



CITY OF MENIFEE

SUBJECT: Adoption of the Fiscal Year 2025/2026 and 2026/2027 Budget

MEETING DATE: June 18, 2025

TO: Mayor and City Council

PREPARED BY: Margarita Cornejo, Deputy Finance Director
Dominic Tartaglia, Principal Accountant

REVIEWED BY: Travis Hickey, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Adopt a resolution approving the Fiscal Year (FY) 2025/2026 and 2026/2027 Biennial Budget; and
2. Adopt a resolution approving the GANN Appropriations Limit; and
3. Adopt a resolution approving the FY 2025/2026 authorized positions and compensations subject to future update based on final revenue-based Cost of Living Adjustments (COLA) pursuant to existing labor Memorandums of Understanding (MOUs); and
4. Adopt a resolution committing \$3,906,674 million in Committed Reserves from Rockport Ranch Mitigation Fee towards the future community center project and moving \$2,000,000 from Assigned Fund Balance Public Facilities to Committed Fund Balance Public Facilities, and moving \$1,200,000 million in Quality of Life fund balance to an Assigned Fund Balance for the CIP 14-01: McCall/I-215 Interchange Project; and
5. Authorize the Finance Department to process corresponding transfers of all approved CIP Program expenditure appropriations to Capital Projects Fund (Fund 4320) for purposes of consolidating program expenditures under one fund.

DISCUSSION

City of Menifee Biennial Budget Overview

The proposed Biennial (every two years) Budget for Fiscal Years (FY) 2025/2026 and 2026/2027 proposes a balanced financial plan aligned with strategic priorities and long-term fiscal sustainability. This recommended budget incorporates revenue and expenditure projections for the next two fiscal years reflective of generally slower economic growth, for the regional and local

economy, while maintaining existing service levels, supporting the existing workforce, and addressing high priority operational needs.

Overall, Menifee's financial outlook remains positive despite elements of uncertainty in the economy, with projected citywide operating revenues of \$140.5 million (FY 2025/2026) and \$145.4 million (FY 2026/2027) across all funds. Operating expenditures are projected at \$129.2 million and \$134.3 million, respectively, with strategic use of fund balances to support one-time purchases for vehicles and Information Technology (IT) equipment. In line with overall global and national economic conditions, the proposed budget does reflect the leveling in growth of some of the principal revenues (sales tax and development fees). However, the City's financial position remains strong with healthy reserves and a proposed budget focused on maintaining service levels and minimal additions concentrated on high priority operational needs.

TABLE 1: PROPOSED CITYWIDE OPERATING BUDGET

Citywide Operating Revenue	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
General Fund & Quality of Life	\$99,943,763	\$103,712,959
Special Revenue and Other Funds	\$40,564,900	\$41,695,155
Total Operating Revenues	\$140,508,663	\$145,408,114
Citywide Operating Expenditures		
General Fund & Quality of Life	\$99,372,143	\$103,860,830
Special Revenue and Other Funds	\$29,811,633	\$30,411,597
Total Operating Expenditures	\$129,183,776	\$134,272,427

Specifically, within the General Fund and Quality of Life Fund, which represent the funds that provide essential services such as public safety to the City, the budget has been balanced so that ongoing revenues match ongoing expenditures. Revenue growth in these funds is primarily driven by sales tax, property tax, and franchise fees, supported by continued development activity.

TABLE 2: PROPOSED GENERAL FUND & QUALITY OF LIFE FUND OPERATING BUDGET

General Fund & Quality of Life	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
Revenue	\$99,943,763	\$103,712,959
<i>Restricted Revenue not for general use⁽¹⁾</i>	<i>(\$571,620)</i>	<i>(\$352,129)</i>
Expenditures	\$99,372,143	\$103,360,830 ⁽²⁾
Total Revenues over Expenditures	\$0	\$0

(1) Certain fees collected within the General Fund are only permitted to be used for specific expenditures, such as for General Plan updates.

(2) In FY 2026/2027, General Plan fees totaling \$500K, collected in prior fiscal years within fund balance, will be transferred in for use. This amount is excluded from the table summary reflecting only ongoing/recurring operational costs.

Personnel updates include the addition of three new full-time positions, addressing needed support for compliance of state mandates and growing citywide maintenance needs with the expansion of new residential areas and parks. No additional personnel requests are planned for FY 2026/2027, though a mid-cycle review will reassess staffing needs.

The Capital Improvement Program (CIP) remains a cornerstone of the budget, with \$13.2 million allocated for FY 2025/2026 and \$14.3 million for FY 2026/2027. These funds will support crucial infrastructure upgrades, including transportation enhancements, traffic signals, pavement management, park improvements, and public facility expansions. Proposed funding for existing and new projects is summarized below.

TABLE 3: PROPOSED CIP BUDGET APPROPRIATIONS

Funding Source	FY 2025/2026		FY 2026/2027	
	# of Projects	Requested Amount (\$)	# of Projects	Requested Amount (\$)
General Fund	24	\$0	9	\$0
Quality of Life		1,186,000		125,000
Special Revenue & Other		12,002,851		14,137,204
Totals		\$13,189,811		\$14,262,204

Total Citywide Expenditure Appropriation recommendations including all funds (General Fund, Quality of Life, Special Revenue & Other, and Bonded CFDs (Capital Funds)) are \$182,341,820 for FY 2025/2026 and \$171,512,945 for FY 2026/2027 and are broken down in further detail in Table 7.

By maintaining disciplined financial planning and aligning expenditures with critical citywide initiatives, the FY 2025/2026 and 2026/2027 budget positions Menifee for sustained growth while reinforcing its commitment to being a premier, safe, thriving, and inclusive city.

Budget Reviews & Tentative Schedule

The biennial budget process incorporates two mid-year reviews at approximately six-month intervals to revisit and recalibrate the budget estimates and projections as necessary, as well as one mid-cycle review at the end of year one in anticipation for year two. Mid-year and mid-cycle budget reviews will provide City Council with an update on revenue and expenditure assumptions, fund balances and possible recommended adjustments to the budget. The three reviews estimated dates are summarized in Table 4.

TABLE 4: MID-YEAR/MID-CYCLE REVIEW MEETINGS (TENTATIVE SCHEDULE)

Description	Anticipated Timeline
Year 1 Mid-year review (FY 2025/2026): Comprehensive review of year 1 year-to-date actuals for expenditures & revenues, and projections for remainder of the fiscal year.	February 2026
Mid-cycle review (FY 2026/2027): Comprehensive review of ending year 1, FY 2025/2026, and adjustments for year 2, FY 2026/27.	June 2026
Year 2 Mid-year review (FY 2026/2027): Comprehensive review of year-to-date actuals for expenditures & revenues, and projected remainder of the fiscal year.	February 2027

Public Engagements and Commission/Committee Recommendations

Community engagement plays a vital role in the budget development process, with multiple workshops and committee meetings allowing for public input and recommendations. Oversight bodies, including the Quality of Life Oversight Committee and the Planning Commission, endorsed

key aspects of the plan, reinforcing alignment with the City's long-term strategic goals. Table 5 lists all public meetings that were held as part of the current biennial budget process.

TABLE 5: PUBLIC ENGAGEMENT & COMMISSION/COMMITTEE MEETINGS SUMMARY

Meeting Description & Purpose	Meeting Date	Recommended Action (If Applicable)
Capital Improvement Program (CIP) Workshop Meeting #1: Provide background on CIP and tentative projects for upcoming FY 2023-2028 CIP Plan.	April 2, 2025	Council provided initial feedback on proposed CIP for upcoming fiscal years.
Capital Improvement Program (CIP) Workshop Meeting #2: Provide updated CIP and tentative projects based on feedback received during Workshop Meeting #1.	April 16, 2025	N/A
Quality of Life (Measure DD) Meeting: Provide proposed revenues and expenditures plan for Quality of Life Funds for the upcoming budget cycle.	April 22, 2025	Quality of Life (Measure DD) Oversight Committee voted 5-0 to recommend the City Council approve, as proposed, the Quality of Life (Measure DD) Budget for FY 2025/2026 and FY 2026/2027.
FY 2025/2026 & FY 2026/2027 Budget Workshop: Present proposed budget, including personnel, operating and maintenance, capital outlays, and CIP for City Council and public input.	May 7, 2025	N/A
Planning Commission Review: Present proposed CIP to the Planning Commission for conformance with the City's General Plan.	May 14, 2025	The Planning Commission voted 5-0 to determine the FY 2025/2026 and FY 2026/2027 CIP is consistent with the City's General Plan.
FY 2025/2026 & FY 2026/2027 Budget Adoption: Present budget for final Council consideration/ approval.	June 18, 2025	Council's consideration of formal approval of budget.

Citywide Budget Summary

On May 7, 2025, the City Council reviewed the recommended FY 2025/2026 & FY 2026/2027 budget, including the CIP projects for the City of Menifee at the Budget Workshop. Changes since the workshop reflect some final revenue projection adjustments for sales tax/Quality of Life revenues based on updated data received, and other minor adjustments to various special revenues (CFDs, CSAs, LLMDs, etc.).

Table 6 provides details of the City's main fund categories, and the corresponding budget sections impacted by the respective funds. The **Operating Budget** represents annual revenues and expenditures of the General Fund/Quality of Life, and Special Revenue & Other Funds, including:

- Personnel
- Operating & Maintenance Costs (including contract services)
- Capital Outlays & One-time Studies
- Debt Service

The **Capital Improvement Program (CIP) Budget** represents the City's major infrastructure projects (non-recurring, with a cost of \$50,000 or more and with a useful life of five or more years)

and is developed in conjunction with the Operating Budget. Funding sources can include General Fund, Quality of Life Measure, and Special Revenue & Other Funds.

The **Bonded Community Facilities District (CFD) Budget** represents the various funds that serve the purpose of collecting bond proceeds for the specific districts and reimbursing the developers for fees and infrastructure completed for the benefit of the city and/or outside agencies inside the district boundaries.

Collectively, the Operating Budget, CIP Budget, and Bonded CFD Budget (Capital Funds) are referred to as the **“Citywide Budget”**.

TABLE 6: SUMMARY OF MAIN FUND CATEGORIES

Main Fund Category	Funds Included	Budget Section
General Fund & Quality of Life	General Fund Quality of Life (Measure DD)	CITYWIDE BUDGET: Operating Budget & CIP
Special Revenue & Other Funds	Gas Tax & Other Special Revenue Funds (CDBG, LLMDs, CSAs, CFDs, DIF (including RBBD/Quimby))	CITYWIDE BUDGET: Operating Budget, CIP, & Bonded CFDs (Capital Funds)
Agency/Custodial Funds	Trust Fund and Custodial (Bonded CFDs Debt Service)	FIDUCIARY: Not a part of the Citywide Budget. Funds are held for custodial purposes only and are not used for city services.

In addition to the various funds represented in the Citywide Budget, the City’s biennial budget includes revenue and expenditure appropriations for various **Agency/Custodial Funds (Fiduciary)**. These fiduciary funds cannot be used to support government services or programs. Specifically, the City has included appropriations to recognize the annual special taxes collected for the respective debt services and corresponding expenditures for the Bonded CFDs. It is important to note these Agency/Custodial Funds are not a part of the Citywide Budget. Further analysis and a summary of the total biennial budget including the Fiduciary funds can be found in the section “Agency/Custodial Funds (Fiduciary)”.

The proposed Citywide Budget is summarized in Table 7.

TABLE 7: SUMMARY OF PROPOSED CITYWIDE BUDGET

Revenue	<u>Proposed Budget</u> <u>FY 2025/2026</u>	<u>Proposed Budget</u> <u>FY 2026/2027</u>
General Fund	\$78,385,116	\$81,815,362
Quality of Life	21,558,647	\$21,897,597
TOTAL REVENUE (GF & QoL)	\$99,943,763	\$103,712,959
Special Revenue & Other Funds	\$44,612,605	\$49,195,155
Revenue for Operating & CIP Budgets:	\$144,556,368	\$152,908,114
Bonded CFDs (Capital Funds)	\$988,455	\$679,955
TOTAL CITYWIDE REVENUE	\$145,544,823	\$153,588,069

Operating Budget (General Fund & Quality Of Life) Expenditures (Personnel, Operating & Maintenance, One-Time Studies, Capital Outlays, and Transfers & Allocations)		
Expenditures	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
General Fund	\$78,021,373	\$81,963,233
Quality of Life	\$21,350,770	\$21,897,597
TOTAL EXPENDITURES (GF & QoL)	\$99,372,143	\$103,860,830
Operating Budget (Special Revenue & Other Funds)		
Expenditures	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
Personnel, Capital Outlays, Operating & Maintenance, Debt Service	\$29,811,633	\$30,411,597
TOTAL OPERATING EXPENDITURES: (All Funds)	\$129,183,776	\$134,272,427
CIP Budget: (Proposed CIP Budget)		
Expenditures	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
General Fund	\$0	\$0
Quality of Life	1,186,960	125,000
Special Revenue & Other Funds	12,002,851	14,137,204
Total CIP Expenditures	\$13,189,811	\$14,262,204
Bonded CFDs Budget: (Capital Funds)		
Expenditures	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
Bonded CFDs Expenditures	\$39,968,233	\$22,978,314
Total Bonded CFDs Expenditures:	\$39,968,233	\$22,978,314
TOTAL CITYWIDE EXPENDITURES:	\$182,341,820	\$171,512,945

As proposed, FY 2025/2026 and FY 2026/2027 are presented with balanced budgets (operating expenditures are less than operating revenues). The General Fund, including Quality of Life, represents 54.5% (FY 2025/2026) and 60.6% (FY 2026/2027) of the Citywide Budget.

Special Revenue & Other Funds on the revenue side total \$44,612,605 (FY 2025/2026) and \$49,195,155 (FY 2026/2027) and are made up of revenue sources such as Development Impact Fees (DIF), County Service Areas (CSAs), Lighting and Landscape Maintenance Districts (LLMDs), and CFDs. The Special Revenue & Other Funds expenditure budget represents 16.3% (FY 2025/2026) and 17.7% (FY 2026/2027) of the Citywide Budget.

The CIP Budget for FY 2025/2026 of \$13,189,811 represents 7.2% of the Citywide Budget, and \$14,262,204, or 8.3% of the FY 2026/2027 Citywide Budget. The CIP projects are principally funded from Special Revenue & Other Funds contributing \$12,002,851, or 91.0%, in FY 2025/2026 and \$14,137,204, or 99.1%, in FY 2026/2027.

The Bonded CFD Budget can vary from year to year, depending on the timing of bond issuances and reimbursements to developers for each district. For FY 2025/2026 the total is \$39,968,233 representing 21.9% of the Citywide Budget, and \$22,978,314, or 13.4% of the FY 2026/2027 Citywide Budget. All budgeted expenditures and revenues are fully funded (contained) within the CFD bond proceeds and do not have any impact on other components of the Operating Budget.

Attached and provided for reference is a Supplemental Budget Summary which provides additional budget schedules for the Biennial Budget.

Strategic Plan Alignment and Implementation

In the development of the recommended budgets, staff integrated City Council's adopted Strategic Plan (2023 - 2028) priorities and goals through the allocation of resources with specific action items to support and maintain a thriving local economy, maintain a safe and vibrant community, provide for connectivity and mobility enhancements, and create opportunities for community engagement and social infrastructure along with the development of the City's unique identity. Fiscal policies ensure stability, including compliance with the GANN Appropriations Limit, prudent reserve fund allocations, and proactive measures to mitigate economic uncertainties.



Connectivity and
Mobility



Unique Identity



Engagement and
Social Infrastructure



Thriving
Economy



Safe
and Vibrant
Community

Current Economic Outlook (National, State, Regional & Local) & Revenue Analysis

Going into the next two years, the proposed FY 2025/2026 and FY 2026/2027 Budget reflects a more conservative fiscal outlook, with slower revenue growth against the backdrop of an overall uncertain national and local economy. At a more localized level, retaining its status as one of the fastest growing communities in the state, the City of Menifee is expected to continue to grow, but at a more leveled pace. During FY 2024/2025 five of the top six City's main revenues (Sales Tax, Quality of Life, Property Tax, Franchise Fees, Interest) experienced some growth, however, at a slower pace than the prior two fiscal years, when excluding one-time revenues. Entering into the next fiscal year, overall projections reflect modest growth from the revised FY 2024/2025 adjusted budget. The following fiscal year (FY 2026/2027) also reflects growth, but at a slower rate.

At the national and state level, in the last year the U.S. and California economies have seen continued deceleration of inflation and steady, though slowing, job growth within a tight labor market. However, actual job growth overall has underperformed initial estimates. U.S. Gross Domestic Product (GDP) grew by 2.8% in 2024 but is projected to grow at more modest amounts, 1.3% and 1.5% in 2025 and 2026. Various elements of uncertainty including tariffs, strict immigration policies, and larger scale reduction of federal workforce are seen as contributors to what some forecasts point to as an "growth recession", or below-trend growth combined with rising unemployment. The impact of tariffs is projected to lead to inflationary increases with cost increases and decreased consumer spending. National indicators, such as the U.S. Conference

Board Leading Economic Index (LEI), which incorporates data on items like, average weekly hours in manufacturing, initial unemployment claims, manufacturer new orders, building permits for new private housing, and others, continue to show month over month declines (LEI in April 2025 had a decline of 1%, following a decline of 0.8 in March), pointing to a worsening economic outlook. Other indicators, such as the Coincident Economic Index (CEI), which include things like payroll employment, personal income less transfer payments, and manufacturing trade and sales, still show slight positive increases, 0.1%.

Relative to the City of Menifee, development activity has seen a marked leveling of activity, particularly for new projects. Various residential projects, such as Cimarron Ridge and Legado have continued building throughout the year, but the volume of new projects has been less compared to the last several years. The combination of inflation on items such as construction material and higher interest rates continue to impact building activity. On the consumer side, whether looking to purchase a new home, or retail activity (sales tax), ongoing purchase activity has slowed down as higher interest rates and costs persist. Even with slower development, the City of Menifee continues to see activity growth in residential, commercial, and industrial areas in the current months and entering into FY 2025/2026 and FY 2026/2027.

Per the State of California’s Department of Finance 2025 population numbers, the City’s population now stands at 115,316, reflecting a growing community, with anticipated continued growth.

General Fund & Quality of Life Funds Recommended Budget Analysis

Revenue Analysis & Recommendations

The FY 2025/2026 proposed revenue is \$78,385,116 for the General Fund and \$21,558,647 for the Quality of Life Fund, for a combined total of **\$99,943,763**. The FY 2026/2027 proposed revenue is \$81,815,362 for General Fund and \$21,897,597 for the Quality of Life Fund, for a combined total of **\$103,712,959**.

The City’s top six (6) budgeted revenue sources for the General Fund, inclusive of Quality of Life (Measure DD) represent 93.2% and 93.4% respectively of the total revenues for those funds as proposed for FY 2025/2026 and FY 2026/2027. Based on the economic outlook discussed in the preceding section, Staff is recommending the following revenues for the General Fund and Quality of Life Fund as reflected in Table 8 below.

TABLE 8: TOP 6 CITY REVENUES

Revenue Description		FY 2025/2026	FY 2026/2027	Review/Analysis & Recommendations
1.	Sales Tax (including Quality of Life)	\$34,621,807	\$35,347,388	Expecting 4.8% and 2.1% increases in sales tax revenue over the next two years. Projections were adjusted (Sales Tax (Bradley-Burns) higher and Quality of Life lower) based on final HdL Projections received after 5/7/2025 workshop. Final Quality of Life projections were adjusted down, based on projections and historical performance.
2.	Property Tax	\$24,295,893	\$25,920,064	Expecting 6.6% and 6.7% appreciation in taxable value in the next two budget years.

Revenue Description		FY 2025/2026	FY 2026/2027	Review/Analysis & Recommendations
3.	Development Fees including Building, Planning, Engineering, and Fire Fees	\$12,845,000	\$12,945,000	Activity has notably decreased in FY 2024/2025 across specific development activities (Planning and Engineering). Revenues are projected to decrease by 7.2% (from adjusted budget) and increase 0.8% in FY 2026/2027 based on upcoming residential, commercial, and industrial projects underway.
4.	Vehicle License Fee (VLF)	\$12,474,953	\$13,403,022	Expecting 11.3% and 7.4% increases in VLF revenue over the next two years.
5.	Franchise Fees	\$5,875,000	\$6,160,000	Projected increases of 7.1% and 4.9% have been incorporated for Franchise Fees: Solid Waste, Gas & Electric and Cable TV.
6.	Interest (Investment) Revenue	\$3,050,000	\$3,050,000	Interest revenue from investments has notably increased in FY 2024/2025 with increasing City investment balances and higher interest rates. Revenues in the General Fund & Quality of Life Fund are projected to increase by 32.6% (from adjusted budget) in FY 2025/2026 and stay flat in FY 2026/2027 based on possible leveling off of interest rates.

Overall large changes in revenue:

- ✓ \$4.9 million in FY 2025/2026 from prior year adopted and \$3.3 million in FY 2026/2027 from FY 2025/2026 proposed for General Fund primarily due to overall projected growth for the City's 6 top revenues in the next two years.
- ✓ \$1.1 million in FY 2025/2026 from prior year adopted and \$448K in FY 2026/2027 from FY 2025/2026 proposed for Quality of Life primarily due to continued increasing sales tax receipts.

Expenditure Analysis & Recommendations

The proposed FY 2025/2026 General Fund Budget (General Fund & Quality of Life) budget of **\$100,559,103** reflects \$99,157,143 of recurring expenditures, and \$1,401,960 of one-time capital outlays, studies, and projects.

The proposed FY 2026/2027 General Fund Budget (General Fund & Quality of Life) budget of **\$103,985,830** reflects \$103,145,830 of recurring expenditures, and \$840,000 of one-time capital outlays, studies, and projects.

In development of the expenditure side of the budget plan, the City incorporates analysis of the following areas:

- **Personnel Costs:** Calculated based on existing workforce, and labor negotiation commitments such as annual cost of living adjustments, etc. The FY 2025/2026 and FY 2026/2027 proposed budgets reflect existing Cost of Living Adjustment (COLA) adjustments effective July 1, 2025, with the various represented groups, and

anticipated annual merit increases. Salary projections also incorporate a vacancy factor for both fiscal years.

- **Operations & Maintenance costs:** Ongoing commitments, such as leases, contract services (fire and dispatch). Fire contract budget for both fiscal years has been budgeted based on anticipated actuals, based on prior years and current service levels.
- **Capital Outlays & One-time Studies**

The total proposed biennial expenditure budget for General Fund and Quality of Life (Measure DD) consists of the following two (2) main components.

- **Operating Budget (General Fund/Measure DD),**
Proposed FY 2025/2026: \$99,372,143, FY 2026/2027: \$103,860,830
 - o Operations & Maintenance Costs
 - o Personnel Costs
 - o Contract Services
 - o Capital Outlays & One-Time Studies
- **Capital Budget (General Fund/Measure DD),**
Proposed FY 2025/2026: \$1,186,960, FY 2026/2027: \$125,000
 - o Infrastructure Projects

Deliberate use of excess fund balance in the Quality of Life fund balance in FY 2025/2026 in the amount of \$1,186,960 and in FY 2026/2027 in the amount of \$125,000 towards high priority CIP projects is included as part of the recommended budget.

FY 2025/2026 also includes the designation of Committed and/or Assigned Fund Balances from (1) the Rockport Ranch fiscal impact fee payment which will be used for the future Community Center CIP (\$3,906,674), and (2) using Quality of Life Fund balance towards the McCall Boulevard / I-215 Interchange CIP, (\$1,200,000). FY 2026/2027 will also include \$500,000 for the General Plan updates that will be transferred from the available restricted revenue balance collected for General Plan maintenance surcharge.

Staffing/Personnel Recommendations

As part of the annual budget process, the City of Menifee reviewed its organizational structure and operations and identified personnel needs required for the next two fiscal years. The proposed budget for FY 2025/2026 and FY 2026/2027 incorporates a total of **336.5 FTE** (Full-Time Equivalent) personnel, reflecting a net increase of three FTE from the FY 2024/2025 current personnel total.

Staffing requests outlined in Table 9 are focused on priority-needed support for the Public Works Department for the National Pollutant Discharge Elimination System (NPDES) and Community Services Department for field services (parks/right-of-way maintenance). Additionally, there is a request within the Community Development Department to defund the vacant position of Assistant Planner in order to fund an additional Building Permit Technician. There are also requests to continue funding a part-time Management Aide that was previously grant funded and for one existing personnel reclassification.

TABLE 9: RECOMMENDED PERSONNEL REQUESTS (FY 2025/2026)

No.	Department	Position Title	FTE	FY 2025/26 Salary & Benefits	Justification
1	Public Works & Engineering	Associate Engineer (NPDES program) <i>Funding Source: General Fund</i>	1	\$195,435	Operational Need – Provide oversight and planning for the NPDES program to reach full compliance of state mandates within the specified timeframe.
2	Community Development – Planning Division	Assistant Planner <i>Funding Source: General Fund</i>	-1	(\$157,197)	Operational Need – As planning development has seen a slowdown, projected to lead into FY 2025/26, the vacant position was deemed non-critical.
3	Community Development – Building & Safety Division	Building Permit Technician I <i>Funding Source: General Fund</i>	1	\$129,721	Operational Need – While planning revenues have slowed, building revenues have increased, leading to a greater need for permit technicians to support quality customer service.
4	Community Services – Parks Division	Park/Landscape Maintenance Worker II ⁽¹⁾ <i>Funding Source: Special Districts</i>	2	\$234,848	Operational Need – Augment/support Parks/Landscape Maintenance field operations as parks and right-of-ways are expanded citywide. Cost including leases of two trucks: \$270,848.
5	Community Development – CDBG	Part-time Management Aide <i>Funding Source: General Fund / CDBG</i>	0	\$39,017	Operational Need –Continue support for the CDBG program, previously funded through the American Rescue Plan grant. To be split between CDBG Fund and General Fund. Cost for General Fund portion: \$20,469.
6	Finance	<i>Reclass</i> Sr. Accountant to Principal Accountant <i>Funding Source: General Fund</i>	0	\$12,493	Operational Need – Develop structure within the department to have principal oversight over both budget and accounting roles.
TOTAL			3	\$454,317	

No additional personnel requests are included for the proposed FY 2026/2027 budget. Additional requests will be revisited and reviewed as part of the mid-cycle review in June 2026.

A corresponding resolution approving the Authorized Position Listing is included as part of the recommended actions included with this staff report. Several existing labor MOUs include a component of revenue-based COLA adjustments of up to an additional 1% adjustment, which will be determined at the full close of FY 2024/2025 (anticipated to be fall 2025). Once final revenues are confirmed and determined, an updated Authorized Position Listing will be prepared and presented for City Council approval at a regular City Council meeting.

Adjustments to Operating Levels of Service

Total operating expenditure appropriations across all funds (Operating Citywide Budget) are recommended at **\$129,183,773** and **\$134,272,427** in total for FYs 2025/2026 & 2026/2027, respectively. This represents for FY 2025/2026 a net increase over the prior fiscal year (adopted)

of 9.1% or \$10,753,507 and for FY 2026/2027 a net increase of 3.9% or \$5,088,651 over the prior year proposed budget.

General Fund and Quality of Life Operating Budget

TABLE 10: SUMMARY BIENNIAL GENERAL FUND & QUALITY OF LIFE OPERATING BUDGET

Operating Budget (General Fund & Quality Of Life)		
Expenditures	Proposed Budget FY 2025/2026	Proposed Budget FY 2026/2027
General Fund	\$78,021,373	\$81,963,233
Quality of Life	\$21,350,770	\$21,897,597
TOTAL EXPENDITURE	\$99,372,143	\$103,860,830

The recommended budget increase results primarily from the following:

- ✓ \$5.9 million in FY 2025/2026 from prior year adopted and \$3.4 million in FY 2026/2027 from prior year adopted for General Fund and Quality of Life Fund primarily due to increased labor costs associated with union contracts, increasing building lease costs, and increasing insurance premiums (General Liability, Workers' Compensation, Cyber Liability).
- ✓ FY 2025/2026 includes requests for a new phone system (\$70K) to replace the current system that is reaching end-of-life at the end of 2025, software (\$41K) for departments to assist with vendor procurement, citywide social media management, and park ranger scheduling, and capital outlays for the Menifee PD drone program (\$77K) to assist in decreasing response call times.
- ✓ \$1.4 million in FY 2025/2026 from prior year adopted and decrease of \$406K in FY 2026/2027 from prior year proposed for Quality of Life primarily due to increased labor costs associated with union contracts. FY 2025/2026 also includes the deliberate use of excess Fund Balance of \$1.2 million towards high priority CIP projects.

Special Revenue & Other Funds (Operating Budget)

The City uses Special Revenue Funds & Other Funds to account for restricted revenues received by the City and its component units. Restricted revenues cannot be deposited into the General Fund and must be accounted for separately. Some of these revenues fund ongoing operations, and some of these revenues fund the CIP, or both. For example, the City has several special districts, including LLMDs, CSAs, and CFDs, which fund maintenance and operations of parks, open space, roads, street lighting, street sweeping of specific services and capital improvements included within the specific special district.

As part of the Citywide budget development process, respective expenditures and revenues are developed for each Special Revenue & Other Funds. Some of the main Special Revenue & Other Funds include, but are not limited to:

1. **Internal Services Funds (ISFs):** Information Technology, Fleet, and Facilities.
2. **Special Districts:** LLMDs, CSAs, CFDs
3. **DIF (including RBBD/Quimby):** Appropriations directed towards the CIP Program.

Total Special Revenue & Other Funds are summarized in Table 11.

TABLE 11: SUMMARY BIENNIAL SPECIAL REVENUE & OTHER FUNDS OPERATING BUDGET

Operating Budget (Special Revenue & Other Funds)		
Expenditures		
Personnel, Capital Outlays, Operating & Maintenance, Debt Service	\$29,811,633	\$30,411,597

For revenue, the increase is primarily attributed to:

- ✓ \$1.7 million in FY 2025/2026 from prior year adopted and \$1.4 million in FY 2026/2027 from prior year proposed for Special Revenue & Other Funds mostly related to additional CFD annexations levied and maintenance service responsibilities assumed by the City, as well as continued growth in DIF revenues.

Of note specific to the Special Revenue & Other Funds are the following expenditure appropriations:

- ✓ The Fleet Fund for FY 2025/2026 and FY 2026/2027 will include \$704K per year for Menifee PD patrol vehicle replacements, based on need of replacing vehicles in a phased/staggered approach. Additionally, the Fund will include the requests for two (2) trailers for Menifee PD equipment (\$9K) and one vehicle lift annually (\$20K total) for the Fleet bays.
- ✓ The Facility Fund for FY 2025/2026 will include a request for the installation of badge readers for security clearances (\$10K) at the Community Services buildings.
- ✓ DIF 528 (Animal Shelter) includes appropriations of \$225,423 for FY 2025/2026 and for FY 2026/2027 \$247,965 to pay towards the Animal Shelter debt service to which the City participates for animal sheltering services, as part of a Joint Powers Authority (JPA).
- ✓ Appropriations of \$50,000 per year are included within DIF 17 Library to pay for annual library fees due to the County of Riverside
- ✓ Additional replacement vehicles for Menifee PD and Public Works (\$221K) are requested to be purchased out of the Public Safety DIF, General Government DIF, and AQMD Fund. One new vacuum trailer (\$105K) required to comply with NPDES regulations is also requested to be partially paid out of the General Government DIF.

Detailed information on the Special Revenue & Other Funds portion of the budget can be found in the appendix.

Capital Improvement Program (CIP) Budget

The proposed CIP Budget for FY 2025/2026 includes new funding recommendations for 24 projects with a proposed budget of \$13,189,811 and 9 projects with a proposed budget of \$14,262,204 for FY 2026/2027. The proposed projects address high priority infrastructure needs of the community. The tables of the following pages summarize the proposed funding recommendations for FY 2025/2026 and FY 2026/2027 CIP by Project Category.

TABLE 12: SUMMARY OF FY 2025/26 & 2026/27 BIENNIAL CIP BUDGET

PROJECT CATEGORY	FY 2025/26		FY 2026/27	
	# OF PROJECTS	REQUESTED AMOUNT (\$)	# OF PROJECTS	REQUESTED AMOUNT (\$)
Transportation	4	\$1,873,503	1	\$400,000
Traffic Signal	2	1,000,000	0	-
Street Improvement	7	2,225,960	1	849,825
Pavement Management (PMP)	3	3,266,348	2	3,500,000
Drainage	3	1,274,000	3	1,625,000
Streetlight	0	-	0	-
Public Facility	3	2,900,000	1	7,500,000
Park, Recreation, and Trail	2	650,000	1	387,379
Technology Infrastructure	0	-	0	-
TOTAL	24	\$13,189,811	9	\$14,262,204

The proposed FY 2025/2026 and FY 2026/2027 budgets were developed within the context of a 2023-2028 CIP Plan. The following table shows additional reprogramming of funds from non-priority CIP projects to higher priority projects.

TABLE 13: PROPOSED FY 2025/2026 & 2026/27 CIP REPROGRAMMING FUNDING

PROJECT CATEGORY	FY 2025/26		FY 2026/27	
	# OF PROJECTS	REQUESTED AMOUNT (\$)	# OF PROJECTS	REQUESTED AMOUNT (\$)
Pavement Management (PMP)	1	\$1,231,583	0	\$ -
Park, Recreation, and Trail	3	1,042,068	1	200,000
TOTAL	4	\$2,473,651	1	\$200,000

Committed & Assigned Fund Balance Recommendations

In addition to these appropriations and reprogramming of funds, there are two proposals to set aside funds for future projects from one-time revenues. Within the General Fund, one-time revenues from the Rockport Ranch development project are planned to be set aside for the future Community Center CIP project in the amount of \$3,906,674. Within the Quality of Life Fund, one-time revenues from the NOVA Battery Project are planned to be set aside for the future McCall Boulevard / I-215 Interchange CIP project in the amount of \$1.2 million.

Bonded CFD (Capital Funds) Budget

The proposed Bonded CFD Budget expenditure appropriations for FY 2025/2026 comprises six funds with a proposed budget of \$39,968,233 and 4 funds with a proposed budget of \$22,978,314 for FY 2026/2027. These funds fluctuate depending on the timing of collecting bond proceeds for the specific districts and reimbursement to developers for fees and infrastructure funded by the

respective CFD. The proposed budgets provided the anticipated revenue (additional CFD bond issuance(s)) and/or CFD reimbursement activity projected.

TABLE 14: SUMMARY BIENNIAL BONDED CFD BUDGET

Total Bonded CFDs Budget:		
Revenue	FY2025/2026 Proposed	FY2026/2027 Proposed
Special Revenue & Other Funds	\$988,455	\$679,955
Expenditures	FY2025/2026 Proposed	FY2026/2027 Proposed
Bonded CFDs Expenditures	\$39,968,233	\$22,978,314

Agency/Custodial Funds (Fiduciary)

Included as part of the proposed overall revenue and expenditure appropriations are applicable agency/custodial funds, which are classified as fiduciary funds. Specific to the proposed FY 2025/2026 and FY 2026/2027 budget, the Fiduciary Budget appropriations are primarily the revenues and expenditures for debt service on the bonded CFDs (Facilities). Revenues represent the annual special tax levies collected to pay all related expenditures for the CFDs outside of developer reimbursements, including administration costs, annual enrollment costs, and annual debt service payments. Summary information on the Fiduciary portion of the budget can be found in Tables in the appendix.

Projected Revenue (Citywide and fiduciary) across all funds is recommended at **\$151,812,990** and **\$159,980,155**, respectively for FY 2025/2026 and FY 2026/2027. A summary of the expenditures can be found in Table 15.

TABLE 15: FY 2025/2026 AND FY 2026/2027 TOTAL FUNDS SUMMARY

CITYWIDE BUDGET (From Table 7)	FY2023/2024 Actuals	FY2024/2025 Adopted	FY2024/2025 Adjusted	FY2025/2026 Proposed	FY2026/2027 Proposed
TOTAL CITYWIDE EXPENDITURES	\$137,671,562	\$168,510,757	\$254,685,027	\$182,341,820	\$171,512,945

Agency/Custodial Funds					
Fund/Function	FY2023/2024 Actuals	FY2024/2025 Adopted	FY2024/2025 Adjusted	FY2025/2026 Proposed	FY2026/2027 Proposed
Custodial Funds	918,062	2,246,846	3,262,856	4,507,542	4,628,662
Trust Fund	-	600,000	275,000	-	-
TOTAL FIDUCIARY EXPENDITURES	918,062	2,846,846	3,537,856	4,507,542	4,628,662

ALL FUNDS APPROPRIATIONS (EXPENDITURES)	\$138,589,625	\$171,357,603	\$258,222,883	\$186,849,362	\$176,141,607
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Fiscal Policy and Long-Term Financial Planning

As part of its ongoing financial management, the City's concerted approach to its spending plans has been that of fiscal prudence and thinking of the needs of the Menifee community now and in the future. Long-term financial planning essentially combines (1) financial forecasting with financial strategy to identify future challenges and opportunities, (2) fiscal imbalances and (3) strategies to secure financial sustainability. Therefore, in the City's budgetary oversight and implementation of

the City's vision to build a safe, thriving and premier place to live, work and call home, the City consciously budgets with key strategies, policies and tools in mind.

Reserve/Fund Balance Policy

City Council adopted an updated Reserve Fund Balance Policy to set aside funds for future emergencies in 2024. This Policy establishes a minimum 40% Fund balance reserve (broken down into the three categories listed within the table). Pursuant to the adopted Policy, the City plans to review the Policy every three years. The 40% reserve requirements for FY 2025/2026 and FY 2026/27, would be as follows:

TABLE 16: FY 2025/2026 AND FY 2026/2027 RESERVE REQUIREMENT SUMMARY

FY2025/26	FY2026/27
Operating Stabilization Reserve (15%) = \$14,873,571	Operating Stabilization Reserve (15%) = \$15,471,875
Economic Uncertainty Reserve (15%) = \$14,873,571	Economic Uncertainty Reserve (15%) = \$15,471,875
Unassigned Fund Balance (10%) = \$9,915,714	Unassigned Fund Balance (10%) = \$10,314,583
Total: \$39,662,856	Total: \$41,258,333

*Calculated based on Operating Expenditures less capital outlays.

Staff have reviewed and confirmed that the existing fund balance will accommodate the corresponding reserve fund requirement increases needed based on the proposed budgets. Additional financial positions/actions supported by the City Council include:

- **Unfunded Pension Liability:** The City proactively pays off any annual unfunded pension liability adjustments and currently does not have any outstanding unfunded pension liability balance.
- **Infrastructure Needs:** With an adopted five-year CIP Plan which identifies over 130 projects, estimated at nearly \$1,041,530,694, the City continues to strategize on funding the wide range of infrastructure needs, year by year.
- **Capital Asset Financing:** The City enters into long-term financing arrangements only in the case where funding may be necessary to purchase or lease a long-term strategic asset.

Gann Initiative Appropriation Limit

The City is required by state law to establish an appropriation limit each fiscal year. The appropriations limitation imposed by the state, otherwise known as the Gann Limit, creates a restriction on the amount of revenue that can be appropriated. Only those revenues received from proceeds of taxes are subject to this limit. Assessment on real property or persons, such as LLMDs, CFDs assessments etc., for special benefit conferred are not considered "proceeds of taxes" for purposes of the Gann Limit calculation. This means that only certain revenues from funds such as the General Fund, Quality of Life Fund, etc. are subject to the appropriation limit. Certain items, such as certain types of debt service costs, and qualified outlays are excluded from the Appropriations Subject to Limitation.

Utilizing the most current price factor and population data provided by the State of California, the City's FY 2025/2026 appropriation limit is estimated to be **\$69,513,185** (Attachment 5). The actual amount of appropriations contained in the Budget that is subject to the limit is **\$69,157,871**. The difference between the City's appropriation limit and the amount proposed to be appropriated that is subject to the limit is **\$355,314**. As a result, the City, in accordance with State law, is below its appropriation limit.

In its Gann Limit appropriation limit calculation for FY 2025/2026 the City has included the contribution of \$2,000,000, currently held as Assigned Fund balance, towards a committed Fund Balance of Public Facilities, as an eligible qualified capital contribution exclusion.

Pursuant to state law the following actions must be completed with respect to the Gann Limit:

TABLE 17: GANN LIMIT ADOPTION PROCEDURES & ANNUAL REVIEW

Category	Description	Status
Adoption Procedures	1. 15 days prior to establishing the Appropriations Limit, make available to public, documentation used in the determination of the Appropriation Limit.	Completed. Appropriations Limit for FY 25/26 made available June 1, 2025. FY 26/27 will be added as part of Mid-Cycle review in June 2026.
	2. By resolution of the governing board at a regularly scheduled meeting, establish its Appropriations Limit	Included as part of recommended actions to Budget Adoption (FY 25/26). FY 26/27 will be added as part of Mid-Cycle review in June 2026.
	3. Publish the Appropriations Limit and the Appropriations Subject to Limitation in the annual budget of the government entity.	Included as part of FY 25/26 & FY 26/27 Proposed Budget (staff report & budget book). FY 26/27 limit will be added as part of Mid-Cycle review in June 2026.
Annual Review	4. Provide the Appropriations Limit and Appropriations Subject to Limitation to the State Controller's Office, included with filing of the Annual Statement of Financial Transactions.	To be completed with corresponding year-end/ACFR/State Controller's Reports.

STRATEGIC PLAN OBJECTIVE

Regular City Business

FISCAL IMPACT

The Budget, when adopted, establishes a financial plan of expenditures based on the goals set by City Council. The FY 2025/2026 Operating Budget (General Fund & Quality of Life) revenues total \$99,943,763 and expenditures total \$99,372,143. The FY 2026/2027 Operating Budget (General Fund & Quality of Life) revenues total \$103,712,959 and expenditures total \$103,860,830, representing a balanced Operating Budget that serves the community and supports the City's strategic priorities. The proposed Citywide Budget totals \$145,544,823 in revenues and \$182,341,820 in expenditures for FY 2025/2026 and \$153,588,069 in revenues and \$171,512,945 in expenditures for FY 2026/2027. Citywide budget expenditures, in particular with respect to CIP and Bonded CFD related expenditures, reflect deliberate use of fund balance(s) for larger projects.

ATTACHMENTS

1. Supplemental Budget Summary Schedules
2. Resolution – Budget Adoption
3. Resolution – GANN Appropriation Limit
4. Exhibit A – GANN Appropriation Limit Calculation
5. Resolution – FY 2025-2026 Authorized Position Listing
6. Exhibit A – Authorized Position Listing
7. Resolution – Public Facility Committed Funds
8. Proposed Budget Book