduced public safety expenditure projections from lower contract rates and vacancy savings.
- \$2,144,807 reduction in the transfer to the TCSD Fund, due to a higher than anticipated TCSD beginning fund balance and vacancy savings.
- \$90,964 reduction in the transfer to the Library Fund due to a higher than anticipated Library beginning fund balance.

As illustrated in the pie chart, and in accordance with Council’s Measure S Appropriation Guidelines, a total of 58% of Measure S appropriations are allocated to fund Capital Projects, 27% is allocated to fund Community Services, 11% is allocated to fund Police and Fire services and the remaining 4% is allocated to the City’s various asset replacement funds.

Total Measure S Ending Fund Balance is estimated to be \$32,005,106.

Measure S - FY25-26 Appropriations



SPECIAL REVENUE FUNDS:

The City maintains 15 separate Special Revenue 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 Funds.

Gas Tax reflects an increase of \$125,757 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 an increase of \$90,997, per the estimates received from the State.

Development Impact Fee revenue reflects a decrease of \$4,082,799 primarily due to timing in development activity shifting projected revenue to later fiscal years.

Public Education & Government (PEG) reflects a decrease of \$54,000 to reflect current trends.

Community Development Block Grant reflects a decrease in revenue of \$7,109 to align with the Federal Allocation of CDBG funding, along with the corresponding reduction in the transfer to the Capital Improvement Program. Expenditures reflect a \$1,826 increase associated with updated public service allocation costs.

Affordable Housing reflects a \$147,650 increase in revenue from a residual receipts payment and a \$375,000 increase in expenditures for property acquisition.

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.

Workers' Compensation Fund reflects an increase of \$50,000 in expenditures as a result of higher claim activity than anticipated in the Adopted Budget.

Vehicles and Equipment Fund reflects an increase of \$40,000 in Capital Outlay due to the increased cost of a replacement boom truck.

Information Technology Fund reflects an increase of \$40,000 in expenditures. Salaries and Benefits reflect a decrease of \$10,000 due to vacancy savings, and an Operations and Maintenance increase of \$50,000 to accommodate the purchase of new software.

Facilities Fund reflects a \$43,157 increase in expenditures related to employee time reallocation and budget adjustments for contingency planning.

TEMECULA COMMUNITY SERVICES DISTRICT (TCSD) FUNDS:

TCSD Operations Fund reflects a decrease of \$2,060,746 in revenue, mostly due to the decreased Measure S transfer resulting from a higher beginning fund balance and reduced expenditures.

A decrease in expenditures of \$881,058 is due primarily to vacancy savings offset by an anticipated increase in the cost of utilities.

TCSD Ending Fund Balance is projected to be \$100,000 for Fiscal Year 2025-26.

CAPITAL IMPROVEMENT PROGRAM

Adjustments to the Fiscal Years 2026-30 Capital Improvement Program include the following:

- **Motor Car Parkway Improvements** – reflects a decrease of \$750,000 in Redevelopment Property Tax Trust Fund funding as this project is no longer a viable project due to limitations of an adjacent auto dealership.
- **Americans with Disabilities Act (ADA) Transition Plan Implementation** – reflects a decrease of \$7,109 in funding to align with the Federal Allocation of CDBG.
- **Santa Gertrudis Creek Phase II – Margarita Under-Crossing** – reflects a redistribution of revenue totaling \$319,984 from Measure S to Reimbursements.

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

ATTACHMENTS:

1. Summary of FY 2025-26 Mid-Year Appropriation Requests
2. Resolution – City Mid-Year Budget Amendments
3. Exhibits A, B, and C – City Fund Summaries
4. Resolution – CIP and Mid-Year Budget Amendments
5. Exhibit 1– CIP Mid-Year Requests
6. Resolution TCSD - TCSD Mid-Year Budget Amendments
7. Exhibit A – TCSD Fund Summaries