



2025-26 Year-End General Fund Budget Results and Adoption of the 2027-28 Budget Calendar - Citywide

This report provides an overview of the 2025-26 General Fund (GF) budget results and information on future budget challenges. Overall, actual GF resources of \$2,208.4 million exceeded estimates by \$17.7 million, representing a variance of just 0.8 percent. Total actual GF expenditures of \$1,942 million were \$10.5 million more than the estimate, representing a variance of just 0.5 percent. As a result, the GF ending balance of \$266.4 million was approximately \$7.2 million more than estimated.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

The GF ending balance of \$266.4 million exceeded the estimate of \$259.2 million by \$7.2 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 2027-28 GF Budget Status. While this is good news, a range of budgetary challenges exist for 2027-28 and beyond.

The GF ending balance reflects two components: resources and expenditures. GF 2025-26 actual resources were \$2,208.4 million and exceeded the estimate of \$2,190.7 million by \$17.7 million, a variance of just 0.8 percent. GF revenues were \$1,937.6 million, representing a variance to the revised revenue estimate of \$14 million or just 0.7 percent. GF expenditures were \$1,942 million, or \$10.5 million more than the revised estimate of \$1,931.5 million for a variance of just 0.5 percent. These narrow variances reflect staff's continued efforts to develop accurate revenue forecasts and to control costs. **Attachment A** provides graphical illustrations of the GF budget results. **Attachment B** provides a department by department comparison of 2025-26 GF operating expenditures to the revised estimate.

Over the coming months, staff will develop revised resource and expenditure forecasts to prepare a 2027-28 GF Budget Status and Multi-Year Forecast, scheduled to be presented to the City Council on February 23, 2027.

2025-26 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 \$2,208.4 million for the 2025-26 fiscal year and include a beginning balance of \$221.8 million, revenues of \$1,937.6 million, recoveries of \$10.2 million, and net transfers in of \$38.8 million. Total GF resources exceeded estimates by \$17.7 million, a variance of only 0.8 percent. The primary reason for the variance was higher than anticipated City and state-shared sales tax collections, as well as slightly higher than anticipated recoveries.

Revenue collections for 2025-26 totaled \$1,937.6 million, representing a variance to the revised estimate of 0.7 percent and growth over the prior year of 5 percent. The revenue growth compared to 2024-25 is primarily due to higher-than-expected city and state sales tax collections, which include the impact of the 0.5 percentage point increase in the City Transaction Privilege Tax (TPT) and Use Tax rates. 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 when projecting 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 to ensure projections are not too aggressive. The 2025-26 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 \$1,931.5 million, and actual expenditures were \$1,942 million, or \$10.5 million (0.5 percent) more than estimated. The variance primarily reflects slightly higher than estimated costs for personal services. This is mostly attributable to slightly lower than forecasted salary savings. The City continues to experience overall higher costs for employee wages and benefits, particularly 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, has also increased operating expenditures. Additionally, the City continues to contend with inflationary pressures. **Attachment B** provides a department by department comparison of 2025-26 GF operating expenditures to the revised estimate.

Looking Forward

Staff has already begun the annual 3+9 technical review process to evaluate spending at the line item level. This deep dive into department budgets enables staff to identify savings and establish realistic estimates to continue existing service levels. This process will be followed by central expenditure reviews in December, in which Citywide costs are estimated for various commodities, such as fuel and electricity, and personal services line items, such as 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 the development of the GF Budget Status and Multi-Year Forecast, set to be presented to City Council in February 2027.

The 2025-26 GF ending fund balance variance of \$7.2 million will carry forward and remain in "reserve" until the budget status for 2027-28 is developed over the next several months. The higher than anticipated ending fund balance is good news and a helpful starting point in the budget development process. However, the City continues to face challenges that will require strategic and difficult decisions to ensure the budget remains balanced and sustainable. These challenges include economic uncertainty, potential impacts from federal and/or state legislation, operating cost pressures, and needed resources for City Council and community priorities, as specified below.

Significant budget challenges include:

- The continued impact of the Class and Comp Study and negotiated labor increases;
- Rising employee benefit costs, particularly for public safety pension and health care;
- Deferred maintenance and aging infrastructure, requiring additional investment in vehicles, equipment, and City facilities;
- New ongoing operating costs from the voter-approved 2023 General Obligation Bond Program, which were estimated in last year's Multi-Year Forecast at \$8.7 million in ongoing costs in 2027-28 and \$19.7 million in ongoing costs in 2028-29;
- Challenging revenue projections in an environment of state and federal policy uncertainty, higher interest rates, and potentially slower economic growth; and
- Demands from residents for new or expanded GF services

The items above add significant pressure and uncertainty to the GF 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 necessary budget development steps to construct the GF 2027-28 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 the most recent information received from the Public Safety Personnel Retirement System (PSPRS) actuary. Updated pension rates from the June 30, 2026, actuarial valuation will be provided to the City in December and used to develop the GF 2027-28 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.

2027-28 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 2027-28 budget calendar reflected in **Attachment D**.

Responsible Department

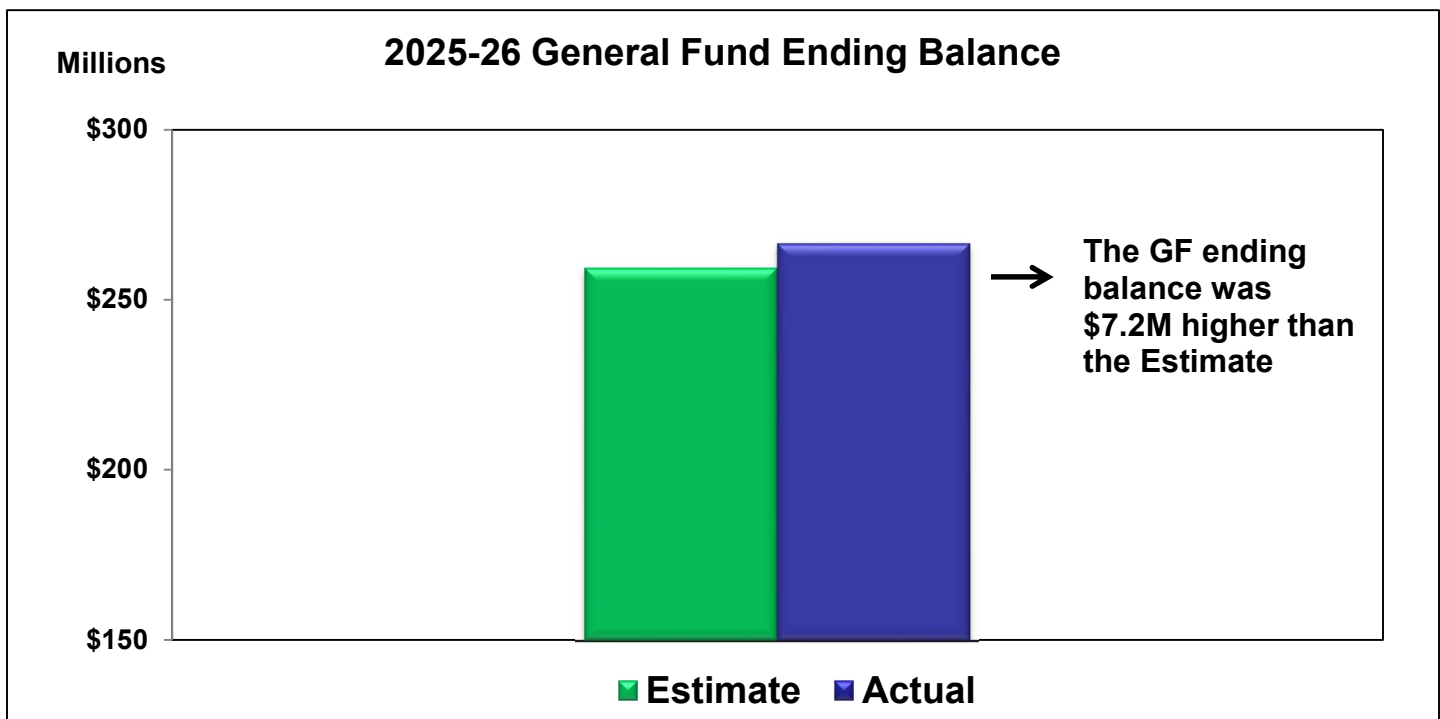
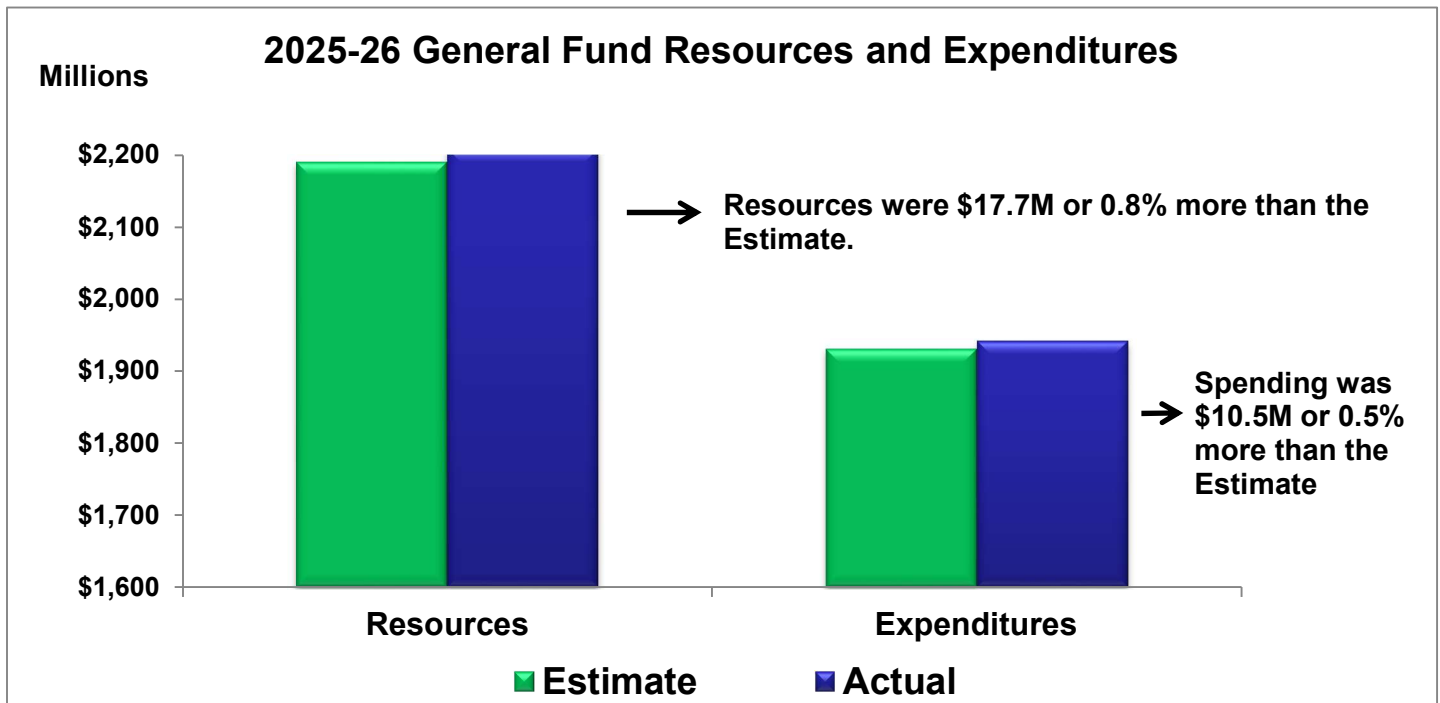
This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

ATTACHMENT A

2025-26 General Fund Budget Results

Total 2025-26 General Fund (GF) resources were \$2,208.4 million and \$17.7 million more than estimated, representing a variance of 0.8%. GF spending was \$1,942.0 million and \$10.5 million more than estimated, representing a variance of 0.5%. As a result, the year-end fund balance was \$266.4 million and \$7.2 million more than estimated.

	Actual	Estimate	Variance Amount	Variance Percent
GF Resources	2,208.4	2,190.7	17.7	0.8%
GF Revenues	1,937.6	1,923.6	14.0	0.7%
GF Expenditures	1,942.0	1,931.5	10.5	0.5%
GF Ending Balance	266.4	259.2	7.2	2.8%



ATTACHMENT B
2025-26 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES
REVISED ESTIMATE TO PRE-AUDIT ACTUALS
(In Thousands of Dollars)

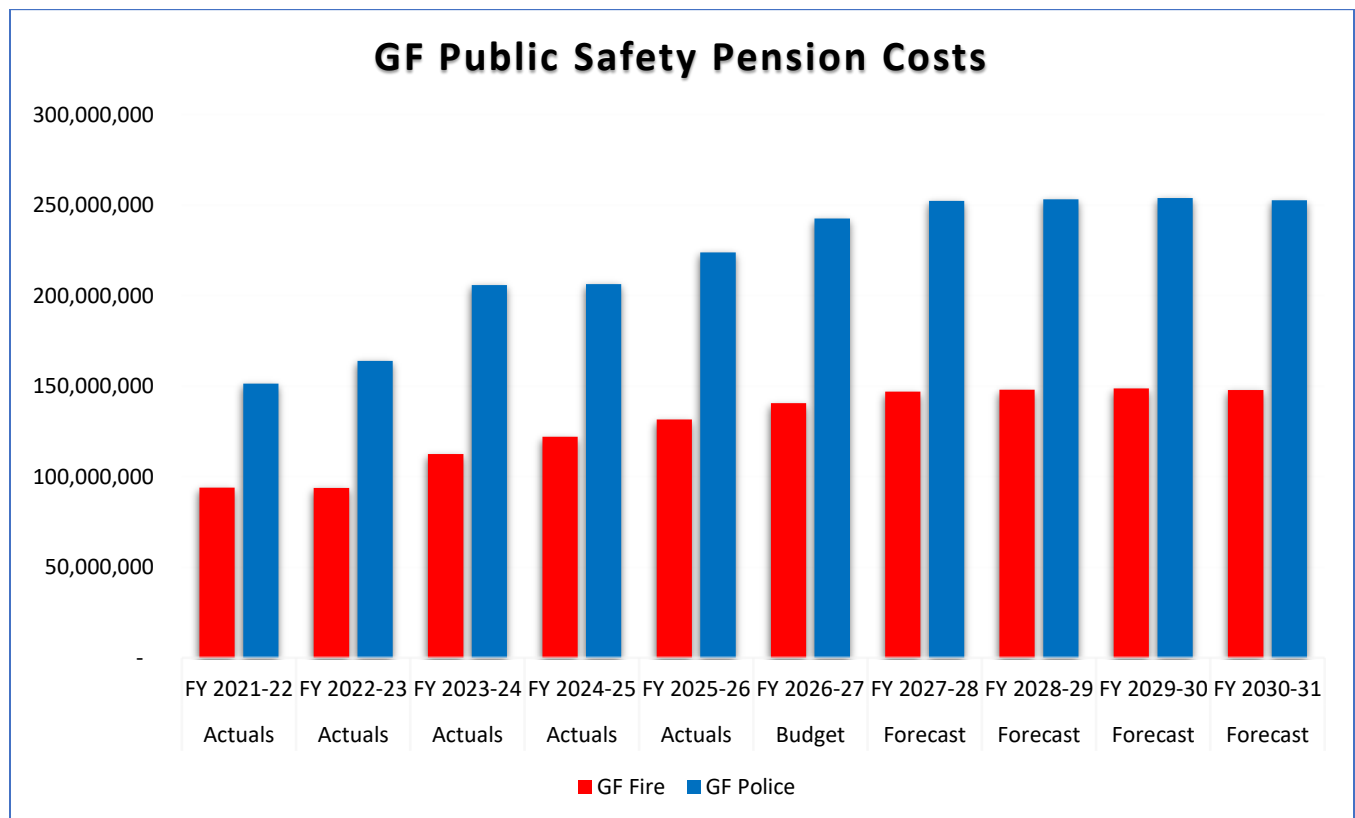
Program	Estimate	Pre-Audit Actuals	Variance	
			Amount	Percentage
General Government				
Mayor	\$ 2,727	\$ 2,689	\$ (38)	-1.4%
City Council	7,136	6,968	(168)	-2.4%
City Manager	12,478	10,528	(1,950)	-15.6%
Government Relations	1,810	1,743	(67)	-3.7%
Communications Office	5,559	5,361	(198)	-3.6%
City Auditor	3,695	3,574	(121)	-3.3%
Equal Opportunity	3,701	3,308	(393)	-10.6%
Human Resources	29,619	27,325	(2,294)	-7.7%
Phoenix Employment Relations Board	133	124	(9)	-6.8%
Law	12,677	10,744	(1,933)	-15.2%
Information Technology	99,961	96,033	(3,928)	-3.9%
City Clerk and Elections	5,792	5,339	(453)	-7.8%
Finance	30,499	29,157	(1,342)	-4.4%
Budget and Research	4,182	4,006	(176)	-4.2%
Total General Government	\$ 219,969	\$ 206,899	\$ (13,070)	-5.9%
Public Safety				
Police	\$ 799,627	\$ 791,603	\$ (8,024)	-1.0%
Fire	496,839	489,259	(7,580)	-1.5%
Total Public Safety	\$ 1,296,466	\$ 1,280,862	\$ (15,604)	-1.2%
Criminal Justice				
Municipal Court	\$ 39,237	\$ 37,842	\$ (1,395)	-3.6%
City Prosecutor	22,091	21,040	(1,051)	-4.8%
Public Defender	6,918	6,850	(68)	-1.0%
Total Criminal Justice	\$ 68,246	\$ 65,732	\$ (2,514)	-3.7%
Transportation				
Street Transportation	\$ 1,902	\$ 1,227	\$ (675)	-35.5%
Total Transportation	\$ 1,902	\$ 1,227	\$ (675)	-35.5%

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Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
Community Development					
Planning and Development Services	\$ 7,072	\$ 6,543	\$ (529)	-7.5%	
Housing	2,669	2,567	(102)	-3.8%	
Community and Economic Development	10,911	9,865	(1,046)	-9.6%	
Neighborhood Services	19,689	19,067	(622)	-3.2%	
Total Community Development	\$ 40,341	\$ 38,042	\$ (2,299)	-5.7%	
Community Enrichment					
Parks and Recreation	\$ 132,991	\$ 129,707	\$ (3,284)	-2.5%	
Library	51,045	50,960	(85)	-0.2%	
Phoenix Convention Center	3,881	3,552	(329)	-8.5%	
Human Services	39,058	37,214	(1,844)	-4.7%	
Office of Arts and Culture	8,596	8,544	(52)	-0.6%	
Total Community Enrichment	\$ 235,571	\$ 229,977	\$ (5,594)	-2.4%	
Environmental Services					
Public Works	\$ 33,653	\$ 29,816	\$ (3,837)	-11.4%	
Environmental Programs	2,330	2,244	(86)	-3.7%	
Office of Sustainability	724	714	(10)	-1.4%	
Total Environmental Services	\$ 36,707	\$ 32,774	\$ (3,933)	-10.7%	
Non-Departmental Operating					
Unassigned Vacancy Savings/Pension True-up to Budget	\$ (14,006)	\$ 40,604	\$ 54,610	+100.0%	
Total Non-Departmental Operating	\$ (14,006)	\$ 40,604	\$ 54,610	+100.0%	
GRAND TOTAL	\$ 1,885,196	\$ 1,896,117	\$ 10,921	0.6%	

ATTACHMENT C

The below chart illustrates the rise in General Fund (GF) costs for public safety pension. The forecast for fiscal years 2027-28 through 2030-31 is based on information from the Public Safety Personnel Retirement System (PSPRS) Actuary based on the valuation dated June 30, 2025, and included in the most recent GF Multi-Year Forecast presented to City Council on February 24, 2026. Projected amounts account for changes made by the PSPRS Board to lower the payroll growth assumption from 1.5% to 0.75%, 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, 2026 valuation to be issued in December 2026 and will be included in the 2027-28 GF Budget Status and Multi-Year Forecast scheduled to be presented to City Council on February 23, 2027.



ATTACHMENT D

2027-28 BUDGET ADOPTION CALENDAR

Date	Budget Items
November 2026	Inventory of Programs
February 23, 2027	Preliminary 2027-28 Budget Status and Multi-Year General Fund Forecast
March 23, 2027	City Manager's Trial Budget and Preliminary CIP
April 2027	Community Budget Hearings
May 4, 2027	City Manager's Proposed Budget
May 18, 2027	Council Budget Decision
June 2, 2027	2027-28 Tentative Budget Ordinance Adoption
June 16, 2027	2027-28 Funding Plan and Final Budget Ordinance Adoption
July 1, 2027	2027-28 Property Tax Levy Ordinance Adoption