

May 19, 2022

Honorable Mayor and Members of the City Council:

I am pleased to submit the Proposed Annual Operating Budget for the Fiscal Year 2022-23. 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 2022-23 Proposed 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 has fully rebounded from the COVID-19 global pandemic and the local economy remains strong. 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 109,925 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. Police and Fire protection services are provided through contracts with Riverside County. The Temecula Valley Unified School District provides 32 schools with 26,562 students at the kindergarten through 12th grade levels within the City. The City of Temecula prides itself on its community focus and quality of life.

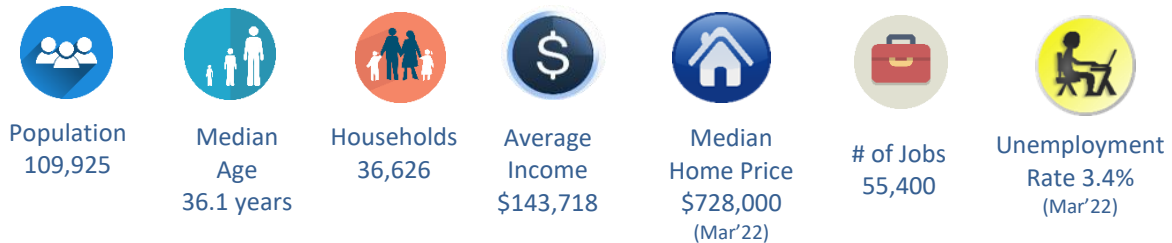
Temecula's residents enjoy one of the finest lifestyles Southern California has to offer. Environmental and residential factors create a beautiful setting that attracts young, well-educated families to upscale homes that are relatively inexpensive by Southern California standards. Geography contributes to the City's population and retail growth from San Diego and Orange Counties.



Temecula's leadership has approached economic growth from a qualitative standpoint, providing the City with a favorable share of the region's higher paying and high technology career opportunities. The City's average income levels are higher than the surrounding region, the educational performance of its young people is above the state average, and Temecula has been recognized as one of Nation's safest cities.

ECONOMIC INDICATORS

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



- Estimated Population: down 2.5% from 2021 (Source: State Department of Finance)
- Median Age: up 0.4 years from 2021 (Source: Claritas360 Report – 10/26/21)
- Number of Households: up 0.7% from 2021 (Source: Claritas360 Report – 10/26/21)
- Average Household Income: up 8.3% from 2021 (Source: Claritas360 Report – 10/26/21)
- March Median Home Price: up 13.6% from April 2021 (Source: Southwest Riverside County Association of Realtors)
- Number of Jobs: up 0.5% from 2021 (Source: EDD)
- March Unemployment Rate: down from 5.8% in April 2021, Riverside County: 4.3%, CA: 4.9%, Nation: 3.6% (Source: EDD & BLS)

Temecula continued to see growth in the majority of its economic indicators, with significant growth noted in the housing market due to low inventory of homes on the market combined with record low mortgage rates. Population figures decreased statewide by 0.3 percent. Although Riverside County as a whole increased by 0.5 percent, Temecula saw a decrease of 2.5% from the previously reported estimate.

LOCAL ECONOMY AND LEGISLATIVE IMPACTS

Local Economy

As the nation rebounds from the global COVID-19 pandemic, Temecula's economy remains healthy, safe and in-demand. Both national retailers and local entrepreneurs continued to invest in Temecula by opening businesses during the pandemic or have started construction.

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 is currently ranked in the top 13% in California for sales tax per capita, out of 539 reporting agencies, and the Promenade Mall, located within Temecula, is currently above 90% leased.

The Temecula economy continues to attract new businesses, with several new establishments that have recently opened or are expected to open soon. Both national franchises and local establishments alike will be a welcomed addition to the local economy.



Temecula's retail rent per square foot has increased by 13% over the past year to a rate of \$2.55 per square foot. Similar to retail rent, both office and industrial rent have also increased over the past year. However, as businesses rebound from the pandemic, the retail vacancy rate continues to be higher than pre-pandemic levels.

<u>Retail Market Rent</u>		<u>Retail Vacancy Rate</u>		<u>Office Rent</u>		<u>Industrial Rent</u>	
2021	2022	2021	2022	2021	2022	2021	2022
\$2.26/sq.ft.	\$2.55/sq.ft.	7.10%	16.40%	\$1.93/sq.ft.	\$2.01/sq.ft.	\$0.99/sq.ft.	\$1.27/sq.ft.

Temecula's hospitality and tourism sector continues to experience a healthy economic rebound. Hoteliers remain economically positive in the Temecula market with increasing occupancy and average daily rates. Additionally, a total of six new hotel establishments are currently in the Planning process.

<u>Hotel Occupancy</u>		<u>Hotel Average Daily Rate</u>	
Mar'21	Mar'22	Mar'21	Mar'22
42.90%	68.30%	\$104.62	\$121.72

Development activity within Temecula reached historic levels during 2021, with over 1,000 building permits issued each quarter. The community experienced a 10% increase in land development permits, a 68% increase in new home permits, and a 33% increase in building permits over the past year.

<u>Land Development Permits</u>		<u>New Homes Permits</u>		<u>Building Permits</u>	
2020	2021	2020	2021	2020	2021
788	870	272	456	3,486	4,652

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:

California Senate Bill 1383 (Recycling Organic Waste) - On January 1, 2022, SB1383 went into effect, requiring the recycling of organic waste. The law is in response to a statewide effort to reduce emissions of short-lived climate pollutants (SLCP) in an effort to achieve the state's climate goals and the 75% organic waste diversion goal by 2025. The financial impact to the City's budget is not yet fully known, but it is anticipated that the City will provide administrative oversight for the program and potential economic impacts to commercial development are expected.

Initiative 21-0042 (The Taxpayer Protection and Government Accountability Act) – The ballot measure, if approved, would define all levies, charges, and fees as taxes. All of these would require a two-thirds legislative vote and voter approval to be enacted. Currently, a two-thirds majority vote is required for the approval of new or increasing special-purpose taxes. A general-purpose tax requires a simple majority approval. This ballot measure would greatly impact the City's ability to maintain fees and charges to keep pace with inflation or enact or modify general-purpose taxes in the future.

2022-23 GOALS AND OBJECTIVES

The City Council adopted the Temecula 2030 Quality of Life Master Plan (QLMP) in October 2011. The QLMP defines the strategic priorities of Temecula's residents, leaders, and partners for the City's next twenty years. It reflects the vision for the City's future and commits the City to a performance-based process to accomplish those goals. This plan was developed by engaging residents, businesses, local institutions, and regional partners in an inclusive process.



The QLMP outlines six Core Values:



Healthy and Livable City



A Sustainable City



Economic Prosperity



Transportation Mobility and Connectivity



A Safe and Prepared Community



Accountable and Responsive City
Government

In an effort to incorporate the QLMP into the City's budget process, City of Temecula executive staff developed goals based on the Core Values of the Quality of Life Master Plan. 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.

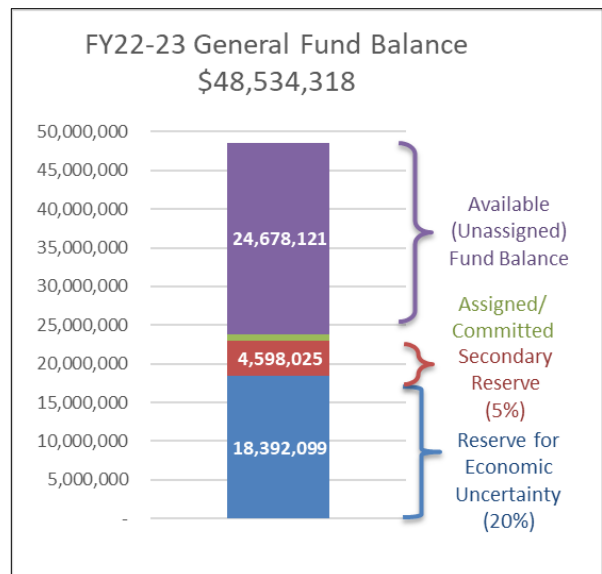
The City is in the process of updating the QLMP and will be revisiting each of the six Core Values through a Blue Ribbon Committee and extensive community outreach. A seventh Core Value related to the Race, Equity, Diversity, and Inclusion (REDI) initiative will also be evaluated as part of this QLMP update.

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.

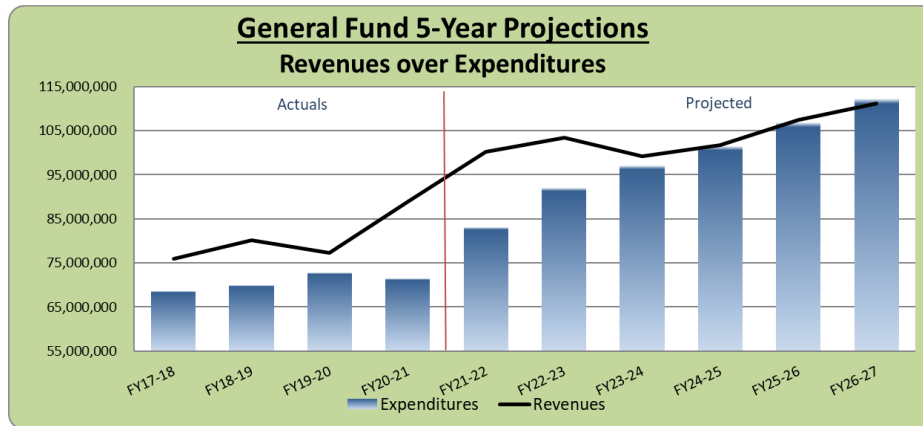
Ending fund balance for Fiscal Year 2022-23 is projected to be \$48,534,318, of which \$22,990,124 is committed to fulfilling the Fund's policy-level reserves of 25% of Operating Expenditures. A total of \$386,630 of fund balance is committed to cover the costs of a Police Officer position funded by the Pechanga Tribe, plus \$479,443 is assigned to future Capital Improvement Projects.

A total of \$24,678,121 in fund balance is unassigned and available for one-time appropriations.



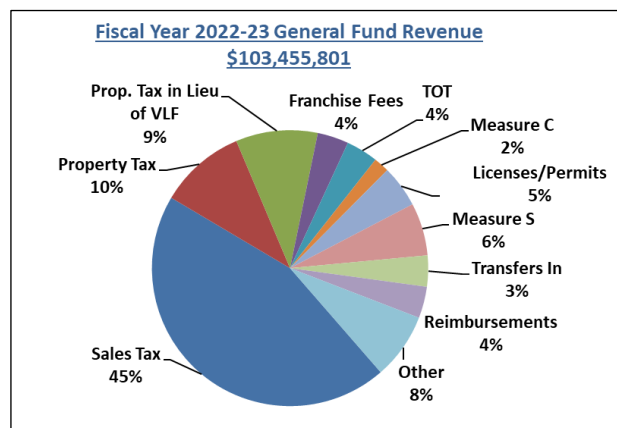
General Fund Revenue Highlights

Fiscal Year 2022-23 General Fund revenue is projected to increase by 3.2% over the prior year with a total of \$103,455,801. Tax revenues are projected to increase by 4.3%. Total revenue includes the second and final deposit of Federal American Rescue Plan Act (ARPA) funding of \$7,039,754, used to fund public safety services.



The Fiscal Year 2022-23 General Fund major revenue sources are summarized below:

- **Sales Tax (\$46,456,396)** is projected to increase by 3.9% compared to the prior fiscal year as taxable retail sales continue to grow within the local economy. Newly opened establishments include a Lexus dealership, Dick's Sporting Goods, and an Amazon Last Mile Delivery facility, which all help contribute to the growth in Sales Tax revenue.
- **Property Tax (\$10,481,183)** is projected to increase by 6.3%, due to a strong housing market combined with rising median home values. With record low inventories, combined with favorable interest rates, housing sales and prices have risen dramatically over the past year, with a 13% increase in the median home price since April 2021.
- **Franchise Fees (\$3,775,740)** are projected to increase 1.0% due to anticipated increases in utility rates charged for electricity, gas, and cable services.
- **Transient Occupancy Tax (\$3,859,035)** is projected to increase by 3.0% as the hospitality sector has rebounded significantly since the pandemic. The recent opening of Staybridge Suites and Hilton Garden Inn have both contributed to the growth in this sector of the economy.
- **Licenses, Permits & Service Charges (\$5,087,844)** are projected to decrease by 13.2% due to completion of the majority of the Sommer's Bend housing development in the prior fiscal year.
- **Intergovernmental Revenues (\$9,912,006)** are projected to increase by 6.8% 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 (\$3,774,278)** are projected to increase by 6.5% due primarily to growth in the Gas Tax Fund, which is anticipated to transfer \$3,282,716 for street and road maintenance. The Supplemental Law Enforcement Services Fund is anticipated to transfer \$367,286 to supplement the Police Department budget. The final repayment of \$124,276 for an advance to



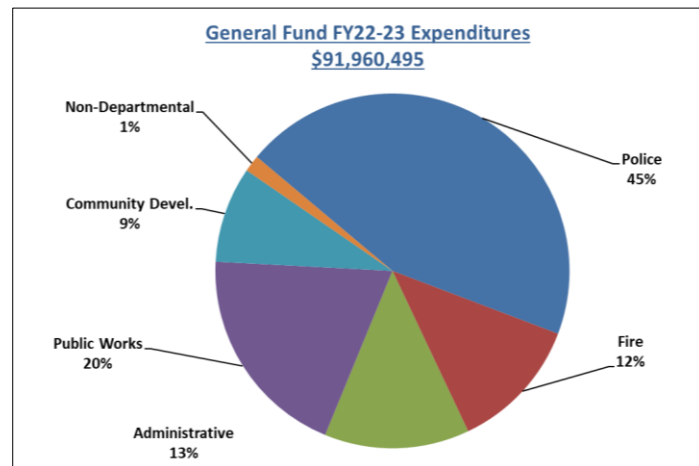
the Development Impact Fees Fund for the rehabilitation of Fire Station 73 is also included as an Operating Transfer In.

- **Operating Transfers In - Measure S (\$6,382,496)** will continue to fund 11 Police Officers (\$4,135,320), staffing for Fire Station No. 95 (\$1,990,964), funding for the future replacement of the newly acquired fire ladder truck and inspection vehicles (\$170,390), plus funding for enhanced park maintenance services (\$85,822).

General Fund Expenditure Highlights

The largest expenditure of the General Fund is Public Safety, making up 57% 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 Police Department will increase the number of sworn officers to 118.9 and the Fire Department will continue to provide four firefighter personnel per engine at all five fire stations.



General Fund expenditures total \$91,960,495, which represents a 10.6% increase over the prior fiscal year. The majority of the increase is reflected in the Police Department, as noted below:

- **Police (\$41,061,970)** is increasing by 8.9% over the prior year due to the addition of five sworn officers, an increase in daily patrol hours (from 205 hours per day to 210), which is offset by the reduction in one K9 officer that will be provided through a County allocation instead of dedicated to the City. The contract rates charged by the County are projected to increase by 2.5% to account for increased CalPERS pension costs and labor increases resulting from union negotiations. The budget also includes the replacement of two Police motorcycles.
- **Fire (\$11,222,582)** is increasing by 18.0% due to a change in CalPERS pension rates, as a result of the expiration of a two-year State-imposed reduction in pension rates. The total Fire contract of \$19.7 million is offset by the Structural Fire Tax Credit of \$10.3 million.
- **Non-Safety Departments (\$38,280,838)** represents a 10.9% increase over the prior year, due primarily to the addition of authorized positions and a negotiated adjustment to the City's Salary Schedule to bring wages up to local market rates.
- **Non-Departmental (\$1,395,106)** reflects a 0.3% increase due to inflationary adjustments in the Property Tax Administration Fees and CalPERS Replacement Benefit.

Operating Transfers Out & One-Time Payments

This category of expenditures reflects funds that are transferred to the newly established COVID-19 Pandemic Community Reinvestment Program Fund, Debt Service Funds, Capital Improvement Program and the Fire Facility Acquisition Fund.

- **Community Reinvestment Program Fund (\$7,040,000)** to provide grant funding to support local businesses, non-profits, workforce development, higher education, behavioral health, affordable housing and homeless services.
- **Debt Service Fund (\$2,159,642)** for the annual Civic Center and Margarita Recreation Center Financing Leases.
- **Capital Improvement Fund (\$500,000)** for the General Plan Update project.
- **Fire Facilities Acquisition Fund (\$1,500,000)** to be transferred into a set-aside fund to accumulate resources for the potential acquisition of property and/or fire station rehabilitation. The Fiscal Year 2022-23 ending fund balance in this new fund is estimated to be \$3,000,000.

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, adjustments to the Fiscal Year 2022-23 revenue or expenditure budgets will be recommended and presented 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 2022-23 Measure S revenue is projected to increase by 4.0% to \$37,610,081, as the local economy continues to expand.

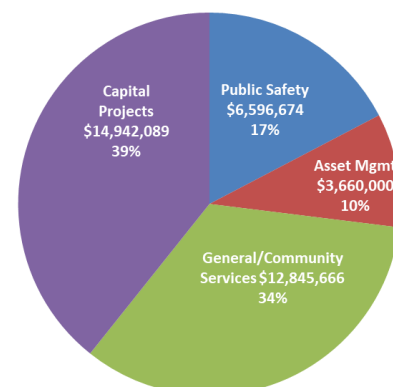
Measure S appropriations of \$38,044,429 for Fiscal Year 2022-23 reflect the priorities established in Budget Policy IV – Transactions and Use Tax Funding, and confirmed by the City Council at their February 8, 2022 meeting:

Public Safety (17%) The budget includes \$6,596,674 of Measure S funding for 11 Police Officers (\$4,135,320), staffing for Fire Station No. 95 (\$1,990,964), and funding for the future replacement of the newly acquired fire ladder truck and inspection vehicles (\$170,390).

Asset Management/Investment (10%)

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 2022-23, Measure S is contributing \$500,000 to each of the Fleet and Technology

Measure S - FY22-23 Appropriations
\$38,044,429





Replacement Funds, \$660,000 to the Facilities Replacement Fund, and \$2,000,000 to the Streets Maintenance Fund.

Capital Improvement Program (39%)

The Fiscal Year 2022-23 budget includes \$14,942,089 of Measure S revenue allocated 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 for Fiscal Year 2022-23 include:

- Community Recreation Center Renovation - \$3,893,391 - to augment funding from Quimby Fees, Development Impact Fees (Parks/Recreation) and developer contributions to reconfigure portions of the CRC and enhance safety features throughout the facility.
- Margarita Recreation Center - \$1,765,000 – to augment funding from capital financing and Development Impact Fees (Parks/Recreation and Police Facilities) to construct a new recreation center at the Michael “Mike” Naggar Community Park.
- Diaz Road Expansion - \$1,328,555 - to augment Measure A and TUMF funding for the conversion of Diaz Road to a major arterial (4-lanes) between Cherry Street and Rancho California Road.
- Park Restrooms/Renovations/ADA Improvements - \$1,025,000 - for restrooms at the Vail Ranch and Long Canyon Parks.
- The MERC Concession Upgrade - \$604,000 – to upgrade and expand the concession area to a full-service kitchen.
- Playground Equipment Enhancement and Safety Surfacing - \$500,000 - to fund improvements at the Long Canyon Creek Park and Redhawk 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 - \$11,784,280
- Library contribution - \$975,563
- Enhanced Custodial Services - \$85,822

The ending fund balance within the Measure S Fund is projected to be \$11,021,315, which will carry-forward to the ensuing fiscal year. Over the ensuing five-year period, Measure S is projected to have adequate resources to fund public safety, asset management, capital projects and general services.

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 \$3,282,718, which reflects an increase of 11.4% as volume of gasoline sales increases. 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 \$2,584,827, which is an increase of 10.1% due to the rebounding economy. 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 2022-23 ending balance of \$7,483,094.

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 2022-23 revenue is projected to be \$200,000, however no expenditures have been programmed for these funds.

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. For Fiscal Year 2022-23, revenue is projected to be \$105,000, bringing the ending fund balance to \$1,195,014.

Fund 108 – American Rescue Plan Act (ARPA) Fund: This fund was established in Fiscal Year 2021-22 to account for the receipt of the Federal ARPA grant funding of \$14,079,508, which is received in two equal installments in Fiscal Year 2021-22 and Fiscal Year 2022-23. The funds were transferred to the General Fund to support public safety services.

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 in the rebounding from the global pandemic. Revenue is transferred into this fund from available General Fund balance. The Council approved six funding categories, including: (1) Business Support, (2) Non-Profit Support, (3) Homeless Services, (4) Housing Assistance, (5) Behavioral Health Services, and (6) Higher Education/Workforce Development.

Fund 120 – Development Impact Fees (DIF): DIF revenue is projected to be \$13,564,460, which reflects an increase of 122% due to the increased activity occurring in the Sommer's Bend development as well as anticipated activity in the Heirloom Farms development. DIF revenue varies from year-to-year as it is based on anticipated development projects. The majority of DIF Revenues are transferred to the CIP to fund capital projects. Fiscal Year 2022-23 ending fund balance is projected to be \$7,994,742.

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 \$203,300, which will be spent on various technology equipment used to support the



broadcast of City Council meetings and events. Fiscal Year 2022-23 ending fund balance is projected to be \$650,468.

Fund 140 – Community Development Block Grant (CDBG): CDBG revenue is projected to be \$1,205,894, for operations and capital projects. Prior year carry-over of CDBG-CV funds totaling \$630,894 is intended to provide aid to the community in response to the COVID-19 pandemic. Fiscal Year 2022-23 ending fund balance is projected to be \$1,032,675.

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. These funds, combined with the existing fund balance, are programmed to fund an Electric Vehicle Charging Station capital project, lighting along Murrieta Creek, and Sports Field Lighting upgrades. Fiscal Year 2022-23 ending fund balance is projected to be \$142,309.

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 2022-23 revenue is projected to be \$150,489. The majority of these funds are programmed for capital projects, including the Citywide Bike Lane and Trail Program. Fiscal Year 2022-23 ending fund balance is projected to be \$5,027.

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 2022-23 revenue is projected to be \$280,665 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 2022-23 of \$821,000 includes the State Department of Finance allocation of \$250,000 designated for the administration of the wind down of redevelopment obligations. Expenditures reflect the ongoing administration of the City's Affordable Housing program as well as \$557,000 for the Habitat for Humanity – Old Town Units capital project.

Fund 170 – Measure A: Measure A revenue is projected to be \$3,280,500, which reflects a 22.3% decrease from 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 2022-23 ending fund balance is projected to be \$1,285,338.

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 \$1,517,257, which covers the cost of administering the City's liability and property insurance programs. The projected fund balance is \$722,053, which exceeds the desired balance of \$450,000.

Fund 305 – Workers' Compensation: Projected expenses total \$470,770, which covers the cost of administering the City's self-insured Workers' Compensation program. The projected fund balance is \$1,668,429, which exceeds the desired balance of \$1.5 million.

Fund 310 – Vehicles and Equipment: Projected expenses total \$670,500 to replace two fire medic squads (\$426,000), a construction dump truck (\$150,000), a pressure washer (\$35,000), three arrow boards (\$19,500) and a replacement vehicle for Community Development (\$40,000). The projected fund balance is \$5,274,230.

Fund 320 – Information Technology: Projected expenses total \$5,910,265, which provides for the management of the City's computers, audio-visual equipment, cyber security, and telephone systems. The projected fund balance is \$1,117,284.

Fund 325 – Technology Replacement: Projected expenses total \$160,000 to replace the City's telephones (\$30,000), a UPS battery (\$50,000), a GIS plotter (\$10,000) and fund the annual computer lifecycle replacement program (\$70,000). The projected fund balance is \$2,485,713.

Fund 330 – Support Services: Projected expenses total \$379,963, which provides for the management of the City's central reception, printing and mail activities. The projected fund balance is \$4,235.

Fund 335 – Support Services Replacement: Projected expenses total \$25,000 to replace the Central Services plotter and paper folder machines. The projected fund balance is \$403,948.

Fund 340 – Facilities: Projected expenses total \$1,651,435, which provide for the operations and maintenance of the City's buildings and parking structure. The projected fund balance is \$589,111.

Fund 350 – Facility Replacement: Projected expenses total \$500,000 for the City Facilities Rehabilitation capital project. The projected fund balance is \$242,473.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY (SARDA)

Fund 380 – SARDA: Projected expenses total \$5,899,866 to pay debt service expenditures on the outstanding 2017A and 2017B Redevelopment Agency Tax Allocation Bonds.

TEMECULA COMMUNITY SERVICES DISTRICT (TCSD)

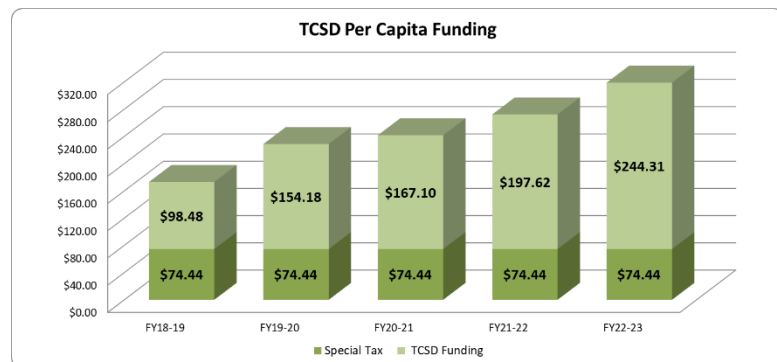
The Temecula Community Services District was established as an assessment district to provide a comprehensive neighborhood and community park system, as well as a complement of recreational and cultural programs and events. TCSD also provides street lighting, median and slope maintenance, refuse hauling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

Combined revenue for TCSD totals \$30,133,322, which reflects an increase of 12.7% over the prior year as TCSD programs return to pre-pandemic levels. The majority of the increase is from TCSD Operations as events, programs and recreational classes have resumed after the pandemic. Additionally, a transfer of \$1 million from the COVID-19 Community Reinvestment Program Fund for homeless services is included in the Fiscal Year 2022-23 revenue projection.

Combined expenditures for TCSD total \$29,772,002 and reflect an increase of 6.8% over the prior year, due primarily to the re-opening of facilities, programs, classes, and events. Additionally, it is anticipated that the new Margarita Recreation Center will open in the Spring of 2023, so an addition of four full-time/authorized positions are included in the TCSD Operations budget.

Ending fund balance for TCSD is projected to be \$4,175,253 for Fiscal Year 2022-23.

As noted in the adjacent chart, TCSD's Special Tax (Measure C) funds approximately 24% of the District's Parks and Recreation budget. The remaining 76% comes from Measure S and programmatic revenues.



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. Circulation, infrastructure, parks, affordable housing, and other various projects are identified in the CIP budget.

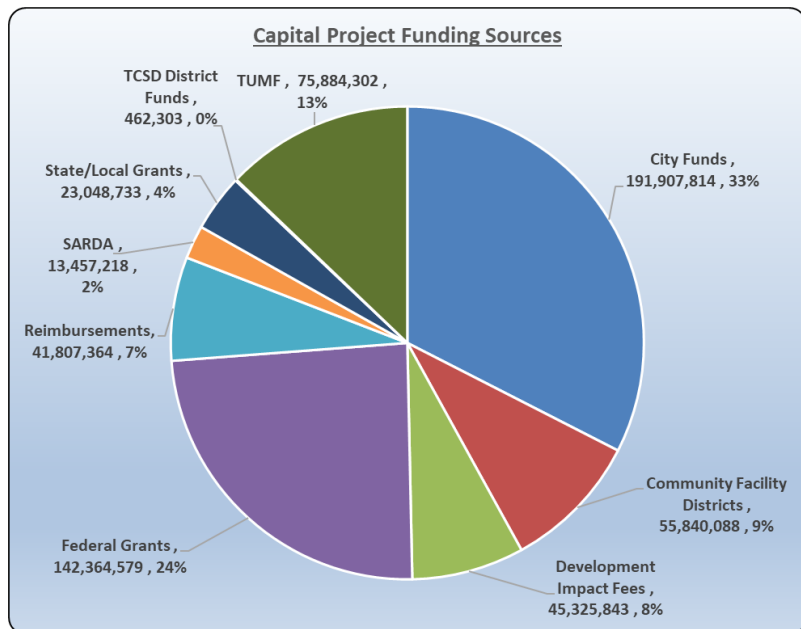
The CIP includes a total of \$793,744,301 in identified capital projects, with a total of \$590,098,244 in project funding. There is \$203,646,057 in "Unspecified" project funding, indicating that a revenue source has not yet been secured for these projects, which have been identified as necessary infrastructure for the City, and will require that funding sources be identified before the project construction can commence. Capital projects are categorized into four Project Types.

Project Type	Number of Projects	Total Project Cost
Circulation	30	619,776,487
Infrastructure	52	111,436,853
Parks/Recreation	20	44,632,961
SARDA	3	17,898,000
	105	793,744,301

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 has incurred \$6.5 million in debt (private placement loan) to fund the Margarita Recreation Center project. The rate on this debt is 3.42% and matures on September 1, 2033. Repayment of this debt comes from the General Fund.

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 2023-27 CIP program reflects 66% from outside funding sources, with the remaining 34% provided by various City funds, including Measure S, Measure A, Development Impact Fee Funds, General Fund, RMRA Funds, and several other sources.



A total of nine new projects have been added to the CIP including the following:

- Auto Mall Wayfinding Signs
- Bike Lane and Trail Program – Ronald Reagan Sports Park Trails
- Butterfield Stage Road Storm Drain Improvements
- Habitat for Humanity – Old Town Units
- Harveston Community Park Building Renovations and Expansion
- Infill Recreation Amenities
- Rancho California Road Median Improvements
- The MERC Concession Upgrade
- Utility Undergrounding – Main Street and Vicinity

As part of the development of the Capital Improvement Program budget, each project is evaluated to identify any ongoing impacts to the Operating Budget. Seven projects reflect the addition of ongoing operating costs, while one project identifies ongoing operating savings. The amounts identified on the table are incorporated into the General Fund Five-Year Forecast.



**City of Temecula
Fiscal Year 2022-23
Annual Operating Budget**

Capital Project	Operating Budget Account	Description	2023-24 Projected	2024-25 Projected	2025-26 Projected	2026-27 Projected
155 - PARK RESTROOMS RENOVATIONS, EXPANSION AND AMERICANS WITH DISABILITIES ACT (ADA) IMPROVEMENTS	5250 - OTHER OUTSIDE SERVICES	Janitorial Services	26,530	27,061	27,602	28,154
688 - CITYWIDE STREETLIGHT ACQUISITION & LIGHT EMITTING DIODE (LED) RETROFIT	5319 - STREET LIGHTING	Electricity Savings	(655,636)	(675,305)	(695,564)	(709,475)
690 - I-15/STATE ROUTE 79 SOUTH INTERCHANGE ENHANCED LANDSCAPING	5415 - LANDSCAPE MAINTENANCE	Required by Caltrans	56,240	58,490	60,830	62,046
692 - MARGARITA RECREATION CENTER	5100 - SALARIES & WAGES	Staffing for MRC (4 positions)	483,699	498,210	513,157	528,551
	5240 - UTILITIES	Additional Utility Costs	55,000	55,000	55,000	55,000
	5250 - OTHER OUTSIDE SERVICES	Janitorial/Security	50,000	50,000	50,000	50,000
	5378 - CONTRACTED CLASSES	Contract Classes	164,145	176,520	185,000	190,000
	5418 - POOL MAINTENANCE	Swimming Pool maintenance	100,000	100,000	100,000	100,000
			852,844	879,730	903,157	923,551
711 - CITYWIDE SURVEILLANCE CAMERAS	5250 - OTHER OUTSIDE SERVICES	Maintenance and Operations for Surveillance System	350,000	350,000	350,000	350,000
724 - CITYWIDE FINANCIAL SYSTEM UPGRADE	5211 - SOFTWARE & MAINTENANCE	Annual Software Maintenance	66,934	66,934	66,934	66,934
780 - OLD TOWN SURVEILLANCE & SOUND SYSTEM	5215 - REPAIR & MAINTENANCE - EQUIPMENT	Maintenance fees for Old Town Sound System	50,000	50,000	50,000	50,000
Total Incremental Operating & Maintenance Impacts			746,912	756,910	762,959	771,210

2022-23 AUTHORIZED STAFFING

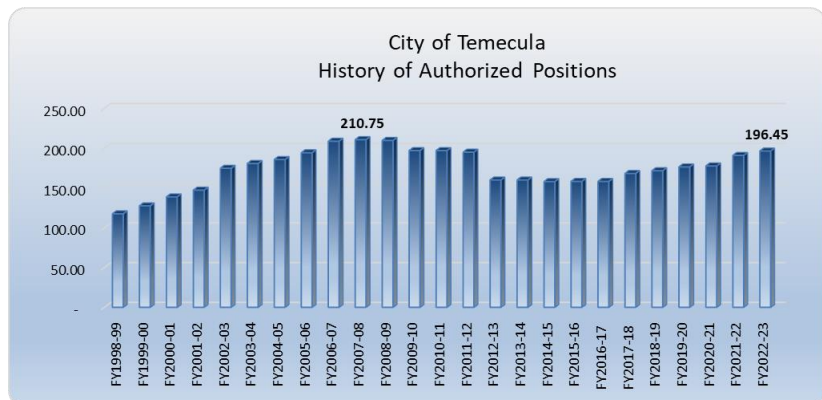
Total authorized Full Time Equivalent (FTE) positions total 196.45 authorized positions, including one authorized/unfunded position. The increase reflects 17.75 new positions compared to the prior year, of which 10 were added as part of the Fiscal Year 2021-22 Mid-Year Budget update. All positions added since last fiscal year are summarized by department below:

- Community Development (6 positions)
 - Code Enforcement Officer I (2)
 - Community Development Technician I
 - Building Inspector II
 - Planning Technician
 - Assistant Director of Community Development
- Temecula Community Services District (5 positions)
 - Senior Recreation Leader
 - Aquatics Supervisor
 - Aquatics Coordinator
 - Community Services Coordinator (previously authorized/unfunded)
 - Community Services Supervisor (previously authorized/unfunded)
- Public Works (4 positions)
 - Associate Civil Engineer
 - Supervising Public Works Inspector
 - Lead Maintenance Worker I
 - Maintenance Worker I
- Human Resources (1 position)
 - Management Assistant

- Economic Development (1 position)
 - Management Analyst
- Information Technology/Support Services (0.5 position)
 - Senior Administrative Assistant (conversion from ½ to full-time)
- Finance (0.25 position)
 - Senior Accounting Technician-Payroll (conversion from ¾ to full-time)

Total Authorized Positions remains below the peak in Fiscal Year 2007-08 by 14.3 positions.

In addition to the Authorized Positions, the City employs a significant number of part-time, non-benefitted Project employees, primarily to assist with the multitude of programs offered by the Temecula Community Services District. For Fiscal Year 2022-23, an estimated 58.7 full-time equivalents (FTE) will be hired as seasonal and part-time support.



Public Safety personnel is provided through contracts with Riverside County and CalFire. A total of 118.9 sworn Police Officers and 18 Community Service Officers are included in the Police budget, and a total of 71 personnel are reflected in the Fire Department budget for Fiscal Year 2022-23.

BUDGET POLICIES

As part of the annual budget process, in February, the Council is presented the budget priorities and policy metrics used in the current budget to discuss changes to incorporate in the next budget. On February 8, 2022, the Council affirmed that public safety will remain as the top priority and the core values outlined in the Quality of Life Master Plan will remain the guiding principles behind appropriation recommendations. Several Budget and Fiscal Policy metrics were also affirmed, with recommended changes as noted below:

- Include reference to public safety staffing levels (reflected in Budget Policy IV.B. – Transactions and Use Tax Funding and Budget Policy VI.I.1.b and c – Staffing Policy)
- Increase City Manager approval authority from \$60,000 to \$100,000 (reflected in Budget Policy XII.A – Signature Delegation Policy)
- Increase the City Manager settlement authority from \$25,000 to \$100,000 (reflected in Budget Policy XII.B – Signature Delegation Policy)
- Increase the eligibility threshold for assets to be replaced using the Technology Replacement Fund from \$3,000 to \$5,000 (reflected in Budget Policy VII – Asset Management and Replacement)



Additionally, staff recommends modifications to Budget Policy VII – Asset Management and Replacement, to reflect the City’s current practice of managing the various asset replacement funds established over the past several years.

Finally, staff recommends the removal of the Investments section of the Budget Policies and replace it with a stand-alone Investment Policy, updated to reflect allowable investments as outlined in state law. Per the California Government Code, Section 53646, “...the treasurer or chief fiscal officer of the local agency may annually render to the legislative body...a statement of investment policy...” This language changed from “shall” annually render to “may” roughly ten years ago, therefore this policy is only required to be approved when changes are recommended. The updated stand-alone Investment Policy will be presented to the City Council at their June 14, 2022 meeting for consideration and approval.

CONCLUSION

In conclusion, the City of Temecula is in a strong fiscal position with the General Fund balanced and all reserves fully funded not only in Fiscal Year 2022-23 but throughout the ensuing five-year period. The Capital Improvement Program is the largest in the City’s history 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; Patricia Hawk, Fiscal Services Manager; and Catlin Dorset, Senior Accounting Technician for their long hours and dedication to the City and this budget process.

Sincerely,

Aaron Adams
City Manager