



TRANSMITTAL MESSAGE

May 21, 2026

Honorable Mayor and Members of the City Council:

I am pleased to submit the Proposed Annual Operating Budget for the Fiscal Year 2026-27. 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 2026-27 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 staffing and program changes, as well as the impact of 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 113,618 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.



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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
113,618



Median Age
39.9 years



Households
38,128



Average
Income
\$166,346



Median
Home Price
\$759,000
(Apr'26)



of Jobs
54,300
(Apr'26)



Unemployment
Rate 4.4%
(Mar'26)

- Estimated Population: up 1.2% from 2025 (Source: State Department of Finance)
- Median Age: up from 37.5 in 2025 (Source: Pop-Facts Report, 4-28-26)
- Number of Households: up 3.3% from 2025 (Source: Pop-Facts Report, 4-28-26)
- Average Household Income: up 14.6% from 2025 (Source: Pop-Facts Report, 4-28-26)
- April Median Home Price: up 3.8% from 2025 (Source: HdL Companies)
- Number of Jobs: up 0.4% from April 2025 (Source: EDD)
- April Unemployment Rate: zero change from April 2025 (Riverside County: 5.1%, CA: 5.3%, Nation: 4.3% (Source: EDD & BLS)

Temecula has experienced increases in the majority of the above economic indicators. Population has increased 1.2%, marking two consecutive years of growth. Housing prices continue to climb due to the low inventory, with a 3.8% increase in the median home price. Temecula's average household income has increased by 14.6%, while the number of jobs has remained relatively flat over the prior year. Unemployment is unchanged, but remains lower than both Riverside County and the State.

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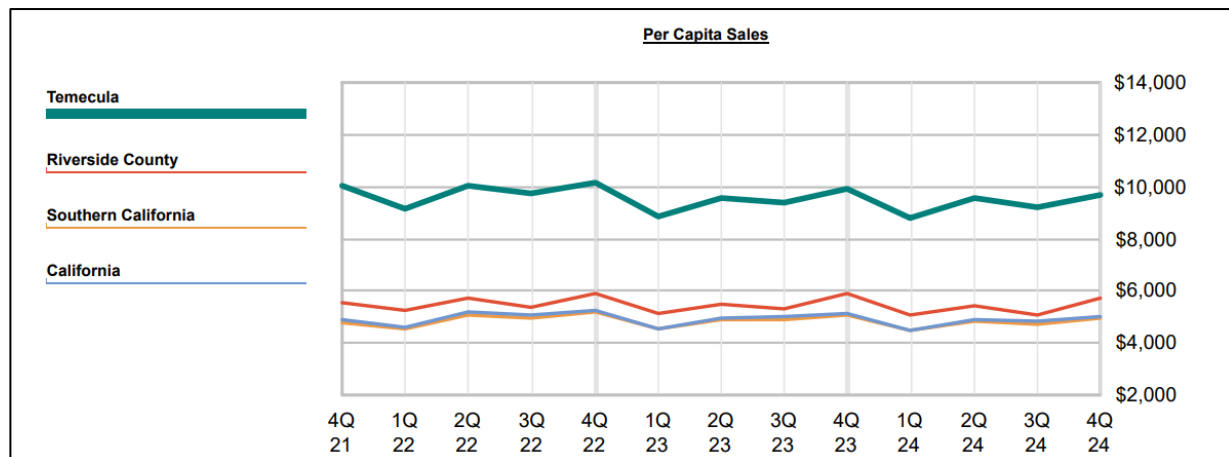
LOCAL ECONOMY AND LEGISLATIVE IMPACTS

Local Economy

As the economic indicators noted above have improved over 2025, the impact to the local economy is evident in the retail activity and sales tax trends. Sales Tax revenue is projected to continue to grow at a modest 2.0% 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 nine new businesses slated to open soon, including a trampoline park, and multiple retailers and restaurants.



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 \$36,988 in sales tax per capita in 2025, 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.



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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.

Governor Newsom's proposed 2026-27 budget makes significant reductions to the Homeless Housing, Assistance and Prevention (HHAP) grant program. Funding for the program is being reduced by one-half of its historic funding level. Reducing funding to this level will significantly impact shelter capacity, rental assistance, and the development of supportive housing.

California Proposition 36 – Homelessness, Drug Addiction, and Theft Reduction Act was passed in November 5, 2024 and became effective December 18, 2024. This new law allows felony charges for certain repeat theft and drug offenses—including fentanyl possession—reversing portions of Proposition 47. While Temecula is a contract City, Proposition 36 and its implementation impacts the City. Local governments are encouraging lawmakers to approve a \$400 million budget request to fund Proposition 36.

Senate Bill 707 Open Meetings: Meeting and Teleconference Requirements – SB 707 was signed into law on October 3, 2025 and became effective January 1, 2026. This new law updates public meeting rules for local agencies, focusing on enhanced teleconferencing, increased accessibility, and, for many, mandatory agenda translation into multiple languages.

Assembly Bill 1383 Public Employees' Retirement Benefits: Safety Members – AB 1383 is a bill in the California Legislature that addresses public employees' retirement benefits, specifically for safety members (such as certain law enforcement, fire, and other designated public safety roles) under the Public Employees' Retirement Law (PERL). Currently, PERL — and the California Public Employees' Pension Reform Act of 2013 (PEPRA) — set rules for how defined benefit pensions are calculated, including factors like final compensation, credited service, and retirement age. AB 1383 proposes adjustments to these provisions for safety members, potentially modifying eligibility criteria, benefit formulas, or retirement age requirements.

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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, 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



Economic Prosperity



Safe & Prepared Community



Sustainable & Resilient City



Transportation Mobility & Connectivity



Accountable & Responsive City
Government



Equity

BUDGET OVERVIEW

The Fiscal Year 2026-27 Budget reflects a structurally balanced, healthy fiscal outlook across all major funds for the City of Temecula. General Fund, Special Revenue Funds and the Temecula Community Services District (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.



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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	7,357,943	(23,087,065)	(10,095,956)	Revenue growth attributable to Sales Tax, Measure S Tax, and Transfers In to support Public Safety expenditures. Expenditure reduction due to reduced Capital Project funding, a one-time transfer between funds to accelerate the City's debt paydown, and reduced transfers from Measure S.
SPECIAL REVENUE FUNDS	10,116,160	(30,054,868)	8,749,284	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)	1,951,443	223,512	(357,577)	Revenue growth attributable to the TCSD Operations and Library Funds. Expenditure growth due to higher internal service fund allocations, increased contractual obligation with Riverside County for library services, and increased Waste Hauling costs.
SUCCESSOR AGENCY TO THE TEMECULA REDEVELOPMENT AGENCY (SARDA)	(715,662)	15,803	(1,013,132)	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	1,054,560	(1,605,988)	144,801	Revenue increase due to one-time transfers in to the Facility Replacement Fund. Expenditure decline due to reduced one-time transfers.
ALL BUDGETED CITY FUNDS	(121,006,977)	(210,032,368)	2,647,639	

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	FY26-27	FY27-28	FY28-29	FY29-30	FY30-31
Property Tax	4.3%	4.0%	4.0%	4.0%	4.0%
Sales and Use Tax	2.0%	3.0%	3.5%	3.5%	3.5%
Less: Sales Tax Sharing Agmt	6.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	0.0%	0.0%	0.0%	0.0%	0.0%
Transient Occupancy Tax	-2.0%	2.0%	3.0%	3.0%	3.0%
Special Tax (Measure C)	0.5%	0.5%	0.5%	0.5%	0.5%
Licenses, Permits and Service Charges	1.9%	2.0%	2.0%	2.0%	2.0%
Fines and Forfeitures	10.2%	1.0%	1.0%	1.0%	1.0%
Use of Money and Property	0.0%	1.0%	1.0%	1.0%	1.0%
Intergovernmental Revenues	3.5%	3.8%	4.0%	4.0%	4.0%
Reimbursements	-17.5%	3.1%	-12.3%	3.8%	3.8%
Miscellaneous	-28.3%	1.0%	1.0%	1.0%	1.0%



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Assumptions used in forecasting Operating expenditures include the following:

- Contractual obligations:
 - Negotiated cost of living adjustment of 3.0% for City employees
 - Negotiated cafeteria benefit increase of \$200 per month for City employees
 - Public Safety labor contracts (7.5% for Sheriff positions, 12.2% for Fire positions, due to vacant Medic positions in the prior fiscal year)
 - Reclassification of 20 full-time authorized positions
 - CalPERS Pension cost sharing of 3% for eligible employees
- Council policies:
 - Acceleration of the Debt/Liability Paydown Strategy (\$9,349,256 in FY26-27 for additional discretionary payments towards the City's CalPERS unfunded pension liability). This is the final payment in the Debt/Liability Paydown Strategy causing the City's CalPERS Pension program fully funded.
 - Annual Replacement allocations for Fleet, Technology, Facilities, Support Services, Street Maintenance and Street Light assets.
- Expected savings achieved from the Debt/Liability Paydown Strategy, which will generate approximately \$6 million in annual operating savings and \$47.7 million in total interest savings.
- Actuarially determined contributions to the City's pension and retiree health programs
- Estimated inflation for non-personnel related expenditures.

GENERAL FUND ANALYSIS

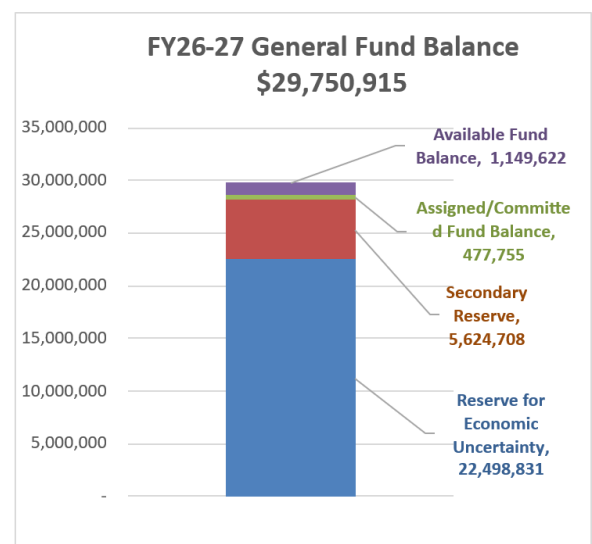
The General Fund forecast over the coming five years is balanced, with its Reserve for Economic Uncertainty and its Secondary Reserve fully funded in all five years.

Ending fund balance for Fiscal Year 2026-27 is projected to be \$29,750,915, of which \$28,123,539 is committed to fulfilling the Fund's policy-level reserves of 25% of Operating Expenditures. A total of \$477,755 of fund balance is committed to cover the costs of a Sheriff's Deputy position funded by the Pechanga Tribe.

A total of \$1,149,622 in fund balance is unassigned and available for one-time appropriations.

General Fund Revenue Highlights

General Fund revenue is projected to increase by 5.9% over the prior year with a total of \$126,785,291. Tax revenues, excluding the transfer from Measure S Fund, are projected to increase by 2.5%. The transfer of Measure S is increasing significantly to fund Public Safety expenditures.



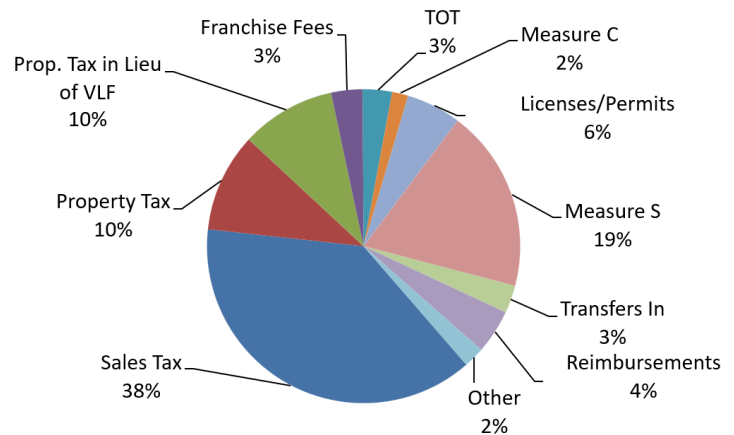


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The General Fund major revenue sources are summarized below:

- **Sales Tax (\$50,186,189)** is projected to increase by 2.0% 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 (\$12,907,422)** is projected to increase by 4.3%, due to a stable housing market. Property Tax revenue for Fiscal Year 2026-27 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.

Fiscal Year 2026-27 General Fund Revenue - \$126,785,291



- **Franchise Fees (\$4,100,000)** are projected to stay flat due to slight increases in utilities services, offset by continuing declines in cable subscribers.
- **Transient Occupancy Tax (\$3,841,603)** is projected to decline by 2% over the prior year, due to lower occupancy and average daily rates charged by the local hotel and motel establishments.
- **Licenses, Permits & Service Charges (\$7,175,200)** are projected to increase by 1.9% due to the continuation of development activity within the City.
- **Intergovernmental Revenues (\$12,373,457)** are projected to increase by 3.1% 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 (\$3,612,514)** are projected to decrease by 75.2% due to several one-time Transfers in FY25-26 related to the Debt/Liability Paydown Strategy. FY26-27 reflect the Transfers In of Gas Tax (\$3,329,012) and Supplemental Law Enforcement Services Fund (\$283,502) revenue.
- **Operating Transfers In - Measure S (\$23,872,579)** will continue to fund 11 Sheriff Deputies, staffing for Fire Station No. 95, funding for the future replacement of the fire ladder truck and inspection vehicles, enhanced park maintenance services, plus additional funding to further support Public Safety.



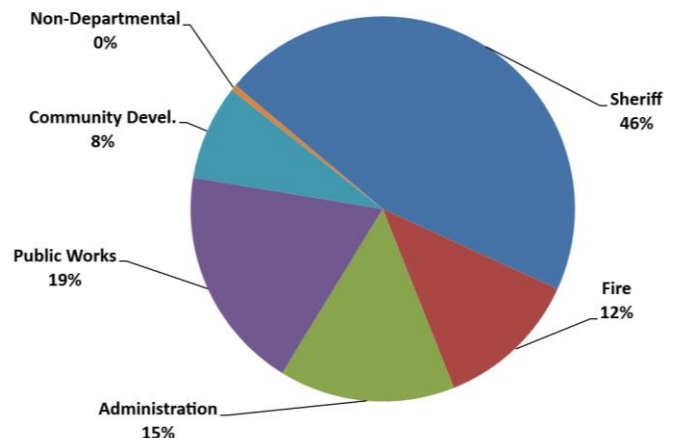
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General Fund Expenditure Highlights

The largest expenditure of the General Fund is Public Safety, making up 58% 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 FY26-27 Expenditures - \$112,494,154



General Fund expenditures total \$112,494,154, which represents a 7.8% increase over the prior fiscal year.

- **Sheriff's Office (\$51,423,077)** is increasing by 8.0% over the prior year due to inflationary adjustments in the contract with Riverside County. 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 two motorcycles.
- **Fire Department (\$13,649,632)** is increasing by 7.7% due to inflationary adjustments in the contract with Riverside County. The total Fire budget of \$27,136,371 is offset by the Structural Fire Tax Credit of \$13,486,739. The department employs 79 positions and provides four firefighters per engine/truck staffing model.
- **Non-Safety Departments (\$46,852,809)** represent a -0.2% decrease over the prior year, due to reductions in the operations, maintenance, project employees and capital outlay expenditures, which more than offset the costs of the reclassification of several positions, the 3% cost of living adjustment and increased Cafeteria benefit in accordance with the City's negotiated labor agreements.
- **Non-Departmental (\$568,636)** includes the Staffing Continuity Reserve, PERS Replacement Benefit 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.

- **Fire Facility Acquisition Fund (\$1,000,000)** to repay a portion of the \$5 million advance from this fund in FY25-26 in an effort to expedite the paydown of the City's unfunded pension liability.



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- **CalPERS Unfunded Pension Liability (\$9,349,256)** to fully fund the City's CalPERS pension program and further reduce the City's annual pension costs by an estimated \$6 million per year.
- **Section 115 Pension Trust (\$7,500,000)** to augment the Trust for the potential payoff of future CalPERS unfunded pension liabilities, in accordance with Budget Policy XIII – Pension Funding.

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 2026-27 Measure S revenue is projected to be \$40,708,524.

Measure S appropriations of \$48,419,650 reflect the priorities established in Budget Policy IV – Transactions and Use Tax Funding.

Public Safety (50%)

The budget includes \$24,075,985 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 fire ladder truck, inspection vehicles and additional funding to further support Public Safety expenditures

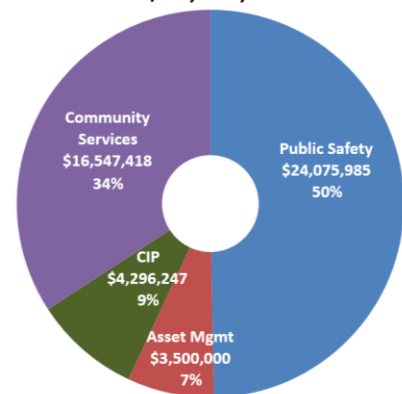
Asset Management/Investment (7%)

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 2026-27, Measure S is contributing \$2,500,000 to the Facilities Replacement Fund, and \$1,000,000 to the Streets Maintenance Fund.

Capital Improvement Program (9%)

The budget includes an additional \$4,296,247 appropriation in Fiscal Year 2026-27 to complement the current year budget of \$32,687,242 to fund multiple CIP projects. The influx of 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.

Measure S - FY26-27 Appropriations
\$48,419,650





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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.
- La Paz Road Roundabout – to redesign and reconstruct the existing roundabout on Ynez Road at the intersection of La Paz Road.
- Mercedes Street Sidewalk – to construct the missing segment of sidewalk on the west side of Mercedes Street between Main Street and 160 feet south of 3rd Street.
- Playground Equipment Enhancement and Safety Surfacing – to fund the playground enhancements/safety surfacing replacement at the Mike Naggar, Crowne Hill and Pauba Ridge Parks.

General/Community Services (34%)

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 - \$14,675,947
- Library contribution - \$1,774,877
- Enhanced Custodial Services - \$96,594

The ending fund balance within the Measure S Fund is projected to be \$26,201,199, 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. At their May 27, 2025 meeting, the City Council approved an advance of \$5,000,000 from this fund to accelerate the paydown of the City's unfunded pension liability. The \$5 million advance will be repaid from the savings generated by paying down the unfunded pension liability, with \$1 million appropriated in FY26-27. The ending fund balance is projected to be \$3,301,210 for Fiscal Year 2026-27.

Fund 110 –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). Per Council direction at their May 27, 2025 meeting, available fund balance of \$1 million was transferred to the General Fund to accelerate the paydown of the City's unfunded pension liability.



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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 \$3,329,012 which reflects an increase of 1.8% as the volume of gasoline sales is projected to increase slightly. 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 \$3,307,005, which is an increase of 5.7%. 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 2026-27 ending balance of \$5,863,309. FY2026-27 appropriations of \$224,356 will 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. There are no expenditures programmed for 2026-27 and the ending fund balance is projected to be \$195,425.

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 2026-27, and the ending fund balance totals \$1,244,370.

Fund 120 – Development Impact Fees (DIF): DIF revenue is projected to be \$13,233,663, which reflects an increase of 231.6% due to development activity 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 2026-27 ending fund balance is projected to be \$13,040,554.

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 \$161,436, which will be spent on various technology equipment used to support the broadcast of City Council meetings and events. Fiscal Year 2026-27 ending fund balance is projected to be \$991,499.

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 2026-27 revenue is projected to be \$986,807 and will support operations, community grants and capital projects.



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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 2026-27, and the ending fund balance is projected to be \$155,805.

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 2026-27 revenue is projected to be \$170,028. 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. Fiscal Year 2026-27 ending fund balance is projected to be \$95,837.

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 2026-27 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 2026-27 of \$863,091 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, and \$375,000 for the anticipated sale of an affordable housing unit re-acquired by the City in Fiscal Year 2025-26. Expenditures reflect the ongoing administration of the City's Affordable Housing program.

Fund 170 – Measure A: Measure A revenue is projected to be \$4,578,301 which reflects a 7.9% increase over the prior year. This revenue is restricted for use on local streets and roads and is programmed to support street and road maintenance. Fiscal Year 2026-27 ending fund balance is projected to be \$1,538,439.

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 \$3,891,654, which covers the cost of administering the City's liability and property insurance programs. The projected fund balance of \$2,562,829 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 \$627,245, which covers the cost of administering the City's self-insured Workers' Compensation program. The projected fund balance is \$1,310,593 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 \$924,527 to replace several fleet vehicles and heavy equipment that have reached the end of their useful lives. The projected fund balance is \$5,119,660. Replacements planned for 2026-27 include a Construction Dump Truck, a Backhoe, two Ford F-250s, and one Ford F-350.



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Fund 320 – Information Technology: Projected expenses total \$7,066,816, which provides for the management of the City’s computers, audio-visual equipment, cyber security, and telephone systems. The projected fund balance is \$1,238,806.

Fund 325 – Technology Replacement: Projected expenses total \$526,158 to replace the City’s phone system, network switch, and to fund the annual computer replacement program. The projected fund balance is \$4,121,708.

Fund 330 – Support Services: Projected expenses total \$447,700, which provides for the management of the City’s central reception, printing and mail activities. The projected fund balance is \$20,143.

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 \$362,222.

Fund 340 – Facilities: Projected expenses total \$1,756,842, which provide for the operations and maintenance of the City’s buildings and parking structure. The projected fund balance is \$7,842.

Fund 350 – Facility Replacement: Projected expenses total \$1,945,434 for Capital Outlay to support the City Facilities Rehabilitation capital project and includes \$87,338 in depreciation expenses. The projected fund balance is \$4,498,686.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY (SARDA)

Fund 380 – SARDA: Projected expenses total \$7,422,458 primarily to pay debt service expenditures on the outstanding 2017A and 2017B Redevelopment Agency Tax Allocation Bonds.

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 \$35,926,933, which reflects an increase of 5.7% over the prior year. The majority of the increase is from waste hauling assessments and Temecula Public Library operations. Combined expenditures for TCSD total \$36,284,510 and reflect an increase of 0.6% due primarily to higher waste hauling costs reflected in the Service Level D (Refuse/Recycling) Fund.

Ending fund balance for TCSD is projected to be \$4,745,036 for Fiscal Year 2026-27.



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

Temecula Community Services District 5-Year Forecast

	2024-25 Actuals	2025-26 Revised	2026-27 Proposed	2027-28 Projection	2028-29 Projection	2029-30 Projection	2030-31 Projection
Measure C Revenue	1,894,831	1,935,718	1,955,075	1,974,626	1,994,372	2,014,316	2,034,459
Measure S Revenue	15,864,726	14,331,992	14,675,947	14,992,340	15,621,807	16,168,295	16,732,288
<u>Program Revenue</u>	<u>3,303,682</u>	<u>2,997,259</u>	<u>3,039,166</u>	<u>3,069,558</u>	<u>3,100,254</u>	<u>3,131,256</u>	<u>3,162,569</u>
Total Revenue	21,063,238	19,264,970	19,670,188	20,036,524	20,716,433	21,313,867	21,929,316
Operations Expenditures	18,332,692	18,424,551	17,646,025	17,979,213	18,597,449	19,140,979	19,701,101
<u>Maintenance Expenditures</u>	<u>1,998,927</u>	<u>2,096,536</u>	<u>2,024,164</u>	<u>2,057,310</u>	<u>2,118,984</u>	<u>2,172,888</u>	<u>2,228,214</u>
Total Expenditures	20,331,619	20,521,086	19,670,189	20,036,524	20,716,433	21,313,867	21,929,315
Beginning Balance	624,497	1,356,116	100,000	100,000	100,000	100,000	100,000
Ending Balance	1,356,117	100,000	100,000	100,000	100,000	100,000	100,000
% Revenue from Measure S	75%	74%	75%	75%	75%	76%	76%

The Five-Year Forecast shows the various revenue sources and projected operating expenditures, which are increasing between 1.9 – 3.4% per year. A long-term fiscal strategic plan is in progress to address the increased reliance on Measure S to balance this Fund into the future. In Fiscal Year 2026-27, TCSD operations will hold five authorized positions and 13 project positions vacant as part of the TCSD Workplan to curtail cost escalation.

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 \$916,322,680 in identified capital projects, with a total of \$633,566,842 in project funding, representing 69% of all Project Costs. There is \$282,755,838 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	19	659,137,242
Housing	4	20,971,000
Infrastructure	47	114,137,946
Parks/Rec	22	58,484,803
CFD-Funded	2	63,591,689
Total CIP	94	916,322,680

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.

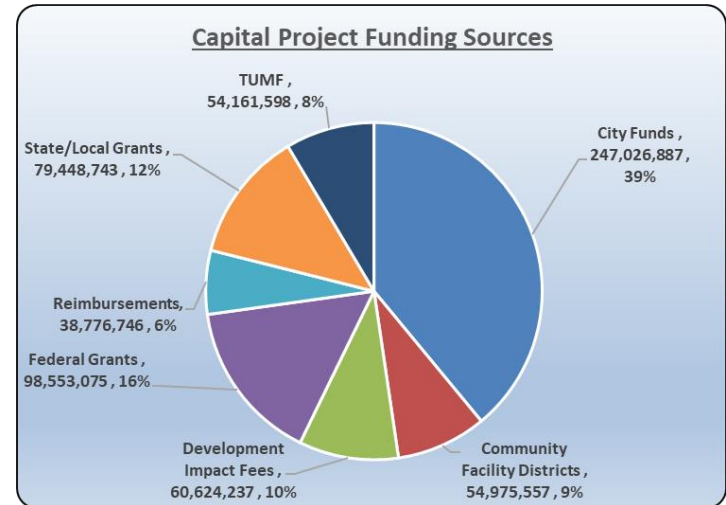


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Total funding for the Fiscal Years 2027-31 CIP program reflects 64% from outside funding sources, with the remaining 36% provided by various local funds, including Measure S, Measure A, Development Impact Fee Funds, General Fund, Capital Financing, and several other sources.

Four new projects have been added to the CIP, the Civic Center HVAC System Upgrade (\$3,000,000), and the CRC Pool Cantilever Restoration (\$400,000), these projects provide necessary upgrades to aging facility components. The Ronald Reagan Sports Park Trail (\$100,000) project includes the design and construction of this multi-use trail, and the Long Canyon Creek Park to Ynez Trail (\$30,000) includes the design of this off-street route bicycle trail.

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 Operating Budget and the Five-Year Financial Projections.



Summary of Operating & Maintenance Impacts

Capital Project	Operating Budget Account	Description	2026-27 Proposed*	2027-28 Projected	2028-29 Projected	2029-30 Projected	2030-31 Projected
PW17-01/711 - CITY SECURITY CAMERA SYSTEM	5250 - OTHER OUTSIDE SERVICES	Maintenance and Operations of Security Camera System	300,000	300,000	300,000	300,000	300,000
FN19-01/724 - CITYWIDE FINANCIAL SYSTEM UPGRADE	5211 - SOFTWARE & MAINTENANCE	Annual Software Maintenance	86,000	86,000	86,000	86,000	86,000
PW21-09/683 - ELECTRIC VEHICLES CHARGING STATION	5215 - REPAIR & MAINTENANCE - EQUIPMENT	Electric Charging Vehicles Fees	(33,100)	(33,100)	(33,100)	(33,100)	(33,100)
PW17-19/690 - I-15/STATE ROUTE 79 SOUTH INTERCHANGE ENHANCED LANDSCAPING	5415 - LANDSCAPE MAINTENANCE	Required by Caltrans	62,046	63,289	65,188	67,144	69,159
PW17-21/692 - MARGARITA RECREATION CENTER	5100 - SALARIES & WAGES	Staffing for MRC (4 positions)	548,551	570,493	591,600	614,370	636,190
	5119 - PART-TIME (PROJECT)	Project Staffing for MRC (45 positions - 13.07 FTEs)	735,361	764,775	795,366	825,978	860,268
	5240 - UTILITIES	Additional Utility Costs	72,828	74,285	77,034	79,999	82,840
	5250 - OTHER OUTSIDE SERVICES	Janitorial/Security	131,888	134,526	139,504	144,873	150,018
			1,488,628	1,544,079	1,603,504	1,665,220	1,729,315
PWPE07-03/PW23-18 - LONG CANYON CREEK PARK RESTROOMS	5250 - OTHER OUTSIDE SERVICES	Janitorial Services	30,475	31,085	31,706	32,340	32,987
PWPE-07/155 - PARK RESTROOMS RENOVATIONS, EXPANSION AND ADA IMPROVEMENTS	5250 - OTHER OUTSIDE SERVICES	Janitorial Services	28,154	28,717	29,292	29,878	30,476
PWPE07-02 - VAIL RANCH PARK RESTROOMS	5250 - OTHER OUTSIDE SERVICES	Janitorial Services	30,475	31,085	31,706	32,340	32,987
Total Incremental Operating & Maintenance Impacts			1,992,678	2,051,155	2,114,296	2,179,822	2,247,824

Operating cost impacts are estimated by the Project Manager.

* 2026-27 Proposed O&M Impacts are included in the Proposed Operating Budget

The Projected Operating impacts have been reflected in the City's General Fund and TCSD 5-Year Financial Forecasts.

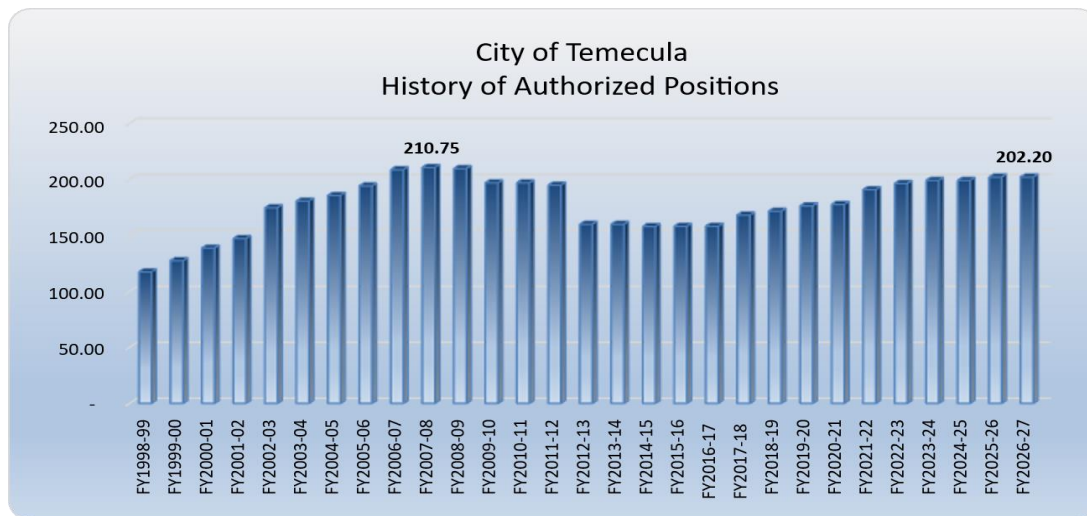


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2026-27 AUTHORIZED STAFFING

Total authorized Full Time Equivalent (FTE) positions total 202.2 authorized positions, including five Council Members and 6 unfunded positions for Fiscal Year 2026-27. The total reflects no change in the number of positions compared to the prior year.

Public Safety personnel is provided through contracts with Riverside County and CAL FIRE. 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 2026-27.



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 2026-27, an estimated 88 full-time equivalents will be hired as seasonal and part-time support, which is a reduction of two full-time equivalent positions from the prior year.



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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 2026-27 but throughout the ensuing five-year period. The Capital Improvement Program is robust, with 69% 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. With the ongoing support of the Council, the City accelerated its Debt/Liability Paydown Strategy and will become 100% debt-free by July 2026 with a fully-funded CalPERS Pension program.

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, Fiscal Services Manager; and Catlin Dorset, Budget Manager for their long hours and dedication to the City and this budget process.

Sincerely,

Aaron Adams
City Manager