

City of Phoenix

*Meeting Location:
City Council Chambers
200 W. Jefferson St.
Phoenix, Arizona 85003*



City of Phoenix

Agenda

Tuesday, February 25, 2025

2:30 PM

phoenix.gov

City Council Policy Session

If viewing this packet electronically in PDF, open and use bookmarks to navigate easily from one item to another.

OPTIONS TO ACCESS THIS MEETING

Virtual Request to speak at a meeting:

- Register online by visiting the City Council Meetings page on phoenix.gov at least 2 hours prior to the start of this meeting. Then, click on this link at the time of the meeting and join the Webex to speak:

<https://phoenixcitycouncil.webex.com/phoenixcitycouncil/onstage/g.php?MTID=e76b5e2498fa5e058da2f4001abfcf8c4>

- Register via telephone at 602-262-6001 at least 2 hours prior to the start of this meeting, noting the item number. Then, use the Call-in phone number and Meeting ID listed below at the time of the meeting to call-in and speak.

In-Person Requests to speak at a meeting:

- Register in person at a kiosk located at the City Council Chambers, 200 W. Jefferson St., Phoenix, Arizona, 85003. Arrive 1 hour prior to the start of this meeting. Depending on seating availability, residents will attend and speak from the Upper Chambers, Lower Chambers or City Hall location.

- Individuals should arrive early, 1 hour prior to the start of the meeting to submit an in-person request to speak before the item is called. After the item is called, requests to speak for that item will not be accepted.

At the time of the meeting:

- Watch the meeting live streamed on phoenix.gov or Phoenix Channel 11 on Cox Cable, or using the Webex link provided above.

- Call-in to listen to the meeting. Dial 602-666-0783 and Enter Meeting ID 2553 592 2481# (for English) or 2558 095 7900# (for Spanish). Press # again when prompted for attendee ID.

- Watch the meeting in-person from the Upper Chambers, Lower Chambers or City Hall depending on seating availability.

- Members of the public may attend this meeting in person. Physical access to the meeting location will be available starting 1 hour prior to the meeting.

Para nuestros residentes de habla hispana:

- Para registrarse para hablar en español, llame al 602-262-6001 al menos 2 horas antes del inicio de esta reunión e indique el número del tema. El día de la reunión, llame al 602-666-0783 e ingrese el número de identificación de la reunión 2558 095 7900#. El intérprete le indicará cuando sea su turno de hablar.

- Para solamente escuchar la reunión en español, llame a este mismo número el día de la reunión (602-666-0783; ingrese el número de identificación de la reunión 2558 095 7900#). Se proporciona interpretación simultánea para nuestros residentes durante todas las reuniones.

- Para asistir a la reunión en persona, vaya a las Cámaras del Concejo Municipal de Phoenix ubicadas en 200 W. Jefferson Street, Phoenix, AZ 85003. Llegue 1 hora antes del comienzo de la reunión. Si desea hablar, regístrese electrónicamente en uno de los quioscos, antes de que comience el tema. Una vez que se comience a discutir el tema, no se aceptarán nuevas solicitudes para hablar. Dependiendo de cuantos asientos haya disponibles, usted podría ser sentado en la parte superior de las cámaras, en el piso de abajo de las cámaras, o en el edificio municipal.

- Miembros del público pueden asistir a esta reunión en persona. El acceso físico al lugar de la reunión estará disponible comenzando una hora antes de la reunión.

CALL TO ORDER

COUNCIL INFORMATION AND FOLLOW-UP REQUESTS

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

CONSENT ACTION

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There is no Consent Agenda for this meeting.

CALL FOR AN EXECUTIVE SESSION

A vote may be held to call an Executive Session for a future date.

REPORTS AND BUDGET UPDATES BY THE CITY MANAGER

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

INFORMATION AND DISCUSSION (ITEMS 1-2)

1 General Fund 2025-26 Preliminary Budget Status and Multi-Year Forecast - Citywide

Page 6

This report transmits the preliminary status for the General Fund (GF) Fiscal Year (FY) 2025-26 budget and a multi-year GF forecast through FY 2027-28 (**Attachment A**). The multi-year forecast is being presented to the Mayor and City Council as an essential tool in long-term budget discussions and decision making.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Responsible Department

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.

Attachments

[Multi-Year Forecast and Status Research Report 25-28.pdf](#)

2 Wildland Urban Interface Fire Preparedness - Citywide

Page 31

The report updates the Phoenix City Council on the City's preparedness for Wildland Urban Interface fires. The report covers fire threats, ongoing mitigation efforts, and the collaboration between the Phoenix Fire Department, Water Services Department, and the Office of Emergency Management to manage and reduce Wildland Urban Interface fire risks.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Responsible Department

This item is submitted by Assistant City Manager Lori Bays, Deputy City Manager Ginger Spencer, Phoenix Fire and Water Services departments and Office of Emergency Management.

ADJOURN



General Fund 2025-26 Preliminary Budget Status and Multi-Year Forecast - Citywide

This report transmits the preliminary status for the General Fund (GF) Fiscal Year (FY) 2025-26 budget and a multi-year GF forecast through FY 2027-28 (**Attachment A**). The multi-year forecast is being presented to the Mayor and City Council as an essential tool in long-term budget discussions and decision making.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Summary

The GF budget outlook for FY 2025-26 reflects a baseline deficit of \$(36) million and projected shortfalls in FY 2026-27 of \$(83)M and in FY 2027-28 of \$(6)M primarily due to the State's actions to eliminate residential rental sales tax (SB 1311) and to lower the individual income tax rate to the flat tax of 2.5 percent (SB 1828). These actions by the State limit local control and will reduce ongoing City revenues going forward. Phoenix has experienced strong economic growth in recent years and remains an attractive destination to live and work. However, as the attached multi-year forecast (**Attachment B**) demonstrates, projected structural deficits in FY 2025-26 through FY 2027-28 will require strategic and difficult decision making to ensure the GF budget remains balanced.

The attached Multi-Year Forecast report includes estimates of future GF resources and expenditures for FY 2025-26 through FY 2027-28 based on several economic and budgetary assumptions. Proposed solutions are also included for City Council consideration to balance the future projected budget shortfalls, provide capacity to continue programs and services and add resources for critical needs as detailed further in this report. The forecast projects a range of ending balances with deficits in FY 2026-27 of \$(102) million to \$(64) million and for FY 2027-28 of \$(41) million to a potential surplus of \$29 million. The deficits are due to the State's actions referenced above, significant inflationary increases in the cost to provide programs and services, and slowing GF revenues requiring lowering estimated collections in the current fiscal year. The forecast is not intended to precisely predict future GF capacity, but rather to present ranges of potential ending fund balances to be used as a framework for decision making and strategic planning to ensure a balanced budget going forward.

The attached report also includes proposed solutions, including a potential increase of 0.5 percent to the Transaction Privilege Tax (TPT) and Use Tax rate from the current 2.3 percent to 2.8 percent to balance the GF budget (**Attachments C and D**).

Staff will update revenue and expenditure estimates in the coming weeks as part of the annual 7+5 technical review process and incorporate required changes to projections. The FY 2025-26 proposed Trial Budget will be presented to City Council on March 18 and will include a public hearing and possible action for consideration of a TPT and Use Tax increase to offset the State's actions to reduce City revenue and to provide resources necessary to deliver services to the community.

GF FY 2025-26 Preliminary Budget Status

The FY 2025-26 GF ending fund balance is a deficit estimated to be \$(36) million. The projected ending fund balance includes significant reductions in revenues caused by elimination of residential rental sales taxes for cities and towns effective January 2025 (SB 1131). The revised estimated five-month impact from the loss of residential rental sales tax to the GF for FY 2024-25 is approximately \$(19.3) million and the ongoing annual impact in FY 2025-26 is \$(47.4) million. SB 1131 also impacts non-GFs including Public Safety, Parks & Preserves and Transportation 2050. The revised estimated five-month loss to all funds in FY 2024-25 is \$(37.0) million and the ongoing annual impact in FY 2025-26 is \$(90.7) million.

Additionally, SB 1828 reduced individual income tax rates from a progressive four tax bracket system to the current "flat tax" of 2.5 percent in 2022. Cities and towns in Arizona receive state shared income tax revenues based on collections from two years prior and is based on relative population share. On June 9, 2023, the State's Joint Legislative Budget Committee (JLBC) notified the legislative membership of a significant decline in state GF revenue collections, which is primarily due to the individual income tax rate reduction. Budget and Research staff rely on projections from the JLBC to estimate this revenue stream for budget development. This action by the State is expected to result in less ongoing state shared income tax revenue to the GF compared to prior projections had the tax rate not been decreased. This negative impact is demonstrated in the significant decline in FY 2024-25 and FY 2025-26 for state-shared income tax revenue of \$(84.7) million and \$(22.7) million, respectively.

The GF preliminary estimated resources in FY 2025-26 are \$2.038 billion or (4.9) percent lower than FY 2024-25 estimated resources. GF revenue for FY 2025-26 is estimated at \$1.823 billion, which is \$3.0 million or 0.2 percent higher than the FY 2024-25 revised revenue estimate of \$1.820 million. Projections account for the reductions mentioned above to city sales tax and state shared revenue. Staff will

further refine GF revenue estimates over the coming weeks in preparation for the proposed City Manager's Trial Budget scheduled to be presented to City Council on March 18. More information on each resource category is detailed in **Attachment A**.

The GF preliminary expenditure projections may change as cost estimates are further refined in the coming weeks; however at this time the preliminary FY 2025-26 GF expenditures to continue existing levels of service are projected to be \$2.074 billion, including contingency funds. This compares to the FY 2024-25 GF expenditure estimate of \$1.951 billion. The increase includes higher costs for employee salaries associated with the City Council approved Classification and Compensation Study, pension and fringe benefit increases, and higher costs for contractual and commodity purchases. These cost increases were partially offset by lower GF costs for capital pay -as-you-go projects.

The FY 2025-26 preliminary GF budget also accounts for increasing the contingency fund from \$89 million to \$92 million, to reflect 4.75 percent of operating expenditures. In March 2010, the City Council agreed to gradually increase the contingency with a goal of achieving five percent of GF operating expenses. Achieving this goal will improve the City's ability to withstand potential future economic declines.

GF Multi-Year Baseline Forecast

The attached Multi-Year Forecast and Preliminary GF Status Report includes economic, resource and expenditure assumptions (**Attachment D**) used to develop the forecast. The report also includes possible risks and unfunded needs, and does not assume any period of recession but rather includes a baseline, optimistic and pessimistic projection, based on ranges for revenues and expenditures. As mentioned above, the FY 2025-26 GF ending fund balance is estimated to be a deficit of \$(36) million. The outer years of the forecast project a range of ending balances with deficits in FY 2026-27 of \$(102) million to \$(64) million and for FY 2027-28 of \$(41) million to a potential surplus of \$29 million. The baseline forecast in FY 2026-27 and FY 2027-28 includes deficits estimated at \$(83) million and \$(6) million, respectively. The forecast assumes each year's deficit is resolved by reducing expenditures to achieve a balanced budget and continued in the following year.

The current baseline forecast assumes no changes to existing labor contracts or service levels, and does not assume any further negative impacts to the City from the current State legislative session. **Attachment D** provides a list of potential bills that if signed into law will have further negative impacts to City revenues. Staff is closely monitoring bills, however potential impacts of proposed bills have not been factored into the GF forecast.

The forecast accounts for anticipated cost increases for operating expenses associated with the voter approved 2023 General Obligation (GO) Bond Program totaling \$26 million over the forecast period. Additionally, pension costs are forecasted separately based on information from the City of Phoenix Employees Retirement System (COPERS), and the Public Safety Personnel Retirement System (PSPRS) actuaries, and are anticipated to increase \$63 million from FY 2024-25 to FY 2027-28 (**Attachment H**).

The attached report also includes stress testing for moderate and severe recessions, which is an essential fiscal tool to evaluate how revenues respond to different levels of economic crisis. Stress test simulations can help determine if an organization can weather economic shocks or unexpected declines in revenues and is included for illustration purposes only (**Attachments E, F and G**).

Proposed Strategies to Balance the GF Budget

Several options are recommended for City Council consideration to resolve the projected FY 2025-26 budget shortfall and provide necessary resources going forward to balance the budget, protect existing programs and services, and provide future capacity for necessary additions to the budget. **Attachments C and D** provides more information and the Multi-Year GF Forecast with the proposed solutions.

Proposed strategies include:

- Increase the Transaction Privilege Tax (TPT) and Use Tax rate 0.5 percent, from 2.3 percent to 2.8 percent, as posted on the City's website.
www.phoenix.gov/Documents/2025-PHX-Tax-Notice-Info.pdf
- Reprioritize spending and reduce ongoing costs by \$24 million (itemized list of reductions will be included in the Trial Budget).
- Use of excise tax bond proceeds to pay for public safety capital purchases totaling \$150 million to reduce the up front cost burden to the GF over the forecast period (City Council approval of an excise tax bond sale is scheduled for April 9).
- Set-aside projected one-time amounts in FY 2025-26 of \$92 million and in FY 2026-27 of \$34 million to achieve a balance budget.
- Use of Non GFs to reduce GF costs for major maintenance and citywide street transportation and construction services.

The City of Phoenix TPT and Use Tax rate to support GF programs and services is currently 1.2 percent (of the total 2.3 percent) and has not been increased since 1986 despite the significant growth in population, square miles, and city program and services over this time period. Phoenix's TPT and Use Tax rate is also lower than six

other surrounding cities. The rate has been increased since 1986 with the most recent increase in January 2016 to the current 2.3 percent, however past rate increases have been for specific voter approved purposes including Public Safety, Parks and Preserves and Transportation with none of the increase applied to the GF. The revised estimated annual revenue to be generated by increasing the TPT and Use Tax rate from 2.3 percent to 2.8 percent is approximately \$117 million to the GF and \$132 million to Non GFs.

The City posted the required 60-Day Notice of Intent on January 15, 2025, for a potential TPT and Use tax rate increase in compliance with A.R.S. §9-499.15. To allow the public an opportunity to provide feedback on the proposed rate increase five community information sessions were held across the City between January 27 and February 6. Staff also provided information on the City's Newsroom, Budget & Research Department website, and on social media platforms. On February 27, 2025, the City will post the required 15-Day Statutory Notice of Intent to Increase the TPT and Use Tax rates with City Council consideration scheduled for March 18, 2025, at 2:30 p.m. in the Phoenix City Council Chambers, 200 West Jefferson Street, Phoenix, AZ.

Information about the proposed TPT and Use Tax rate increase, and budgetary considerations for the increase along with the applicable business classifications that would be increased from 2.3 percent to 2.8 percent if approved by City Council, is available at: <https://www.phoenix.gov/budgetphoenix.gov/budget>.

City leadership is evaluating proposed spending reductions for departments, and details on recommendations will be included in the proposed FY 2025-26 Trial Budget. Additionally, City Council approval of a \$150 million excise tax bond sale will be included on the April 9, 2025, Formal Council agenda for action. Use of excise tax bond proceeds is commonly used to pay for large capital purchases that will last multiple years; and will reduce the up front cost burden on the GF. Proceeds will be used for Fire replacement apparatus (\$40 million), replacement of a public safety rescue helicopter (\$8.5 million), replace public safety radios (\$30 million), build two new Fire Stations, purchase apparatus and Medical Response (MR) units to reduce response times citywide (\$50 million), provide resources for the Fire Department's cost share of the new ShapePHX system (\$9 million), and remaining resources will be used for major facility and information technology needs (12.5 million).

The above proposed strategies if approved, are estimated to also provide additional resources for the Phoenix Fire Department and Office of Homeless Solutions.

Phoenix Fire Department (PFD)

The PFD provides lifesaving services to all Phoenix residents and visitors and includes emergency medical and transportation services, all-hazards incident management, property protection through fire suppression, and community risk reduction efforts. The recent fire catastrophe in Los Angeles, CA serves as a reminder the importance of adequately resourcing the PFD to ensure sufficient levels of staffing, equipment and facilities are ready to respond to emergencies. A critical measurement of the PFD effectiveness in operations is emergency response time and is measured from the time of dispatch of an emergency apparatus to when the unit arrives on scene. The National Fire Protection Association (NFPA) establishes the standard fire departments utilize to measure performance. Currently, the PFD's response times exceed the NFPA established standards. While the department continuously evaluates innovative ways to improve response times, additional resources are needed to increase the number of fire stations and facilities, personnel, and equipment to keep pace with the significant growth in geographic area and population the department must serve. Supplemental needs for the Fire Department include conversion of 32 grant funded sworn positions to the GF estimated at \$3 million in FY 2025-26 and \$5 million ongoing, add 24 sworn personnel to staff the new GO Bond funded Fire Station 15 at 45th Avenue and Camelback Road estimated at \$2 million in FY 2025-26 and \$4 million ongoing, and provide \$25 million in GF resources to add sworn and civilian personnel to reduce emergency response times.

Office of Homeless Solutions (OHS)

The OHS has made tremendous progress in addressing homelessness over the last two 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 unfunded needs necessary to continue its momentum and ensure the transformational projects and services implemented in the last two years can continue. Also important to note on November 5, 2024, voters passed Proposition 312 Property Tax; Refund; Nuisance Enforcement that allows property owners beginning in Tax Year 2025 to apply to the Arizona Department of Revenue for a property tax refund if the owner documents expenses caused by a city, town, or county that either (1) declines to enforce existing laws prohibiting illegal camping, obstructing public thoroughfares, loitering, panhandling, public urination or defecation, public consumption of alcoholic beverages or use of illegal substances, or (2) maintains a public nuisance. The City is unable to project the potential costs associated with Proposition 312 but will have to identify a funding source. The passage of this proposition furthers the need for the City of Phoenix to address and provide ongoing resources for homelessness.

GF Resources will be needed in 2025-26 for homelessness with revised estimates at \$5.0 million due to the expiration of American Rescue Plan Act funding. Funding is necessary for a portion of OHS operational costs, operational costs at an affordable

housing site for very low-income older adults, operational costs at three emergency shelters (Rio Fresco, North Mountain Healing Center, and the temporary Washington Shelter) and heat relief efforts. The need in 2026-27 and going forward is estimated at \$26.0 million and will fund a portion of OHS operational costs, the temporary Safe Outdoor Space, operational support for five emergency shelters (Rio Fresco, North Mountain Healing Center, the temporary Washington Shelter, Central Arizona Shelter Services, and the Phoenix Navigation Center), some operational costs at the Key Campus and heat relief efforts. 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 General Fund request.

More details will be provided in the FY 2025-26 Trial Budget scheduled to be presented to City Council on March 18, 2025.

Next Steps and Community Engagement

The Phoenix City Charter requires a balanced budget each year. On March 18, a balanced FY 2025-26 City Manager's Trial Budget will be presented to City Council. Additionally, the required public hearing will be held for the proposed TPT and Use Tax rate increase ahead of City Council consideration and possible action.

Engaging residents in the budget process is a priority of the City Council, and this year staff plans to continue the practice of seeking community input on the proposed budget with several opportunities for residents to participate through community budget hearings to be held during the month of April. Residents are also invited to use the FundPHX tool and can contact the Budget and Research Department directly to provide input on the budget. More information is available on the Budget and Research Department's website, phoenix.gov/budget. Feedback received from residents will be provided to the City Council regularly so it may be considered ahead of final budget adoption.

Responsible Department

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.

ATTACHMENT A

RESEARCH REPORT BUDGET AND RESEARCH DEPARTMENT		B.R. REPORT NUMBER 2025-04
		DATE ISSUED February 25, 2025
TO: JEFF BARTON CITY MANAGER	FROM: AMBER WILLIAMSON BUDGET AND RESEARCH DIRECTOR	
SUBJECT MULTI-YEAR FORECAST AND FY 2025-26 PRELIMINARY GENERAL FUND BUDGET STATUS		
<p>BACKGROUND</p> <p>Development and presentation of the multi-year forecast is an important step in the City’s budget process. Evaluating projected available resources and identifying potential ongoing budget surpluses or funding gaps will allow City management and Council to develop strategic plans to ensure the continuation of City operations and optimize services to the community.</p> <p>The multi-year forecast estimates future revenues and expenditures of the General Fund for the current fiscal year through fiscal year 2027-28. The purpose of this forecast is to identify key trends in revenues and expenditures and to provide information about the financial landscape anticipated over the next few years. The information contained in this forecast is based on data available through January 2025.</p> <p>The General Fund (GF) multi-year forecast (Attachments B and C) is provided to the City Council and the community for consideration and provides City policy makers with:</p> <ul style="list-style-type: none">• A strategic financial management best practice.• A framework for strategic decision-making to ensure a balanced budget each fiscal year.• The opportunity to make policy changes to maximize City resources and service delivery.• A roadmap to continued fiscal health and award-winning budgetary and financial reporting. <p>The forecast is not an official policy or legal budget document and does not enact any budgetary allocations. The forecast is also not intended to set or precisely predict future revenues or expenditures. Rather, the forecast presents current estimates based on several economic and financial assumptions of the future direction and ranges of growth rates for both resources and expenditures. The economic, revenue, and expenditure assumptions are provided in Attachment D.</p> <p>The forecast is built on several assumptions outlined in Attachment D regarding:</p> <ul style="list-style-type: none">• The national, state, and local economy.• Population and job growth.		

- Revenue and expenditure growth.
- Impacts of anticipated increasing pension liabilities
- Effects of the State's action to eliminate residential rental sales tax effective January 2025 (SB 1131).
- Effects of the State's action to reduce the individual income tax rate to the current flat tax of 2.5% (SB 1828).
- Estimated additional costs for the Class and Comp study.
- Cost management practices.

Certain assumptions are subject to change and are detailed further in this report.

Projecting future available resources and expenses over multiple years is complex and involves several assumptions concerning how revenue and expenditures will grow over time. To model potential future budgetary scenarios under varying economic conditions, a range is provided for resources and expenditures for the outer years of the forecast. The differences between the upper and lower ends of the ranges increase in the later years of the forecast reflecting additional economic uncertainty. The top of each range represents the "optimistic" forecast, while the bottom of the range represents the "pessimistic" forecast.

It is important to note, if any of these assumptions as described were to change or modeled differently, the ranges of amounts presented in the forecast would need to be revised. Unexpected economic shocks, recessions, legislation, unfunded mandates, or other risks to the forecast can also adversely affect projections.

Additionally, even slight variances in the revenue and expenditure growth rates in the initial years of the forecast result in substantial changes to the later years due to the compounding effect of the changes. For example, a revenue growth variance of only 1% in FY 2025-26 can result in a \$18 million change to the ending balance, which would impact the ending fund balances in the subsequent forecast years. Long term forecasts become less reliable the further they are from development because of the many underlying assumptions subject to frequent fluctuations.

Projections are formulated in the first six months of the fiscal year and are based on current estimates of where staff believe resources and expenditures will be for the current fiscal year and the subsequent three years. In order to create the most reliable revenue and expenditure projections, staff relies on several economic sources, months of actual collections and extensive technical reviews before recommending estimates to City management and ultimately the City Council for final consideration.

GF Summary

Revenue growth in the previous fiscal year was strong despite the onset of geopolitical conflicts, high inflation, elevated interest rates and volatile markets. In FY 2023-24, GF revenues were 12.6% higher than FY 2022-23, primarily due to the increase in state-shared income tax collections (based on actual collections from FY 2021-22), and strong city and state sales tax revenues. The City benefited from inflationary pressures and a growing economy, resulting in higher tax revenue from increased prices of taxable goods, population growth, and rising wages. However, significant economic uncertainty and a slowdown in sales tax revenue collections in the first six months of FY 2024-25 require a cautious approach to forecasting. The baseline revenue forecast for FY 2024-25 is projected to decline and increase slightly in FY 2025-26. The revised estimated revenue growth for FY 2024-25 and FY 2025-26 is -4.5% and 0.2%, respectively. The negative growth in FY 2024-25 is primarily due to significantly lower state-shared income tax collections caused by the state's actions

to lower the individual income tax rate to the current “flat tax”, and the elimination of residential rental sales tax.

The State enacted Senate Bill 1131, which prohibits municipalities from taxing residential rental property starting Jan. 1, 2025. The estimated 5-month impact to the GF for FY 2024-25 is approximately \$(19) million and the ongoing annual impact beginning in FY 2025-26 is over \$(47) million. Additionally, Senate Bill 1828 reduces individual income tax rates beginning in tax year 2022 to the current flat tax rate of 2.5%. The City receives state-shared income taxes based on actual collections from two years prior. Compared to FY 2023-24 collections, state-shared income tax revenue will decrease by \$(85) million in FY 2024-25, followed by an additional reduction of \$(23) million in FY 2025-26. Furthermore, the current state legislative session could impose additional fiscal challenges on the City. The bills staff are currently monitoring are summarized on page 14 of this report and present a potential negative impact of approximately \$176 million if passed and signed into law.

The GF baseline forecast reflects a deficit in FY 2025-26 of \$(36) million and includes a range of potential ending balances with deficits in FY 2026-27 of \$(102) million to \$(64) million and between a \$(41) million deficit to a possible surplus of \$29 million in FY 2027-28. The model assumes any prior year deficit is resolved by reducing expenditures to achieve a balanced budget, as required by the City Charter (**Attachment B**). These anticipated deficits are primarily due to the State’s actions to reduce local control and diminish the ongoing tax base by prohibiting cities and towns from collecting residential rental sales tax and lowering individual income tax rates.

To address these financial challenges, **Attachment C** includes strategies to balance the budget and reflects a GF forecast with potential solutions for the Council to consider. Possible strategies include the proposed Transaction Privilege Tax (TPT) and Use Tax increase from the current 2.3% to 2.8% effective July 1, 2025, reduction of GF expenditures with minimal impact to service delivery to reprioritize the budget across multiple departments without impacting filled positions, use of available one-time reserves for capital expenses, and use of future excise tax proceeds to pay for public safety capital needs. The forecast also includes additional resources for the Fire Department to reduce emergency response times, and for the Office of Homeless Solutions (OHS) to replace expiring American Rescue Plan Act (ARPA) funds to continue to help the unsheltered population in our community.

Additionally, to better prepare for future challenges, this report also includes stress testing of the baseline forecast for moderate and severe recessions, which is an essential fiscal tool to evaluate how revenues might respond to different levels of economic crisis (**Attachment E, F and G**).

OTHER INFORMATION

Staff are underway with the annual 7+5 expenditure and revenue technical review process and may update estimates if necessary. The final estimates and recommendations for resolving the GF deficit in FY 2025-26 to achieve a balanced budget along with supplementals for Fire and OHS will be presented to the City Council in the proposed Trial Budget on March 18.

It is also worth noting the preliminary FY 2025-26 budget and forecast is based on existing state-shared revenue models and statutory obligations. Any changes to state-shared revenue formulas, or other revenue sources proposed in the Governor’s budget or in legislative bills that would impact the GF forecast, are not reflected, and would need to be addressed if adopted by the State.

General Fund FY 2025-26 Preliminary Budget Status

FY 2025-26 Resources - The chart below shows the preliminary resources projection:

GF Resource Category	2025-26 Preliminary Estimate (in millions)	2025-26 Preliminary Projected Annual Growth Rate %
Local Sales & Excise Taxes ¹	\$724	0.7%
State-Shared Revenue ²	\$682	-1.2%
Primary Property Tax ³	\$224	4.1%
User Fees and Other	\$193	-1.3%
Beginning Balance ⁴	\$191	N/A
Transfers/Recoveries ⁴	\$24	N/A
Total GF Resources	\$ 2,038	-4.9%

¹ Reflects the negative impact to Local Sales & Excise taxes because of Senate Bill 1131, which prohibits municipalities from taxing residential rental property starting January 1, 2025.

² Reflects the negative impact to State-Shared Income Tax Revenue because of Senate Bill 1828, which reduces the individual income tax rates to a flat tax of 2.5% beginning in tax year 2022. However, it does not reflect any impact on State-Shared Revenue resulting from the FY 2025-26 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

³ Assumes the continuation of the City Council adopted policy to maximize the primary levy in order to preserve GF services. Any deviation from this policy would require an ongoing reduction or offset.

⁴ Estimates for beginning balance and transfers/recoveries are not derived from annual growth rate projections or broader economic factors.

Revenue Forecasting Model - In the fall of 2014, Budget and Research consulted with the University of Arizona's Eller College of Management, Economic and Business Research Center (EBRC) to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of city and state sales tax. In the summer of 2017, staff worked with EBRC to update the tax forecasting model. In March 2021, the EBRC revised the City's model again by including online sales tax. The City began collecting sales tax from online marketplace retailers effective October 2019 just prior to the pandemic, which helped to offset losses experienced in the leisure and hospitality sales tax categories during the pandemic. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Dr. Hammond has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each category of sales tax for the FY 2025-26 estimate and the outer years of the forecast are based on projections developed with the enhanced econometric forecasting model. Revenue estimates may change as more data becomes available and will be finalized in the coming weeks.

GF Expenditures - The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks. Currently, FY 2024-25 and FY 2025-26 General Fund operating expenditure estimates excluding contingency are projected to be \$1.951 billion and \$1.982 billion, respectively. The increase includes the additional costs for the Class and Comp study, and increased costs for pension, contractual services, and commodities. The outer years of the forecast assume a 5% growth in personal services expenditures, excluding pension, to account for merit-based step increases, increased costs from the Class & Comp study and estimated operating cost impacts for the voter approved 2023 General Obligation Bond Program. Contractual services, commodities, capital outlay, internal charges and credits, and other expenses are assumed to grow by an inflationary factor. Further detail on expenditure assumptions can be found in **Attachment D**.

Pension Costs – Expected changes in COPERS and PSPRS pension costs are as follows:

- COPERS: GF pension costs in FY 2025-26 for civilian employees are estimated at \$115 million and are expected to increase to \$123 million in FY 2027-28. The overall trend in COPERS pension cost has been driven by recent actuarial changes, plan earnings, payroll growth and pension reform (**Attachments B, C, and H**).
- PSPRS: GF pension costs in FY 2025-26 for sworn Police and Fire are estimated at \$350 million and are expected to increase to \$387 million in FY 2027-28. The primary factors contributing to the growth are recent actuarial changes, plan earnings, and changes to the payroll base. As the multi-year forecast shows, GF public safety pension costs are estimated to increase by \$37 million from the FY 2025-26 through FY 2027-28 (**Attachments B, C, and H**), which adds pressure to the GF budget going forward and limits the City's ability to either expand programs and services to residents or increase employee compensation.

Contingency Fund (Rainy Day Fund) – The Contingency Fund is assumed to increase from \$89 million to \$92 million in FY 2025-26 to reflect maintaining 4.75% of operating expenditures. The contingency rate remains at 4.75% for the entire forecast period due to the anticipated deficits in FY 2026-27 and FY 2027-28. In March 2010, the City Council agreed to gradually increase the contingency with the goal of achieving five percent of GF operating expenses to withstand potential economic declines. Contingency/rainy day funds provide one-time resources for possible emergencies and unanticipated costs that may occur after the budget is adopted. The possibility of natural disasters, public or employee safety emergencies, public health issues, economic shocks or declines, and geopolitical events that can impact the broader economy necessitates maintaining adequate contingency funds. The Government Finance Officers Association (GFOA) recommends cities maintain reserve levels as a financial best practice and according to the Pew Charitable Trust, research also shows that contingency/rainy day funds can affect a government's credit rating, which in turn has an impact on borrowing costs and operating expenses. The role of the contingency/rainy day funds is to improve a city or town's monetary stability by building up a safety net for cities and towns so that it could be used to protect itself against adversities. They offer the capability to meet a monetary crisis without hindering public services. Without a contingency fund, unforeseen emergencies or economic declines may create budget deficits requiring reductions to programs and services.

The GF preliminary FY 2025-26 budget status and multi-year forecast are provided for information purposes only.

ATTACHMENTS

Attachment B	Multi-Year General Fund Forecast
Attachment C	Multi-Year General Fund Forecast with Proposed Solutions
Attachment D	Forecast Assumptions
Attachment E	Background, Methodology and Assumptions for Stress Testing
Attachment F	Stress Testing for Moderate Recession Scenario
Attachment G	Stress Testing for Severe Recession Scenario
Attachment H	Pension Cost Increases

ATTACHMENT B
Multi-Year General Fund Forecast (\$ Millions)

	2024-25 Adopted Budget	2025-26 Preliminary Budget Estimate	2026-27 Forecast	2027-28 Forecast
Resources				
Local Taxes	\$737	\$724	\$750 - \$761	\$778 - \$801
State Shared Revenues	699	682	716 - 726	743 - 765
Primary Property Tax	215	224	231 - 235	239 - 246
User Fees and Other	192	193	196 - 199	198 - 204
Other (Carryover Balance, Transfers, Recoveries)	208	126	27	36
Unused Contingency from Prior Year	81	89	92	94
Total Resources	\$2,132	\$2,038	\$2,012 - \$2,040	\$2,088 - \$2,146
Expenditures				
Operating Expenditures	\$1,488	\$1,443	\$1,474 - \$1,464	\$1,465 - \$1,453
Civilian Pension	115	115	121	123
Sworn Public Safety Pension	332	350	370	387
Contingency	89	92	94	95
Pay-As-You-Go Capital	92	52	34	32
Vehicle Replacements	16	22	21	27
Total Expenditures	\$2,132	\$2,074	\$2,114 - \$2,104	\$2,129 - \$2,117
PROJECTED (DEFICIT)/SURPLUS:	\$ -	\$(36)	\$(102) - \$(64)	\$(41) - \$29
BASELINE FORECAST (DEFICIT)/SURPLUS:	\$ -	\$(36)	\$(83)	\$(6)

Key Resource Forecast Assumptions:

- * The forecast assumes modest revenue growth with no recession from 2025-26 to 2027-28, no fee increases or decreases and no new revenue sources.
- * The forecast includes tax rate reduction: Laws 2021, Chapter 412 (Tax Omnibus) reduced the number of individual income tax brackets from four in Tax Year (TY) 2021 to two brackets in TY 2022. Starting from TY 2023, the individual income tax has been reduced to 2.5%.
- * Relative population share used in calculating state shared revenues in 2025-26 was based on the 2023 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates.
- * The forecast includes residential rental transaction privilege tax reduction: Senate Bill 1131 prohibits municipalities from taxing residential rental property starting January 1, 2025.

Key Expenditure Forecast Assumptions:

- * The contingency fund is set as 4.75% of the total General Fund operating expenditure from 2025-26 through 2027-28.
- * Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- * 2025-26 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Estimated costs of the Class and Comp study are included in the forecast. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries.
- * Non-personnel related expenditures for 2025-26 assume expenditure growth is in line with recent historical averages, and the out years are anticipated to align with the estimated CPI growth.

Other Forecast Notes:

- * Ranges provided for revenues and expenditures. The upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- * Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- * When a baseline deficit or ongoing surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by State Statute and Charter to balance the budget each year.

ATTACHMENT C
Multi-Year General Fund Forecast - Proposed Solutions (\$ Millions)

	2024-25 Adopted Budget	2025-26 Preliminary Budget Estimate	2026-27 Forecast	For Planning Purposes Only 2027-28 Forecast
Resources				
Local Taxes	\$737	\$724	\$760 - \$770	\$788 - \$812
Transaction Privilege Tax (TPT) and Use Tax Rates Increase from 2.3% to 2.8%	-	107	112 - 114	117 - 120
State Shared Revenues	699	682	716 - 726	743 - 765
Primary Property Tax	215	224	231 - 235	239 - 246
User Fees and Other	192	193	196 - 199	198 - 204
Other (Carryover Balance, Transfers, Recoveries)	208	149	120	70
Unused Contingency from Prior Year	81	89	91	96
Total Resources	\$2,132	\$2,168	\$2,226 - \$2,255	\$2,251 - \$2,313
Expenditures				
Operating Expenditures	\$1,488	\$1,416	\$1,485 - \$1,475	\$1,578 - \$1,566
Civilian Pension	115	115	121	123
Sworn Public Safety Pension	332	350	370	387
Contingency	89	91	96	102
Pay-As-You-Go Capital	92	52	34	32
Vehicle Replacements	16	22	21	27
Supplementals				
Fire General Obligation Bond Project Station 15	-	2	4	5
Fire 32 Sworn SAFER positions	-	3	5	5
Office of Homeless Solutions (OHS)	-	5	26	27
Projected Set-asides to Balance (carryforward)				
Ongoing Expenditures for the Fire Department Expenditures Reductions	-	92	34	-
	-	25	26	28
	-	(24)	(25)	(26)
Total Expenditures	\$2,132	\$2,149	\$2,197 - \$2,187	\$2,288 - \$2,276
PROJECTED (DEFICIT)/SURPLUS:	\$ -	\$19	\$29 - \$68	\$(37) - \$37
BASELINE FORECAST (DEFICIT)/SURPLUS:	\$ -	\$19	\$49	\$ -
Available Resources for One-Time Expenditures	\$ -	\$19	\$34	\$ -
Available Resources for Ongoing Expenditures	\$ -	\$ -	\$15	\$ -

Key Resource Forecast Assumptions:

- * The forecast assumes modest revenue growth with no recession from 2025-26 to 2027-28. The forecast proposes an increase of 0.5% to the City TPT and Use Tax rates with an effective date of July 1, 2025.
- * The forecast includes tax rate reduction: Laws 2021, Chapter 412 (Tax Omnibus) reduced the number of individual income tax brackets from four in Tax Year (TY) 2021 to two brackets in TY 2022. Starting from TY 2023, the individual income tax has been reduced to 2.5%.
- * Relative population share used in calculating state shared revenues in 2025-26 was based on the 2023 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast

period. The actual share will change annually based on Census Bureau Population Estimates.

* The forecast includes residential rental TPT reduction: Senate Bill 1131 prohibits municipalities from taxing residential rental property starting January 1, 2025.

Key Expenditure Forecast Assumptions:

* The contingency fund is set as 4.75% of the total General Fund operating expenditure from 2025-26 through 2027-28.

* Except for supplementals, projected set-asides, and ongoing expenditures for the Fire Department, the forecast does not include additional future funding for program enhancements, unfunded mandates, expiring grants, etc.

* 2025-26 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Estimated costs of the Class and Comp study are included in the forecast. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries.

* Non-personnel related expenditures for 2025-26 assume expenditure growth is in line with recent historical averages, and the out years are anticipated to align with the estimated CPI growth.

Other Forecast Notes:

* Ranges provided for revenues and expenditures. The upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.

* Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.

* When a baseline deficit or ongoing surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by State Statute and Charter to balance the budget each year.

ATTACHMENT D

Forecast Assumptions

Economic Sources - Budget and Research staff relies on several different sources of economic data and forecasts to assist with developing revenue and expenditure projections.

The list below includes the primary sources of information:

- State of Arizona Finance Advisory Committee (FAC) which includes several economists and finance professionals from the private and public sectors
- State of Arizona Joint Legislative Budget Committee (JLBC)
- University of Arizona (UofA), Economic Business Research Center (EBRC)
- Global Insight, IHS
- Arizona State University (ASU) – WP Carey School of Business, and Western Blue Chip
- Arizona Department of Administration (ADOA) - Employment and Population Statistics Office
- JP Morgan Chase Economic Outlook Center
- Blue Chip Economic Indicators (BCEI) – National Level
- U.S. Bureau of Labor Statistics
- U.S. Census Bureau
- U.S. Bureau of Economic Analysis (BEA)
- The Conference Board
- University of Arizona (UofA) Forecasting Project – A community-sponsored research program within the Economic and Business Research Center providing project members with economic forecasts for Arizona, the Phoenix-Mesa metro area, and the Tucson metro area. City staff attends the Forecasting Project quarterly meetings and receives quarterly reports and data/projections used to assist in developing our forecasts. Forecasting Project data relies on Global Insight, IHS which is a well-known economics organization that provides comprehensive economic and financial information. The data from this project is incorporated into an econometric software program used to forecast sales tax.

Economic Outlook

The U.S. economy experienced the most robust recovery from the COVID-19 pandemic compared to other major developed economies, demonstrating resilience and potential for continued growth. Real Gross Domestic Product (GDP), a common economic measure, grew 2.8% in 2024, compared with an increase of 2.9% in 2023. According to the U.S. Bureau of Economic Analysis (January 2025), the 2024 growth was attributed to increases in consumer spending, nonresidential fixed investment, state and local government spending, and exports. However, the Blue Chip Economic Indicators (BCEI) consensus projects that real GDP will grow at a slower pace, with an estimated growth of 2.2% in 2025 and 2.0% in 2026. Uncertainties and market volatility are still expected to persist throughout the year, driven by factors such as geopolitical conflicts, policy shifts under the new administration, high consumer debt levels, low housing affordability, labor market challenges, high interest rates, global supply chain disruptions, and inflationary pressures.

The U.S. economic growth established a platform for continued solid gains in Arizona in 2024. Inflation is currently below the national rate, and job growth is occurring at a faster pace than in the US (Arizona Governor's Executive Budget, January 2025). As of December 2024, Arizona's Consumer Price Index (CPI-U) was 1.9%, which is lower than the U.S. City Average of 2.9%. Furthermore, Arizona's job growth reached 2.1% for the twelve months ending in December, outpacing the national average of 1.6%. Additionally, the Phoenix MSA average hourly earnings within the private sector have increased by 6.5%, exceeding the Phoenix MSA CPI-U of 2.2% in 2024. The Arizona economy experienced a solid year in 2024, but faced several challenges such

as slowing growth, housing affordability issues, and uncertainty regarding new government policies. Arizona taxable retail sales growth (including remote sellers) has decelerated in recent months. Year-to-date (YTD) statewide taxable retail plus remote sales tax increased by only 2.3% in December 2024, a decline from 2.8% in December 2023 and 6.4% in December 2022. YTD sales tax collections for Prime Contracting grew only by 2.8% in December 2024, compared to 17.3% in December 2023 and 21.6% in December 2022. According to the JLBC, this is the lowest growth rate for the comparable period since December 2021 when the construction industry in Arizona was adversely affected by the pandemic (JLBC, January 2025). Furthermore, Arizona's job growth has been decelerating. As of December 2024, the year-over-year job growth rate for non-farm employment has slowed to 1.7%, a decline from 2.4% in 2023 and 3.4% in 2022 (U.S. Bureau of Labor Statistics, January 2025). Following the COVID-19 pandemic, Arizona has experienced a surge in home and rent prices; housing affordability has remained a primary challenge for the state. The number of building permits issued in Arizona has continued to drop. Statewide new housing units for single-family and multi-family homes decreased by 38.8% in December 2024 compared to December 2023 (EBRC Benchmark).

Other significant economic assumptions from trusted sources include the following:

- Personal income growth for the Phoenix Metro area is projected to slightly decline from 6.5% in 2024 to 6.0% in 2025 and range from 6.2% to 5.8% from 2026 to 2028 (UofA Economic Business Research Center).
- Growth in population is expected to continue, but at lower rates than historical growth. Phoenix Metro population is projected to grow by 1.6% in 2025 and slightly decline between 1.4% and 1.5% for the remaining forecast period (UofA Economic Business Research Center).
- Non-farm employment in metro Phoenix is estimated to slow down from the growth of 3.1% in 2024 to 2.3% in 2025 and range from 2.0% to 1.7% from 2026 to 2028 (UofA Economic Business Research Center).
- Arizona unemployment rate is estimated to increase from 3.6% in 2024 to 3.8% in 2025 and range from 4.3% to 4.6% for the remaining forecast horizon (UofA Economic Business Research Center).
- Arizona housing affordability declines due to home price inflation and interest rate hikes. In addition, slowing population gains put downward pressure on housing permits. Housing permits are projected to decrease by 7.0% in 2025 and 7.9% in 2026 (UofA Economic Business Research Center).
- Phoenix inflation has decelerated below the national average, leaving real personal income growth in Arizona above the U.S. The Consumer Price Index-All Urban Consumers (CPI-U) West region is estimated to decline from 2.9% in 2024 to 2.0% in 2025 and range from 2.2% to 3.1% for the remaining forecast period (UofA Economic Research Center). In the past 50 years, CPI-U has ranged from negative 0.4% in 2009, to a high of 13.5% in 1980 (U.S. Department of Labor Bureau of Labor Statistics).

Resource Assumptions- Revenue growth rates are determined using information from our above-mentioned trusted sources, analyzing actual revenue trends and averages, and factoring in any known policy or enacted legislative changes.

Revenue assumptions for the baseline forecast beyond the broader economic considerations are described below:

- No further period of recession with modest revenue growth for the forecast horizon.
- Annual revenue growth rates during the forecast period are expected to range from 0.2% to

4.6%. The state's actions to diminish the tax base for city sales tax and state-shared income taxes have resulted in a flat growth rate in FY 2025-26 and will have a lasting impact on the subsequent years.

- No further impact on the current revenue tax base, as provided in applicable state statutes and City ordinances.
- The forecast includes tax rate reduction: Laws 2021, Chapter 412 (Tax Omnibus) reduced the number of individual income tax brackets from four in Tax Year (TY) 2021 to two brackets in TY 2022. Starting from TY 2023, the individual income tax has been reduced to a 2.5% flat tax rate.
- Relative population share used in calculating state shared revenues in FY 2025-26 was based on the 2023 Census Bureau Population Estimate. It is projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the Urban Revenue Sharing distribution from 15% to 18% starting in FY 2023-24.
- The forecast includes residential tax rate reduction starting on January 1, 2025. The state recently enacted Senate Bill 1131, which prohibits municipalities from taxing residential rental property.
- No future fee increases or decreases and no new sources of revenue.
- Potential increases in revenue resulting from economic development efforts are not included in the forecast.
- Ranges provided for revenues: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Expenditure Assumptions - Assumptions regarding forecasted expenditures are described below:

- Annual operating expenditure growth rates, except for pensions, are based on historical growth rates, estimated CPIs and account for the impact of the City Council approved Class and Comp (C&C) study throughout the forecast period.
- Pension costs are based on historical actuals and information provided by the COPERS and PSPRS actuaries. The forecast does not attempt to predict future pension liabilities, assets or other plan assumptions, but rather to account for the anticipated costs of both pension systems.
- The forecast does not include the impact of additional potential reform measures for COPERS or PSPRS or the impact of pending litigation or proposed legislation.
- The forecast includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- Pay-as-you-go capital costs are based on the preliminary estimates in the five-year Capital Improvement Program and include costs for facility major maintenance, replacement of critical IT infrastructure, and money earmarked for future expenses, including one-time funds for costs of grant matching requirements for the Bipartisan Infrastructure Bill.
- The contingency fund is set at 4.75% of the total GF operating expenditures from FY 2025-26 through FY 2027-28.
- The FY 2025-26 total compensation costs are based on projections under the current Council adopted pay plan ordinance and existing employee contracts.

- The C&C study requires significant increases in employee salaries that have an ongoing impact on the budget. The study also provides for higher starting salaries to attract qualified candidates to fill vacancies throughout the City.
- No other financial impact from changes to labor unit contracts resulting from current or future negotiations is assumed.
- In forecast years with a projected baseline deficit or ongoing surplus, the next year's operating expenses are assumed to decrease or increase by the baseline deficit/surplus amount prior to applying the assumed annual growth projection, as the City is required by Charter to balance the budget each year.
- Ranges provided for operating expenditures: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Proposed Solutions to Balance the General Fund (Attachment C)

- To address the projected GF deficits in the forecasted period, the City proposes increasing the Transaction Privilege Tax (TPT) and Use Tax rate from 2.3% to 2.8% to offset losses due to State actions to reduce revenue and provide capacity for existing and future ongoing costs. If approved by the City Council, the rate increase is expected to generate additional GF revenue ranging from \$107 million to \$120 million annually throughout the forecast period.
- Reprioritize spending and reduce ongoing operating costs by \$24 million in FY 2025-26. Details of proposed reductions will be included in the proposed Trial Budget on March 18.
- Carryforward (set-asides) are assumed of \$92 million in FY 2025-26 and \$34 million in FY 2026-27 to help balance the budget.
- To ensure the City continues providing quality services to Phoenix residents, the proposed model includes approximately \$10 million in FY 2025-26 increasing to \$37 million in FY 2027-28 in ongoing annual costs as supplementals throughout the forecast period for the Fire Department to convert 32 grant funded sworn positions to the GF, add sworn personnel for the new GO Bond Fire Station 15, and add resources for the Office of Homeless Solutions to replace expiring ARPA funds. Additionally, \$25 million in FY 2025-26 increasing to \$28 million in FY 2027-28 in ongoing supplemental costs have been included for the Fire Department to support efforts to reduce fire emergency response times. Details of proposed supplementals and their impact on Fire response times will be included in the FY 2025-26 proposed Trial Budget on March 18.

Other Considerations to the Multi-Year Forecast - The items below will likely require additional funding or could adversely impact the multi-year forecast as it's currently presented.

- The forecast incorporates the estimated annual ongoing operating costs in FY 2026-27 and FY 2027-28 for the voter approved 2023 General Obligation (GO) Bond Program totaling \$26 million over the two fiscal years. These costs have been factored into the forecast, but additional resources could be needed as early as FY 2025-26 for Fire Station 15, which is included in the alternative model at a total of \$11 million over the forecast period. Further resources may also be required to cover operating costs associated with the GO Bond Program.
- The forecast reflects the continued funding of approximately \$16 million per year earmarked to address aging City infrastructure and critical equipment. Examples of these projects include upgrades and replacements of fire life safety, electrical, and cooling systems in City facilities. Also, under the direction of the City Manager, staff continues to identify critical needs in all City facilities and works with several external firms that specialize in facility assessments. Staff have also taken active steps to enhance facility maintenance oversight by centralizing GF

facility maintenance funding and creating a review committee. This change has significantly enhanced the prioritization of GF facility projects. However, additional resources may be required to adequately maintain city infrastructure.

- GF vehicle funding is estimated at \$22 million for FY 2025-26, \$21 million in FY 2026-27, and \$27 million in FY 2027-28 to replace units in the fleet. The cost to replace vehicles and Fire apparatus has grown significantly due to inflation over the past three fiscal years but is expected to moderate per the Public Works Department. It should be noted the current GF backlog of vehicles is estimated by Public Works at a value of \$30.4 million, and more vehicle replacement funding will be needed during the forecast horizon and beyond.
- Additional costs to the GF are anticipated to further the City's effort to help individuals experiencing homelessness upon the expiration of American Rescue Plan Act funds. Preliminary estimates indicate a funding need of \$5 million in FY 2025-26, \$26 million in FY 2026-27, and \$27 million in FY 2027-28. While these costs have not been factored into the forecast, they are included in the alternative model presented in **Attachment C**.
- On November 5, 2024, Arizona voters passed Proposition 312. From January 1, 2025, through December 31, 2035, the proposition allows property owners to apply for a primary property tax refund from the Arizona Department of Revenue (ADOR) if they can document expenses incurred due to a city's, town's, or county's failure to enforce certain laws or maintain a public nuisance. The refund, which is equal to the documented expenses, is capped at the amount of primary property taxes the owner paid to the municipality or county in the prior tax year and can be requested annually. The State Treasurer will withhold state-shared revenues from the affected city or county to cover the refund amount and reimburse ADOR for refund costs. The City's expenses are unpredictable and depend on the volume of refund requests. However, the proposition will reduce the state-shared revenues to cover the associated costs.
- Beyond the potential risks and headwinds stated in the economic outlook section, several proposed legislative bills listed below are expected to significantly reduce revenues. For those bills that have a fiscal note prepared by the State Joint Legislative Budget Committee, the estimated impact to City revenue is approximately **\$176 million**, weakening the City's financial position. Additionally, some bills may increase expenditures, requiring additional resources and further straining the City's budget. If passed, these changes could significantly affect the multi-year forecast.

HB 2081 – Tipped wages would not be subject to Arizona's 2.5% flat income tax.

HB 2389 – Exempts all personal property that is used in agricultural from property taxation.

HB 2421 – Reduces corporation tax rate from 5.5% to 4.9% in tax year (TY) 2025, and 2% after TY 2025.

HB 2685 – Establishes a \$350 Arizona earned income tax credit for low-income working individuals beginning TY 2025.

HCR 2012 – Reduces Arizona flat income tax from 2.5% to 2.0% beginning TY 2027.

SB 1318 – Reduces Arizona individual income tax rate if state general fund revenue exceeds the growth limit, beginning fiscal year 2025-26.

SB 1371 – Reduces the amount of any distributions from a pension or retirement account, made by individuals who are at least 59.5 years old, from the calculation of AZ gross income.

ATTACHMENT E Stress Testing

Background – According to the National Bureau of Economic Research, the longest economic expansion on record was ended by COVID-19 in February 2020. The COVID-19 recession is one of the deepest but shortest in U.S. history. With federal stimulus packages and more than anticipated revenue collections, the City was not forced to cut the budget. The City exhibited remarkable economic resilience during the pandemic. However, several risks currently threaten national and local economies, potentially triggering a recession or economic slowdown. Thus, stress testing is crucial, as it helps estimate potential financial shortfalls resulting from adverse events. To help the City plan ahead, avert or limit a fiscal emergency and keep long-term priorities on track, staff conducted stress testing for the General Fund.

Methodology/Assumptions - "Stress test" in financial terminology, is an analysis or simulation designed to determine the ability of a given entity to deal with an economic crisis. Instead of doing a financial projection on a "best estimate" basis, a company or its regulators may do stress testing to estimate how robust an entity performs in certain negative circumstances, a form of scenario analysis. There are two scenarios for this stress testing: moderate and severe recession scenarios.

Attachment F shows a hypothetical moderate recession estimated to start in FY 2025-26. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 1% for two consecutive years. According to Moody's Analytics, a recession typically affects budgets for at least two years (except for the COVID-19 recession, which was interfered with the federal stimulus packages). Although a moderate recession may impact revenue by more than 1%, the model is simulated with a 1% decrease. State-shared income tax distributed to cities and towns is based on the collections from 2 years prior, so the state-shared income tax decrease due to a moderate recession will not affect revenues until FY 2027-28.

Attachment G shows a hypothetical severe recession that is estimated to start in FY 2025-26. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 3% for three consecutive years. Although a severe recession may impact revenues by more than 3%, for simulation purposes, this stress test used a 3% decrease. Similar to the moderate scenario, the state-shared income tax decrease caused by the economic recession will not affect revenues until FY 2027-28.

Assumptions for recoveries, fund transfers and expenditures remain the same as the model shown in **Attachment B**. However, the expenditures for the forecast period will be different due to the methodology applied in the model. When a deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year

ATTACHMENT F
Multi-Year General Fund Forecast – Moderate Recession Scenario (\$ Millions)

	2024-25 Adopted Budget	2025-26 Preliminary Budget Estimate	2026-27 Forecast	2027-28 Forecast
Resources				
Local Taxes	\$737	\$682	\$676 - \$686	\$700 - \$722
State Shared Revenues	699	663	679 - 689	685 - 706
Primary Property Tax	215	213	210 - 213	239 - 246
User Fees and Other	192	186	183 - 185	184 - 190
Other (Carryover Balance, Transfers, Recoveries)	208	125	27	36
Unused Contingency from Prior Year	81	89	92	90
Total Resources	\$2,132	\$1,958	\$1,867 - \$1,892	\$1,934 - \$1,990
Expenditures				
Operating Expenditures	\$1,488	\$1,443	\$1,391 - \$1,380	\$1,314 - \$1,304
Civilian Pension	115	115	121	123
Sworn Public Safety Pension	332	350	370	387
Contingency	89	92	90	88
Pay-As-You-Go Capital	92	52	34	32
Vehicle Replacements	16	22	21	27
Total Expenditures	\$2,132	\$2,074	\$2,027 - \$2,016	\$1,971 - \$1,961
PROJECTED (DEFICIT)/SURPLUS:	\$ -	\$(116)	\$(160) - \$(124)	\$(37) - \$29
BASELINE FORECAST (DEFICIT)/SURPLUS:	\$ -	\$(116)	\$(142)	\$(4)

Key Resource Forecast Assumptions:

- * The forecast assumes moderate recession in 2025-26 and 2026-27, no fee increases or decreases and no new revenue sources.
- * The forecast includes tax rate reduction: Laws 2021, Chapter 412 (Tax Omnibus) reduced the number of individual income tax brackets from four in Tax Year (TY) 2021 to two brackets in TY 2022. Starting from TY 2023, the individual income tax has been reduced to 2.5%.
- * Relative population share used in calculating state shared revenues in 2025-26 was based on the 2023 Census Bureau Population Estimate. It is projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates.
- * The forecast includes residential rental transaction privilege tax reduction: Senate Bill 1131 prohibits municipalities from taxing residential rental property starting January 1, 2025.

Key Expenditure Forecast Assumptions:

- * The contingency fund is set at 4.75% of the total General Fund operating expenditures from 2025-26 through 2027-28.
- * Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- * 2025-26 employee costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Estimated costs of the Class and Comp study are included in the forecast. Pension costs are based on required and projected contribution rates provided by the respective pension system actuaries.
- * Non-personnel related expenditures for 2025-26 assume expenditure growth is in line with recent historical averages, and the out years are anticipated to align with the estimated CPI growth.

Other Forecast Notes:

- * Ranges provided for revenues and expenditures. The upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- * Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- * When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

ATTACHMENT G
Multi-Year General Fund Forecast – Severe Recession Scenario (\$ Millions)

	2024-25	2025-26	For Planning Purposes Only	
	Adopted Budget	Preliminary Budget Estimate	2026-27 Forecast	2027-28 Forecast
Resources				
Local Taxes	\$737	\$667	\$645 - \$655	\$624 - \$644
State Shared Revenues	699	656	665 - 675	641 - 661
Primary Property Tax	215	209	201 - 204	193 - 200
User Fees and Other	192	182	175 - 178	168 - 174
Other (Carryover Balance, Transfers, Recoveries)	208	123	27	36
Unused Contingency from Prior Year	81	89	92	88
Total Resources	\$2,132	\$1,926	\$1,805 - \$1,831	\$1,751 - \$1,803
Expenditures				
Operating Expenditures	\$1,488	\$1,443	\$1,357 - \$1,347	\$1,250 - \$1,242
Civilian Pension	115	115	121	123
Sworn Public Safety Pension	332	350	370	387
Contingency	89	92	88	84
Pay-As-You-Go Capital	92	52	34	32
Vehicle Replacements	16	22	21	27
Total Expenditures	\$2,132	\$2,074	\$1,991 - \$1,981	\$1,904 - \$1,895
PROJECTED (DEFICIT)/SURPLUS:	\$ -	\$(148)	\$(186) - \$(150)	\$(153) - \$(92)
BASELINE FORECAST (DEFICIT)/SURPLUS:	\$ -	\$(148)	\$(168)	\$(123)

Key Resource Forecast Assumptions:

- * The forecast assumes severe recession from 2025-26 through 2027-28, no fee increases or decreases and no new revenue sources.
- * The forecast includes tax rate reduction: Laws 2021, Chapter 412 (Tax Omnibus) reduced the number of individual income tax brackets from four in Tax Year (TY) 2021 to two brackets in TY 2022. Starting from TY 2023, the individual income tax has been reduced to 2.5%.
- * Relative population share used in calculating state shared revenues in 2025-26 was based on the 2023 Census Bureau Population Estimate. It is projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates.
- * The forecast includes residential rental transaction privilege tax reduction: Senate Bill 1131 prohibits municipalities from taxing residential rental property starting January 1, 2025.

Key Expenditure Forecast Assumptions:

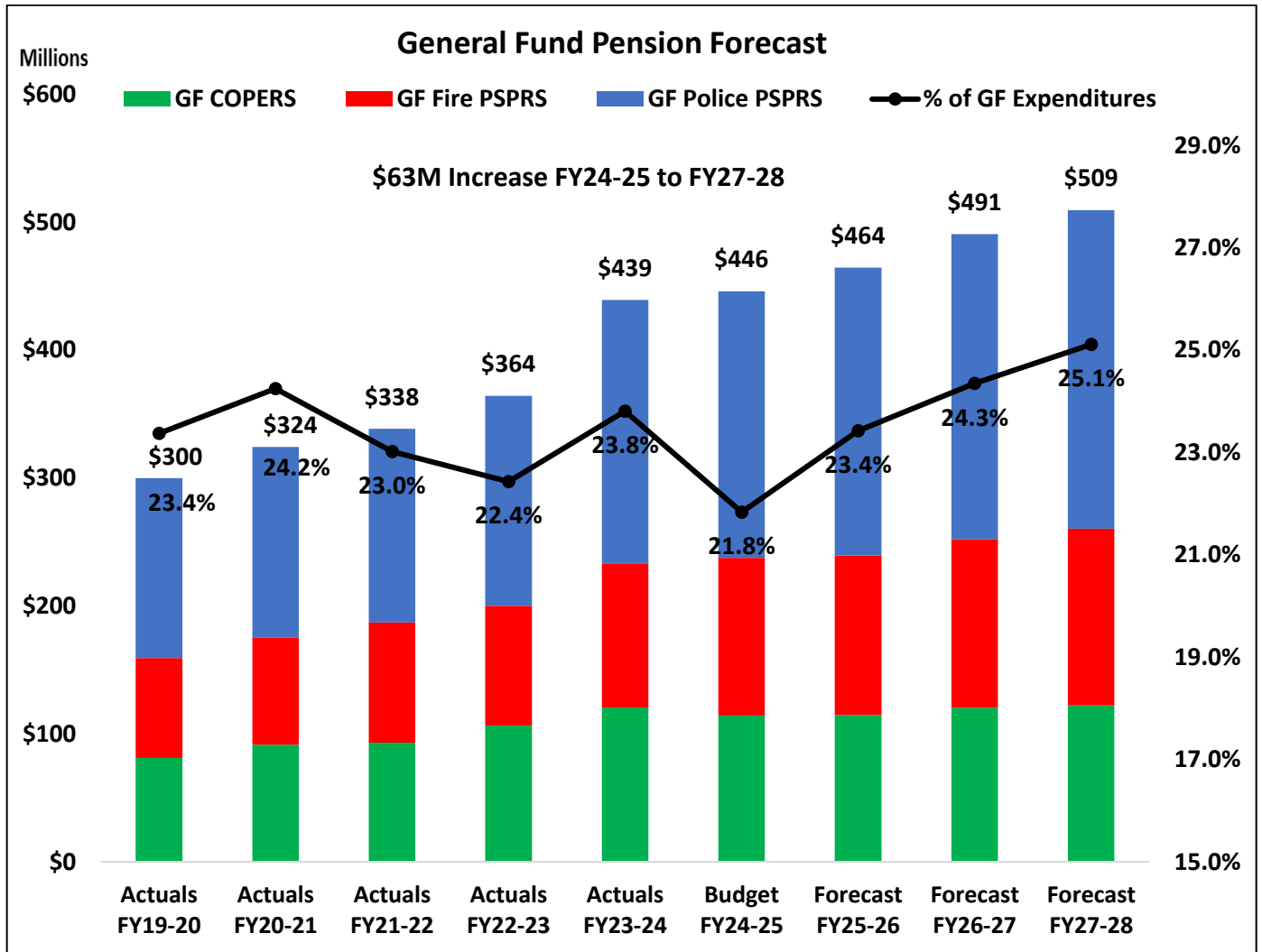
- * The contingency fund is set at 4.75% of the total General Fund operating expenditures from 2025-26 through 2027-28.
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- * Non-personnel related expenditures for 2025-26 assume expenditure growth is in line with recent historical averages, and the out years are anticipated to align with the estimated CPI growth.

Other Forecast Notes:

- * Ranges provided for revenues and expenditures. The upper & lower ends of ranges increase slightly in the outer years of the forecast reflecting additional economic uncertainty in the later years.
- * Ranges include pessimistic and optimistic scenarios within assumptions provided by the primary sources of economic information mentioned in this report.
- * When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

ATTACHMENT H Pension Cost Increases

The chart below illustrates the rise in General Fund (GF) pension costs for PSPRS and COPERS. The forecast for fiscal years 2024-25 through 2027-28 is based on information from plan actuaries and on the valuations dated June 30, 2024. Projected amounts account for updated salary, inflation, and demographic data. The PSPRS Board continued the decrease in the payroll growth assumption from 2.0% to 1.5%, resulting in an increase to the employer contribution rate.





Wildland Urban Interface Fire Preparedness - Citywide

The report updates the Phoenix City Council on the City's preparedness for Wildland Urban Interface fires. The report covers fire threats, ongoing mitigation efforts, and the collaboration between the Phoenix Fire Department, Water Services Department, and the Office of Emergency Management to manage and reduce Wildland Urban Interface fire risks.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Summary

The Wildland-Urban Interface (WUI) refers to areas where human development intersects with undeveloped wildlands. Wildfires in these areas have become an increasing concern in Phoenix, particularly where natural fuels dry out in the spring and summer, elevating the risk when temperatures exceed 105°F and humidity drops below 15 percent.

In 2024, the Phoenix Fire Department (PFD) reevaluated WUI risk areas and identified 41,436 acres, covering 42,638 addresses. These areas are prioritized for community outreach, firefighter training, pre-incident planning, and resource deployment. During times of elevated WUI risk, the Fire Department's WUI Deployment Program is activated, ensuring a surge of fire resources to quickly address brush fires in these areas.

To maintain a continuous state of operational readiness, the PFD has developed a WUI management cycle that exists in perpetuity. In the fall, after-action reports and assessments are conducted. In the winter and early spring, fire fuel reduction programs and training are completed. In the late summer, supplemental resources and associated WUI plans are activated. The cycle repeats annually.

Through unified coordination and standard operating procedures, the PFD and the Water Services Department (WSD) work in unified coordination, following established Standard Operating Procedures (SOP) to ensure an uninterrupted water supply, which is essential for effective firefighting and community safety. During incidents requiring large amounts of water, WSD provides guidance on the selection of fire hydrants to

use and assists PFD in navigating from smaller water mains to larger ones, where higher water flow can be accessed. Additionally, WSD helps identify areas that can be isolated to boost water supply when needed. This collaborative effort ensures that fire hydrants and other water sources continue to function optimally, even under the most challenging conditions. Such coordination is crucial to safeguarding the lives of both Phoenix residents and first responders.

Fire Hydrant Maintenance

In 2021, Water Services conducted a comprehensive review of the Fire Hydrant Maintenance, Repair, and Replacement Program to ensure consistent and regular execution of preventative maintenance, inspections, testing, repairs, and replacements of fire hydrants across the City's water distribution system. The primary goal of Water Services continues to be the diligent testing and maintenance of its 57,000 fire hydrants annually, ensuring compliance with the City's fire code. The 2021 replacement backlog was completed by December 2022. WSD assesses and updates the Fire Hydrant Maintenance, Repair, and Replacement Program each year. On average, less than one percent or 520 hydrants are identified for replacement and included in the WSD's annual maintenance, repair and replacement program. In addition, WSD also regularly exercises its valves, adhering to industry best practices to ensure the entire inventory operates efficiently and effectively.

Water Distribution System and Design

WSD is responsible for the operation and maintenance of the Phoenix water distribution system, which not only supplies drinking water to customers but also provides the required fire flow, as determined by the Phoenix Fire Code. Fire flow refers to the flow rate of a water supply with a residual pressure of 20 psi, available for firefighting purposes. The City's 610 million gallons a day water treatment capacity ensures a reliable backbone to meet the demands of the City.

Phoenix's 7,000-mile water distribution system spans an elevation range between 940 feet and 2,145 feet. Due to this variation, the City is divided into 80 pressure zones, each spanning approximately 100 feet in elevation to ensure standardized pressure targets throughout the City. These pressure zones are served by various water supply systems, including water mains, storage tanks, pump stations, and Pressure-Reducing Valve (PRV) stations. Water demand, which includes the amount of water required for customer needs and fire emergencies, is a key factor in system design. The major water zones are designed with at least two ways to bring water into the zone. This redundancy ensures a reliable water supply throughout the City. Water systems are designed around the following:

Average Day Demand: The total volume of water consumed over a year.

Peak Day Demand: The highest water demand during any 24-hour period.

Peak Hour Demand: The highest water demand during any single hour.

The City's water supply systems are designed to meet peak day demands and required fire flow, while maintaining system pressure above 25 psi and keeping velocities in distribution mains below 10 feet per second. Non-emergency conditions demand system pressures between 50 psi and 100 psi, with velocities below 5 feet per second. There are areas of the system that do not meet these standards or fire flow requirements.

The 480-million-gallon water storage throughout the City provides operational resiliency to meet peak hour demand, fire flow storage, and emergency reserves in case of main breaks, system valve issues, or pump station failures. For areas without storage tanks, the pump stations and/or PRVs that feed the zones are required to have larger capacities, primarily to meet fire flow requirements.

The PFD and the WSD are committed to working collaboratively to assess the WUI areas and develop infrastructure strategies that are economically sensible while maintaining water quality and public safety standards. Options include proactive wildfire prevention strategies, such as reducing fire fuels, clearing vegetation near homes, and using fire-resistant materials as well as water infrastructure to support wildfire suppression efforts.

Phoenix Fire Department's Community Risk Reduction and Prevention

The PFD, in partnership with other agencies, such as the Phoenix Police Department, also work to reduce fire risk in WUI areas. This includes conducting fuel reduction programs, pre-incident training, and activating additional resources during the summer months. The PFD coordinates with local, county, state, and federal partners to develop and maintain joint SOPs for tactical fire suppression.

The Neighborhood Services Department has been actively working to mitigate the risk of urban fires along SR 51 and SR 101 by facilitating collaborative discussions with key stakeholders. These stakeholders include the Arizona Department of Transportation (ADOT), Bureau of Reclamation, Central Arizona Project, State Land, State Forestry, Phoenix Police-Black Mountain Precinct, Phoenix Fire, and the Office of Homeless Solutions.

The Street Transportation Department contributes to the reduction of potential fire fuel through the maintenance of conveyance channels and washes under their control by implementing vegetation management. Additionally, Street Transportation actively manages vegetation along major City streets within the public right-of-way and is

responsive to the PFD for addressing areas of potential safety concerns.

By bringing these diverse groups together, we've seen significant improvements in communication, identification of high-risk areas, and a clearer understanding of each agency's jurisdiction and property boundaries. Fuel reduction and clean-up projects are currently underway in collaboration with State Forestry, State Land, and ADOT to further reduce fire hazards in the region.

Emergency Management Coordination

Additionally, the Office of Emergency Management plays a key role in coordinating responses to WUI incidents. This includes determining whether evacuations are necessary, implementing traffic management plans, and activating sheltering plans if needed. The office works closely with PFD, WSD, and other City and state agencies to ensure a well-coordinated response.

The City of Phoenix is committed to enhancing public safety and providing effective wildfire mitigation strategies in WUI areas. Through collaboration between the PFD, WSD, the Office of Emergency Management, and other stakeholders, the City ensures a comprehensive approach to wildfire preparedness and response. The efforts focus on maintaining reliable infrastructure while considering cost-effective solutions to support long-term fire resilience.

Responsible Department

This item is submitted by Assistant City Manager Lori Bays, Deputy City Manager Ginger Spencer, Phoenix Fire and Water Services departments and Office of Emergency Management.