



2024-25 Year-End General Fund Budget Results and Adoption of the 2026-27 Budget Calendar - Citywide

This report provides an overview of the 2024-25 General Fund (GF) budget results and information on future budget challenges. Overall, actual GF resources of \$2,158.3 million exceeded estimates by \$15.7 million representing a variance of only 0.7 percent. Total actual GF expenditures of \$1,936.5 million were \$4.0 million more than the estimate representing a variance of only 0.2 percent. As a result, the GF ending balance of \$221.8 million was approximately \$11.6 million more than estimated.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

The GF ending balance of \$221.8 million exceeded the estimate of \$210.2 million by \$11.6 million, primarily due to higher than anticipated revenues discussed further in this report. The fund balance carries forward to the current fiscal year and will be factored into the development of the 2026-27 GF Budget Status.

Two components make up the GF ending balance: resources and expenditures. GF 2024-25 actual resources were \$2,158.3 million and exceeded the estimate of \$2,142.6 million by \$15.7 million, or a variance of 0.7 percent. GF revenues were \$1,846.0 million, representing a variance to the revised revenue estimate of \$26.6 million or 1.5 percent. GF expenditures ended the fiscal year at \$1,936.5 million, and \$4.0 million more than the revised estimate of \$1,932.5 million. **Attachment A** provides graphical illustrations of the GF budget results and **Attachment B** provides a department by department comparison of 2024-25 GF operating expenditures to the revised estimate.

Over the coming months staff will develop revised resource and expenditure forecasts to prepare a 2026-27 GF Budget Status and Multi-Year Forecast scheduled to be presented to the City Council on February 24, 2026.

2024-25 General Fund Results

Resources

Total resources include:

- Beginning fund balance.
- Annual revenue.
- Recoveries of prior year encumbrances that were not spent.
- Interfund transfers to/from other City funds.

As mentioned above, GF resources were \$2,158.3 million for the 2024-25 fiscal year and include a beginning balance of \$293.5 million, revenues of \$1,846.0 million, recoveries of \$9.0 million, and net transfers out of \$9.8 million. Total GF resources exceeded estimates by \$15.7 million representing a variance of only 0.7 percent. The primary reason for the variance was higher than anticipated City sales tax and emergency transportation revenues.

Revenue collections for 2024-25 totaled \$1,846.0 million representing a variance to the revised estimate of 1.5 percent and growth over the prior year of (3.1) percent. The primary reason for the negative revenue growth compared to 2023-24 is due to actions by the State that eliminated residential rental sales taxes effective January 2025 and implementation of the flat income tax of 2.5 percent which lowered ongoing state shared income tax revenues distributed to cities and towns. Budget and Research Department (BRD) staff work diligently to analyze revenue data and economic conditions throughout the fiscal year. Sales tax is forecasted using our econometric model developed in partnership with the University of Arizona's Economic and Business Research Center. Additionally, staff closely follow information provided by our trusted economic sources, which are taken into account to project revenues. It is for these reasons that year after year, revenues end the fiscal year close to what was estimated. Staff has taken a cautious approach to estimating revenue and will continue to do so in order to ensure projections are not too aggressive. The 2024-25 Year End GF Revenue Report is available online at phoenix.gov/budget and provides further details on revenue collections.

Expenditures

Total GF expenditures were estimated at \$1,932.5 million, and actual expenditures were \$1,936.5 million, or \$4.0 million (0.2 percent) more than estimated. The variance is primarily due to slightly higher than estimated costs for personnel services including overtime. The City continues to experience significantly higher operating costs for employee wages and benefits including health insurance and Public Safety Pension, along with increased costs for various commodities and contractuals. The City Council

approved Classification and Compensation Study, which was a necessary investment in employees to ensure the City is competitive and can attract and retain a top quality workforce to serve residents, also has increased operating expenditures. Additionally, while inflation has moderated it continues to impact all City departments. **Attachment B** provides a department by department comparison of 2024-25 GF operating expenditures to the revised estimate.

Looking Forward

The 2024-25 GF ending fund balance variance of \$11.6 million will carry forward and remain in "reserve" until the budget status for 2026-27 is developed over the next several months. The higher than anticipated ending fund balance is good news and will be beneficial as we move forward. It is recommended by the City Manager upon development of the 2026-27 GF Budget Status, and dependent upon available resources, to allocate \$1.6 million of the one-time year-end variance to the Housing Trust Fund to further invest in affordable housing initiatives. This would bring the total amount in the Housing Trust Fund to \$5.2 million. Additional transfers to the trust from American Rescue Plan Act (ARPA) interest earnings will continue as previously approved by City Council.

Staff is underway with the annual 3+9 technical review process, to evaluate spending at the line item level. This deep dive into department budgets will enable staff to identify savings and establish realistic estimates necessary to continue existing program and service levels. The process is followed by central expenditure review analysis in December, which involves estimating Citywide costs for various commodities such as fuel and electricity and personnel services line items, particularly pension. Revenue estimates will also be updated during this time including City sales tax and state shared revenues. These budget processes are critical steps in development of the GF Budget Status to be presented to City Council in February 2026.

The City continues to face many fiscal challenges and competing priorities described further in this report which will require strategic and difficult decisions to ensure the budget remains sustainable and balanced.

Other Budget Challenges, Priorities and Unfunded Needs

Impacts from the Federal Administration and the One Big Beautiful Bill (OBBB) Act

Staff are closely following impacts to the City from actions by the federal administration and OBBB Act signed into law on July 4, 2025 including potential reductions to grant funded programs and estimated impacts from the Joint Legislative Budget Committee

(JLBC) to state shared income tax revenues. Cities and towns share in state income tax revenues based on relative population share and revenues are based on actual collections from two years prior and allocated entirely to the GF. State of Arizona conforms to federal tax law as Arizona tax returns use federal adjusted gross income as the starting point from which to calculate the amount of state individual and corporate income tax owed. To the extent federal law changes would affect the calculation of federal adjusted gross income, Arizona and state shared revenues to the City would potentially be affected by the OBBB Act. Most of the federal tax law changes are effective for Tax Year 2025 income tax returns that would begin to be filed in the spring of 2026. The JLBC has published preliminary estimates of the impacts of the changes to federal tax provisions including deductions related to tip and overtime income and full expensing of business property and depreciation allowance for certain non-residential production property. The estimated cumulative impact to GF state shared income tax revenues beginning in 2027-28 through 2029-30 could be a reduction of \$56.7 million. Staff will obtain updated information from the JLBC in January 2026 and will include potential impacts to state shared income tax revenue in the 2026-27 GF Status and Multi-Year Forecast report.

Staff have also indicated grant funding for the Streets Transportation Department and Office of Sustainability will not be awarded and has either been rescinded or paused indefinitely. This includes a \$12.9 million grant from the U.S. Department of Transportation (DOT) for a low carbon transportation materials grant and a \$15 million U.S. DOT Federal Highway Administration grant for charging and fueling infrastructure awarded in January 2025. Additionally, the Public Transit Department has indicated delays in grant application reviews, projects and reimbursement requests due to the reductions in staffing at the Federal Transit Administration.

The BRD and City departments are closely monitoring impacts from federal administration actions and the OBBB Act and will update City leadership as more information becomes available.

Employee Compensation

A top priority of the City is attracting and retaining a high quality workforce to deliver programs and services to the community. It is essential employees are valued and rewarded for the work they do every day for residents and visitors alike. The City Council voted unanimously in May 2023 for the City of Phoenix to move forward with the implementation of a multi-year classification and compensation (C&C) study. The results from the study moved the City closer to its goal of becoming Arizona's premier public sector employer. The City began the C&C study to not only ensure job classifications and pay structures are aligned with the local municipal market, but to also make the City's pay ranges competitive in the local market. Setting those pay

ranges demonstrates the value the City places on its employees and the community they serve. Current labor contracts expire June 2026, and the next labor negotiations process begins in December 2025.

Homelessness

The City Council and Office of Homeless Solutions (OHS) have made investments and progress in addressing homelessness over the last three years. Investments in the infrastructure of the region's homeless services system have been monumental. As we move out of pandemic-era funding, OHS has additional unfunded needs necessary to continue its momentum and ensure the transformational projects and services implemented are able to continue.

Additional resources will be needed in 2026-27 for homelessness estimated at \$22 million due to the expiration of American Rescue Plan Act funding. Funding is necessary to maintain operational support at several sites the City opened over the last three years in an effort to increase shelter capacity in our homeless services systems. Sites that will require operational support include the Safe Outdoor Space, Phoenix Navigation Center, Washington Shelter, Rio Fresco and North Mountain Healing Center. Operational funding for the Key Campus and Heat Relief operations are also ongoing needs. Staff will continue to seek additional external funding for these programs, and evaluate other City funding sources, which if received would offset the need for a portion of the GF request.

Ongoing Operating Costs for the 2023 General Obligation Bond Program

Phoenix voters approved a \$500 million General Obligation (G.O.) Bond Program in November 2023 that will provide the resources necessary to build, rehabilitate, expand and enhance City facilities. The program includes resources for fire stations, parks, regional pools and splash pads, libraries, community and senior centers, police stations, affordable housing, arts and culture facilities, streets and storm drains. Additional GF resources will be required in 2026-27 for ongoing operating and maintenance costs for these projects. Staff is in the process of updating ongoing operating cost estimates with departments but based on information provided last fiscal year estimates range from \$11.7 million in 2026-27; \$23.4 million in 2027-28; and \$32.7 million annually starting in 2028-29. Departments are seeking alternative sources of funding where possible including Fire SAFER grants to reduce the amount needed from the GF.

Other budget challenges beyond the aforementioned include:

- Economic uncertainty and volatility from tariffs, trade policy, federal reserve actions, geopolitical concerns, housing affordability, and overall consumer confidence.

- Rising employee benefit costs, particularly for Public Safety pension (**Attachment C**) and health care.
- Vehicle replacements for City departments, increased costs due to inflation.
- Major facility maintenance needs and rising construction costs.
- Increased funding needs for critical IT infrastructure and systems.
- Challenges estimating revenue collections in the current economic and global climate.
- Demands from residents for expanded or new GF services.
- Potential reduction in state and federal funding or new unfunded state or federal mandates, including environmental requirements and attempts by the legislature to further reduce revenues.

The items above add significant pressure and uncertainty to the GF operating budget and create challenges estimating revenues and expenditures. Staff will be working over the next several months to study data trends, gather updated economic information, and complete our necessary budget development steps in order to construct the GF 2026-27 Budget Status and Multi-Year Forecast.

It is important to mention that Phoenix's public safety pension costs will continue to increase for the foreseeable future based on information staff received from the Public Safety Personnel Retirement System (PSPRS) actuary. Updated pension rates from the June 30, 2025, actuarial valuation will be provided to the City in December and will be used to develop the GF 2026-27 Budget Status and Multi-Year Forecast.

Attachment C includes historical and forecasted GF public safety pension costs based on the most recent estimates from the PSPRS actuary.

2026-27 Budget Calendar

The City Charter and Code include legal deadlines and actions that must be followed in adopting the budget. In cases where the deadlines conflict, the City meets the earlier of the two dates or a date designated by the City Council. Adoption of the budget calendar ensures compliance with the City Charter and Code, and also allows staff to properly plan the budget development process and all legally required advertising.

Staff requests City Council approval of the 2026-27 budget calendar reflected in **Attachment D**.

Responsible Department

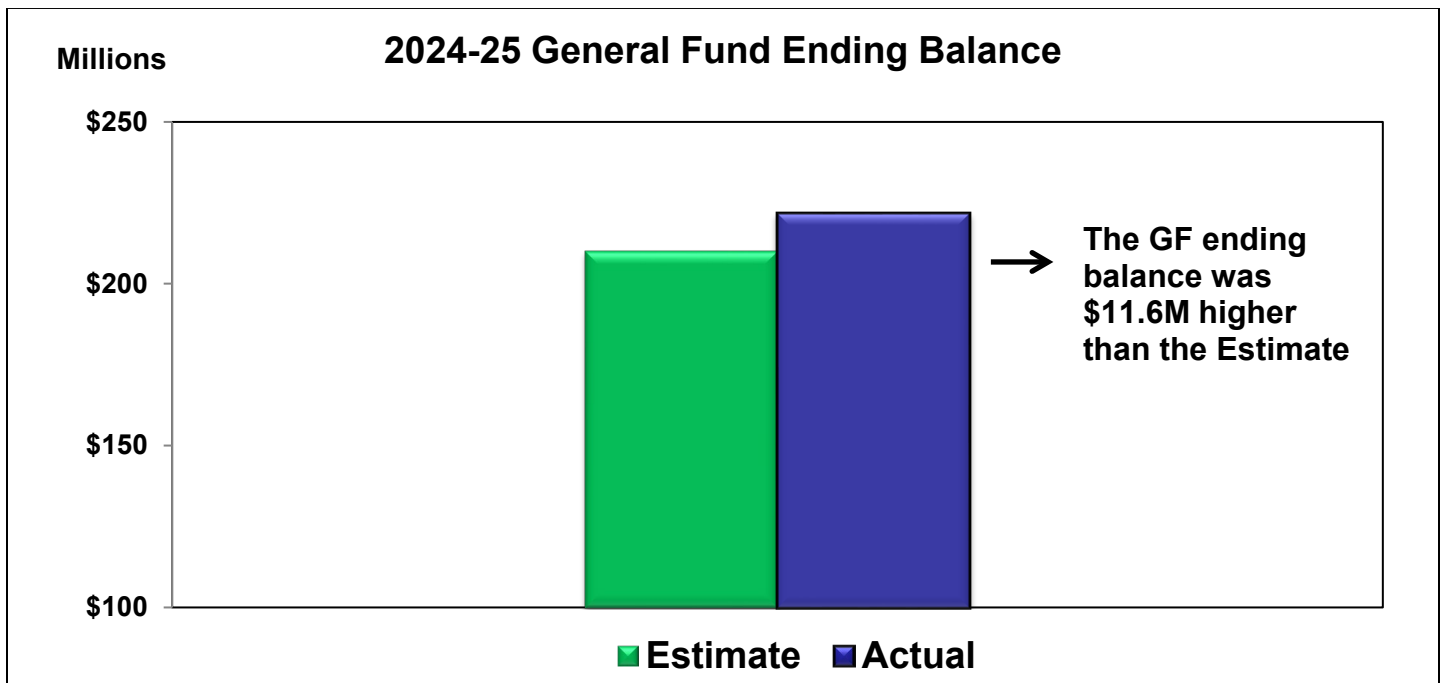
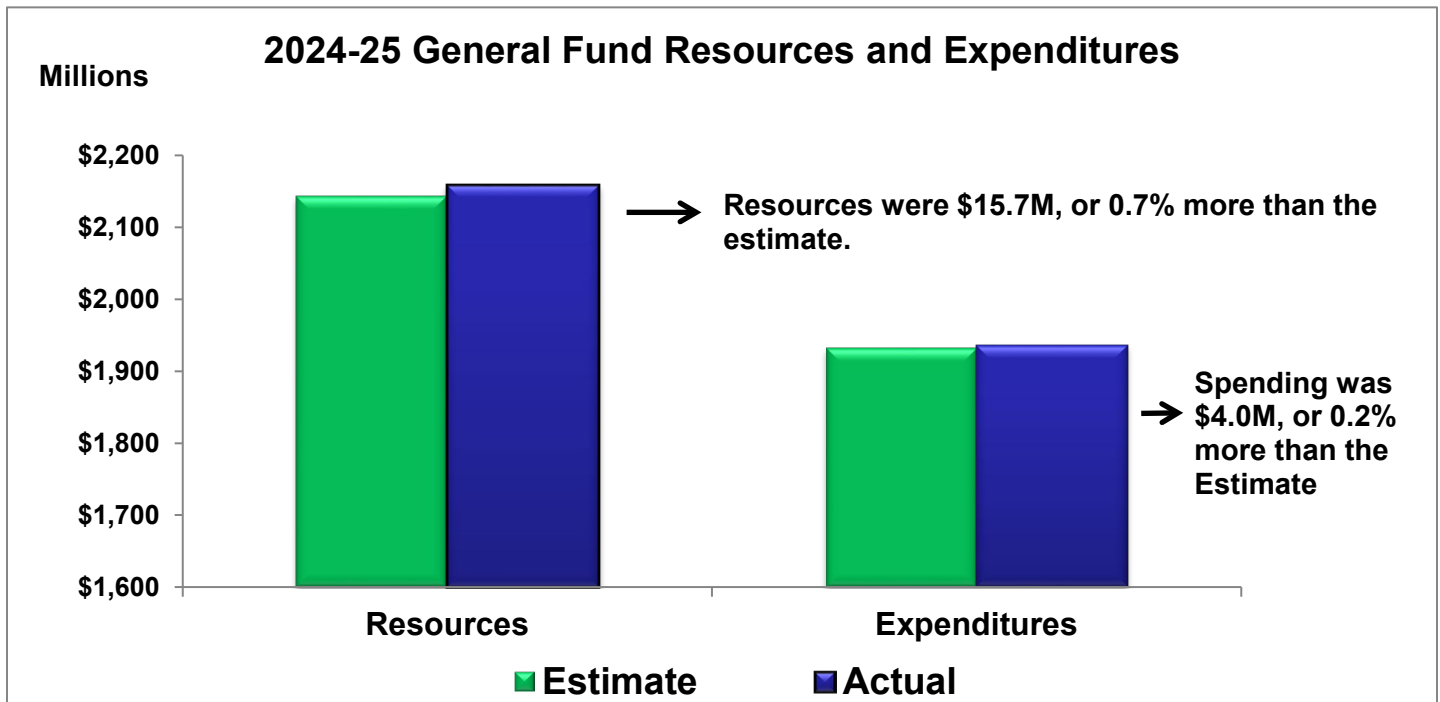
This item is submitted by City Manager Jeffrey Barton, Deputy City Manager Amber Williamson and the Budget and Research Department.

ATTACHMENT A

2024-25 General Fund Budget Results

Total 2024-25 General Fund (GF) resources were \$2,158.3 million and \$15.7 million more than estimated representing a variance of 0.7%. GF spending was \$1,936.5 million and \$4.0 million more than the estimate representing a variance of 0.2%. As a result, the year-end fund balance was \$221.8 million and \$11.6 million more than estimated.

	Actual	Estimate	Variance Amount	Variance Percent
GF Resources	2,158.3	2,142.6	15.7	0.7%
GF Revenues	1,846.0	1,819.3	26.6	1.5%
GF Expenditures	1,936.5	1,932.5	4.0	0.2%
GF Ending Balance	221.8	210.2	11.6	5.5%



ATTACHMENT B
2024-25 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES
REVISED ESTIMATE TO PRE-AUDIT ACTUALS
(In Thousands of Dollars)

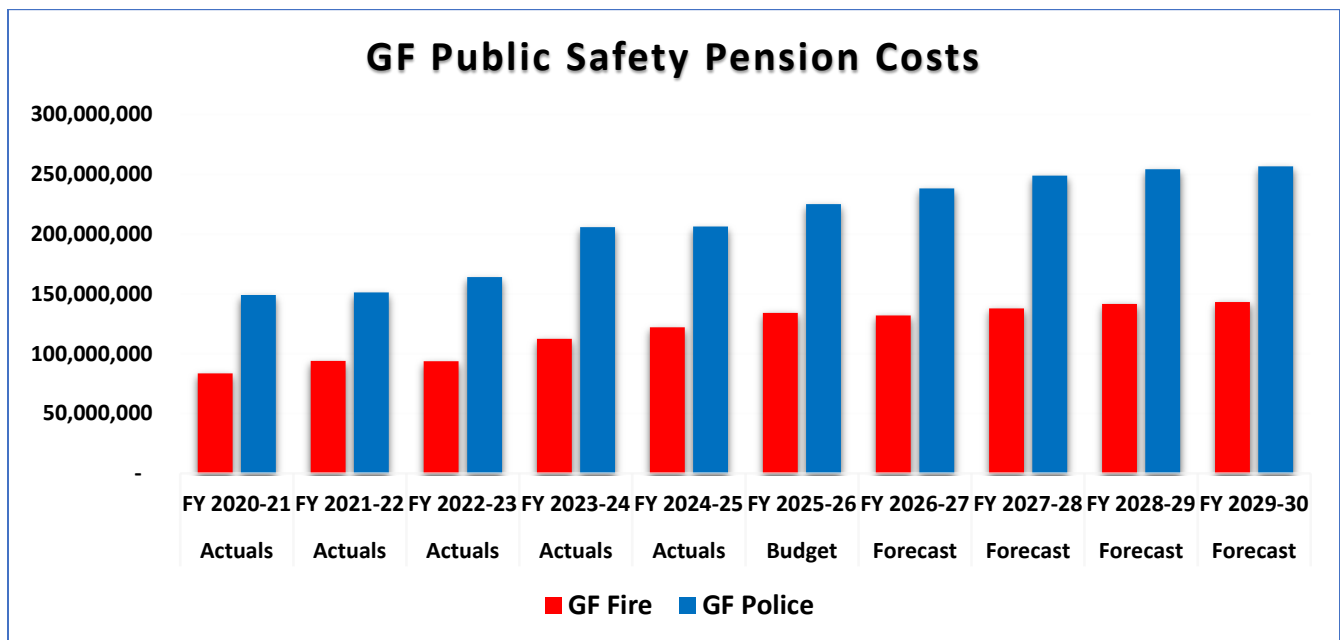
Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
General Government					
Mayor	\$ 2,749	\$ 2,597	\$ (152)	-5.5%	
City Council	7,038	6,725	(313)	-4.4%	
City Manager	11,261	9,588	(1,673)	-14.9%	
Government Relations	1,775	1,749	(26)	-1.5%	
Communications Office	5,400	5,211	(189)	-3.5%	
City Auditor	3,633	3,358	(275)	-7.6%	
Equal Opportunity	3,677	3,374	(303)	-8.2%	
Human Resources	30,142	28,513	(1,629)	-5.4%	
Phoenix Employment Relations Board	129	102	(27)	-20.9%	
Retirement Systems	-	1	1	+100.0%	
Law	11,784	10,934	(850)	-7.2%	
Information Technology	103,533	101,142	(2,391)	-2.3%	
City Clerk and Elections	6,218	5,055	(1,163)	-18.7%	
Finance	40,312	36,925	(3,387)	-8.4%	
Budget and Research	4,490	4,316	(174)	-3.9%	
Total General Government	\$ 232,141	\$ 219,590	\$ (12,551)	-5.4%	
Public Safety					
Police	\$ 768,095	\$ 777,579	\$ 9,484	1.2%	
Fire	475,284	473,506	(1,778)	-0.4%	
Total Public Safety	\$ 1,243,379	\$ 1,251,085	\$ 7,706	0.6%	
Criminal Justice					
Municipal Court	\$ 39,961	\$ 38,759	\$ (1,202)	-3.0%	
City Prosecutor	21,583	20,558	(1,025)	-4.7%	
Public Defender	6,896	6,806	(90)	-1.3%	
Total Criminal Justice	\$ 68,440	\$ 66,123	\$ (2,317)	-3.4%	
Transportation					
Street Transportation	\$ 25,248	\$ 24,687	\$ (561)	-2.2%	
Total Transportation	\$ 25,248	\$ 24,687	\$ (561)	-2.2%	

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(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance	
			Amount	Percentage
Community Development				
Planning and Development Services	\$ 7,083	\$ 6,796	\$ (287)	-4.1%
Housing	2,048	1,943	(105)	-5.1%
Community and Economic Development	10,181	9,816	(365)	-3.6%
Neighborhood Services	21,286	20,436	(850)	-4.0%
Total Community Development	\$ 40,598	\$ 38,991	\$ (1,607)	-4.0%
Community Enrichment				
Parks and Recreation	\$ 133,302	\$ 129,926	\$ (3,376)	-2.5%
Library	50,640	50,583	(57)	-0.1%
Phoenix Convention Center	4,150	3,650	(500)	-12.0%
Human Services	38,795	37,528	(1,267)	-3.3%
Office of Arts and Culture	8,809	8,377	(432)	-4.9%
Total Community Enrichment	\$ 235,696	\$ 230,064	\$ (5,632)	-2.4%
Environmental Services				
Public Works	\$ 34,201	\$ 31,202	\$ (2,999)	-8.8%
Environmental Programs	1,776	1,664	(112)	-6.3%
Office of Sustainability	662	595	(67)	-10.1%
Total Environmental Services	\$ 36,639	\$ 33,461	\$ (3,178)	-8.7%
Non-Departmental Operating				
Unassigned Vacancy Savings/Pension True-up to Budget	\$ (191)	\$ 22,239	\$ 22,430	+100.0%
Total Non-Departmental Operating	\$ (191)	\$ 22,239	\$ 22,430	+100.0%
GRAND TOTAL	\$ 1,881,950	\$ 1,886,240	\$ 4,290	0.2%

ATTACHMENT C

The below chart illustrates the rise in General Fund (GF) costs for public safety pension. The forecast for fiscal years 2026-27 through 2029-30 is based on information from the Public Safety Personnel Retirement System (PSPRS) Actuary based on the valuation dated June 30, 2024, and included in the most recent GF Multi-Year Forecast presented to City Council on February 25, 2025. Projected amounts account for changes made by the PSPRS Board to lower the payroll growth assumption from 2.0% to 1.5%, which causes upward pressure on employer contribution rates. Actual amounts may differ from the forecast. The forecast will be updated based on the June 30, 2025 valuation to be issued in December 2025 and will be included in the 2026-27 GF Budget Status and Multi-Year Forecast scheduled to be presented to City Council on February 24, 2026.



ATTACHMENT D

2026-27 BUDGET ADOPTION CALENDAR

Date	Budget Items
November 2025	Inventory of Programs
February 24, 2026	Preliminary 2026-27 Budget Status and Multi-Year General Fund Forecast
March 24, 2026	City Manager's Trial Budget and Preliminary CIP
April 2026	Community Budget Hearings
May 5, 2026	City Manager's Proposed Budget
May 19, 2026	Council Budget Decision
June 3, 2026	2026-27 Tentative Budget Ordinance Adoption
June 17, 2026	2026-27 Funding Plan and Final Budget Ordinance Adoption
July 1, 2026	2026-27 Property Tax Levy Ordinance Adoption