

# Budget Highlights

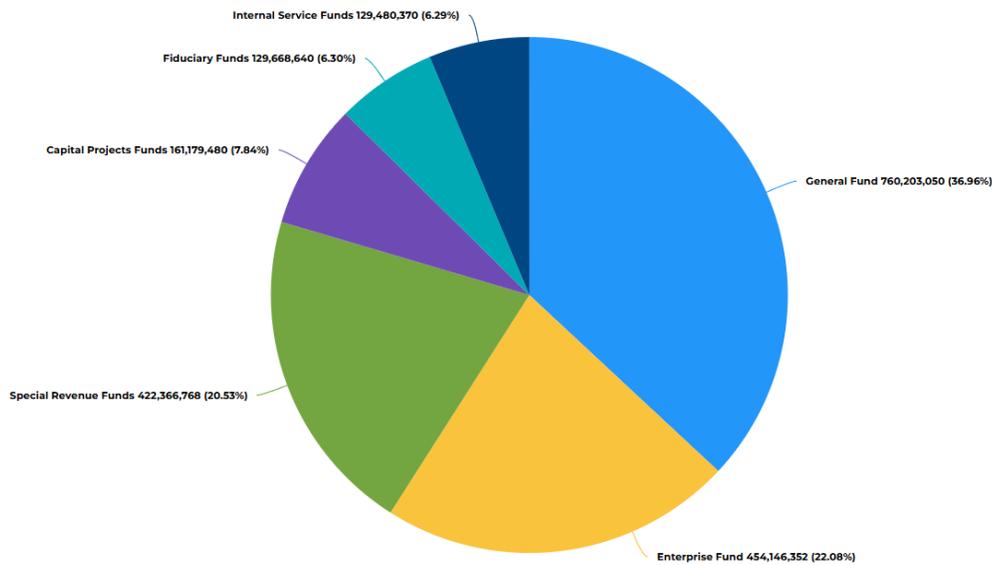
## City Overview

The Tucson City Charter requires that the City Manager submit a recommended budget for the following fiscal year on or before the first Monday in May, or on such dates in each year as shall be fixed by the Mayor and Council. The Mayor and Council review the City Manager's recommended budget and, as required by the State of Arizona, adopt a balanced budget on or before the third Monday in August. For Fiscal Year 2026, the recommended budget was submitted on April 22, 2025, and was adopted by the Mayor and Council on June 6, 2025.

## City Revenues

The City of Tucson's Budget is composed of several funds which are set up to accomplish different functions. This allows segregation and tracking of costs of the city operations and programs.

**Fiscal Year 2026 Citywide Revenue**



*This chart illustrates the dollar amount and percentage of the City's revenue sources.*

# City Expenditures

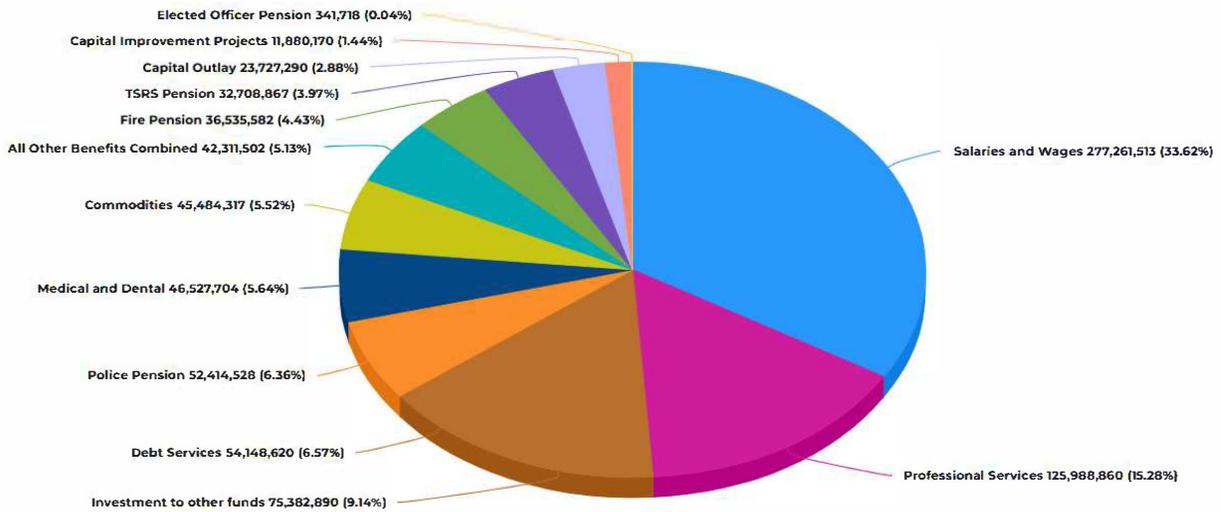
The City of Tucson's expenditure budget for Fiscal Year 2026 amounts to \$2.41 billion, representing an increase of \$19 million over the Fiscal Year 2025 Adopted Budget of \$2.39 billion.

The increase to the budget will fund market-based and fair compensation for employees, public safety operations and equipment, information technology sustainment of capabilities, violence prevention and intervention, general capital and infrastructure improvements.

Employee Investments – the Fiscal Year 2026 budget allocates \$23.6 million citywide for compensation adjustments, of which \$16.3 million will be funded by the General Fund and \$7.3 million from non-General Fund funds. One of the City's most valuable assets is its employees, who are key to carrying the City into the future. This investment will provide employees with market-based, fair compensation and the environment necessary for success in delivering excellent and sustained service to the community.

This budget includes additional funding for public safety, a general capital fund, violence prevention and intervention, and technology, totaling \$15 million.

## General Fund Expenditures \$2.41 Billion



*This chart shows the City of Tucson's expenditures.*

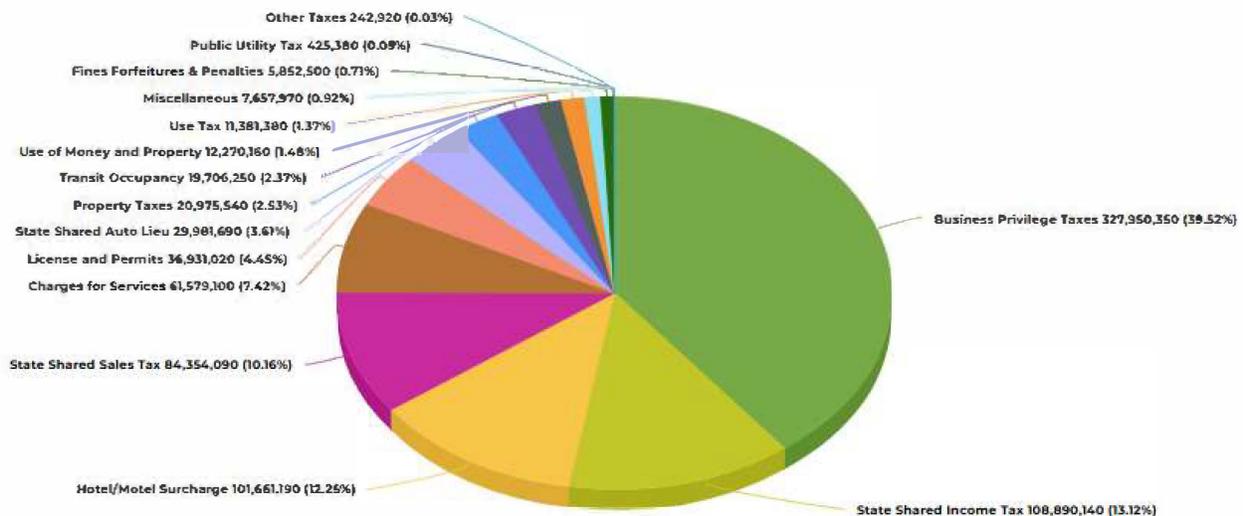
# General Fund Revenues

The City's goal is to maintain its General Fund revenue base from taxes, intergovernmental shared revenues, and other revenue sources such as licenses and permits, fines and forfeitures, and user fees. This year's budget includes a total of \$779.4 million in General Fund revenue, which is a \$18.1 million increase or 2.4% more than the Fiscal Year 2025 Adopted Budget of \$761.3 million. The General Fund is also supported by business privilege tax revenue. The business privilege tax revenue of \$326.3 million or 41.9% of the total represents the largest single source of General Fund revenue. State-shared taxes (income, sales, and auto lieu) account for a total of \$223.2 million or 28.6% of the total revenues. Other local taxes, including utility, use, transient occupancy, and liquor taxes account for a total of \$68.5 million or 8.8% of the total revenues. These revenue sources have a high tendency to decline during an uncertain economic environment. The city will be monitoring their performance during the fiscal year and will adjust in accordance with performance.

The City's is experiencing a slight decline in its business privilege tax revenues in comparison to recent precious year collections. In January 2025, City sales taxes through the end of December were up 7.38% over Fiscal Year 2024 mid-year levels. At that point City sales taxes exceeded our budget estimates of 3% growth over Fiscal Year 2025, and as such projections through the end of Fiscal Year were estimated at 3.5%. As of March 2025, City sales tax collections were at \$234.8 million compared to \$232.1 million over the same periods in Fiscal Year 2024, a growth of only 1.1%. This sharp decline from a level of 7.38% to only 1.1% growth in a matter of months has been unprecedented in recent years. The Fiscal Year 2026 Adopted Budget of \$326.3 million is \$8.1 million more than Fiscal Year 2025 projected revenues of \$318.2 million, which is an approximate 2.5% increase, and is lower than the City's previous year projections.

City state shared revenue estimates used in this year's budget are based on information from the Arizona League of Cities. The 2023 population estimates from the U.S. Census Bureau were used to formulate the city's distribution. Fiscal Year 2026 will be the second consecutive year of decline in State Shared Income Tax revenues, the result of the adoption and implementation of a flat income tax. Further, after sharing positive projections of Fiscal Year 2026 State Sales Tax collections after the holiday season, the Arizona League of Cities and Towns revised its sales tax projections downward by 2.6%, dropping their estimates by \$1.4 million. The budget includes a total of \$223.2 million, which is a \$6.3 million decrease from the Fiscal Year 2025 projection.

## Fiscal Year 2026 General Fund Revenues



Notes: Charts may not add to 100% due to rounding.

# General Fund Expenditures

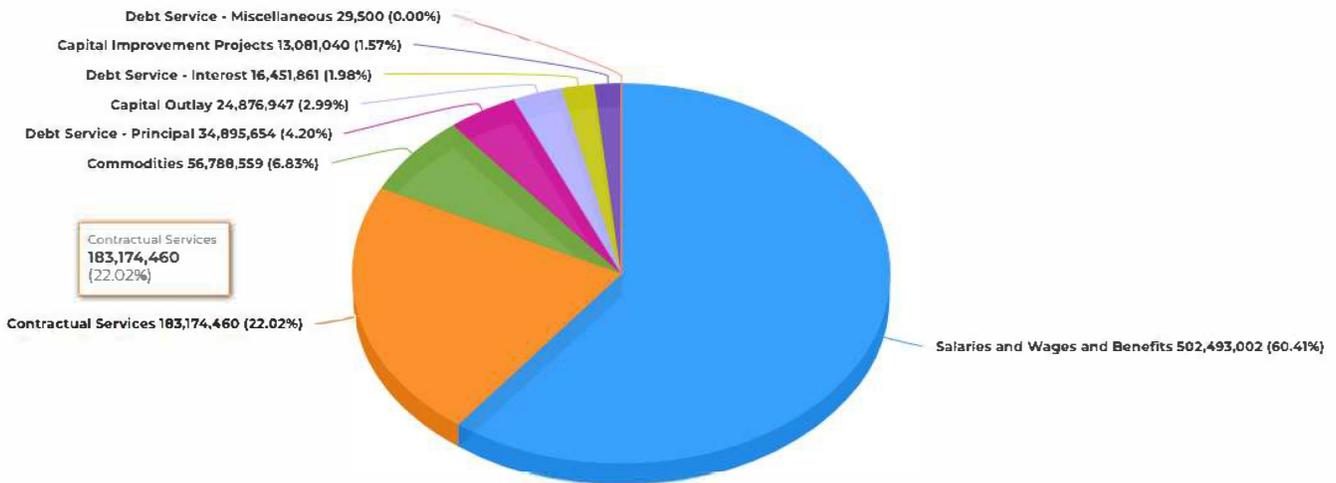
The City of Tucson's General Fund expenditures for Fiscal Year 2026 are budgeted at \$831.8 million, representing an 11% increase compared to the Fiscal Year 2025 adopted budget of \$749.3 million. This upward shift continues the multi-year trend of expenditure growth that began in FY2024, when actual expenditures totaled \$767.8 million, or 2.47% above the prior year's adopted budget.

The City's salaries, wages, and benefits remain the single largest spending component of the General Fund. In Fiscal Year 2026, these expenditures are budgeted at \$502.5 million, a 2.9% increase over the Fiscal Year 2025 projection. This growth reflects the City's continued commitment to invest in its employees by providing fair and competitive compensation. This year's budget includes \$16.3 million for compensation increases for four key components: in-range pay placement, pay progression, and market-based adjustments.

Operating expenses, costs for post-employment, services, commodities, and capital equipment make up an additional \$127.9 million or 15.4% of the total General Fund expenditures. Debt service obligations are \$51.4 million or 6.1%. In addition to the \$831.7 million in General Fund spending, the City allocated \$74.9 million, or 9.1% of total General Fund expenditures, to support other fund operations through cash transfers, including to Sun Tran, Sun Van, SunLink, Tucson Convention Center, and Development Fee Funds.

The City General Fund budget also includes one-time funding used to honor the City's commitment to addressing critical needs in public safety, collector street improvements, community partner grants, unhoused and unsheltered programs, and core service infrastructure improvements. The Fiscal Year Adopted Budget includes \$149.9 million to fund these efforts. In addition to the total budget, \$22.4 million was added for the Parks and Connections – Proposition 407 to fund unanticipated increased costs for projects approved when the initiative was passed by voters in 2018.

## Fiscal Year 2026 General Fund Expenditures \$831.7 Million



The General Fund is organized into six functions: the largest being Public Safety and Judicial Services; this function includes Police, Fire, Public Safety Communications Center, City Court, and the Public Defender’s Office; Community Enrichment and Development includes the quality of life type services provided by the City’s Parks and Recreation Department, Planning and Development Services, Transportation, and Housing and Community Development; Elected and Official function includes Mayor and Council, City Manager, City Attorney, and City Clerk; Support Services function includes; Business Services, General Services, Human Resources, and Information Technology; Public Utilities consists of code enforcement; General Government includes outside agencies, debt service, and general expense; and Investments to Other funds are primarily transfers for development fee waivers on behalf of low income housing and the Transit System and Tucson Convention Center, that cover the difference between the costs of operations and the revenue generated .

<b>Total General Fund Expenditures (\$ Million)</b>				
<b>Function</b>	<b>Adopted FY 2025 Budget</b>	<b>Adopted FY 2026 Budget</b>	<b>Dollar Amount Chang</b>	<b>Percentage Change</b>
<b>Community Enrichment and Development</b>	<b>\$ 72,820,787</b>	<b>\$ 113,588,486</b>	<b>\$40,767,699.38</b>	<b>56%</b>
<b>Elected and Official</b>	<b>\$ 38,884,083</b>	<b>\$ 51,924,355</b>	<b>\$13,040,272.42</b>	<b>34%</b>
<b>General Government - Function</b>	<b>\$102,438,153</b>	<b>\$110,915,525</b>	<b>\$8,477,372.00</b>	<b>8%</b>
<b>Public Safety and Justice Services</b>	<b>\$400,300,383</b>	<b>\$417,873,655</b>	<b>\$17,573,271.96</b>	<b>4%</b>
<b>Public Utility</b>	<b>\$ 919,029</b>	<b>\$ 818,515</b>	<b>(\$100,514.53)</b>	<b>-11%</b>
<b>Support Services</b>	<b>\$133,968,235</b>	<b>\$136,670,487</b>	<b>\$2,702,252.35</b>	<b>2%</b>
<b>Total</b>	<b>\$749,330,670</b>	<b>\$831,791,024</b>	<b>\$82,460,353.57</b>	<b>11%</b>

The total increase from the Fiscal Year 2026 Adopted Budget of \$749.3 million to the Fiscal Year 2026 Adopted Budget of \$831.7 million is \$82.4 million. This increase spans across all functions and is primarily driven by employee compensation adjustments of \$16.3 million and the inclusion of \$63.1 million from framework one-time funding in this year’s budget.

# General Fund - Fund Balance

The status of the General Fund Unrestricted Fund Balance is critical to the financial health of the City. It has implications for the City's access to the financial markets and the cost of borrowing in order to finance needed infrastructure and facility projects. Our efforts to improve our financial condition continue to be noticed by the credit rating agencies Fitch, Standard and Poor's (S&P), and Moody's. All three agencies continue to rate the City highly and maintain a stable outlook.

Certain revenues are subject to constraints either externally imposed by creditors, grantors, contributors, laws, or regulations of other governments, or are imposed by law through constitutional provisions (i.e., state assessment fee, vehicle impoundment fee, forfeitures). If the City is unable to spend the restricted revenues by fiscal year-end, then the remaining unexpended funds increase the General Fund's restricted fund balance. A department may plan to spend the restricted funds in the following fiscal year.

In Fiscal Year 2011, the Mayor and Council established a Stabilization Fund within the Committed Fund Balance category, with a minimum policy goal of 10% of the prior year's General Fund revenues and a goal of 7% for the Unassigned Fund Balance. In Fiscal Year 2025, the Mayor and Council amended this policy reserve from a "percent of revenues" amount to a "flat dollar amount." This changes the reserve level to a flat fixed amount of \$142 million setting the committed "stabilization" amount to \$87.9 million, and the unassigned to \$54.1million.

For Fiscal Year 2025, projected ongoing revenues are expected to exceed projected ongoing expenditures by approximately \$0.1 million. This surplus reflects the City's efforts to maintain a balanced budget despite several challenges, including revenue reductions, declining vacancy savings, and the inclusion of compensation adjustments in the adopted budget. Separately, the City identified investment plan expenditures of \$51.2 million and one-time expenditures of \$12.2 million, which will be funded through a withdrawal from the assigned fund balance. These investment plan expenditures support key priorities such as essential Public Safety needs, the Collector Street Program, the General Fund match for Mass Transit capital projects, the Choice Neighborhoods Grant match, and other critical initiatives aligned with the Mayor and Council's strategic plan. One-time expenditures include upgrades, implementation, or training, Human Resources, and case management system; City Hall elevator improvements; election support costs; Tucson House rehabilitation; and other miscellaneous items. They also anticipate drawing another.

The City anticipates drawing another \$85 million from the assigned fund balance to supplement the Prop 407 - Parks and Connections initiative with \$22.4 million and a carry-forward amount of \$63.1 million from the \$79.7 million swap of General Fund expenditures with eligible ARPA expenditures in Fiscal Year 2024.

The use of committed fund balances and restricted fund balances is anticipated to remain flat while unassigned fund balances will decrease due to estimated declining revenue collections.

The projected available General Fund ending balance for Fiscal Year 2026 is lower than originally anticipated during budget development. Based on current projections, the financial plan forecast for the Fiscal Year 2027 budget remains in a deficit position. This deficit must be addressed before the Fiscal Year 2027 budget is adopted; therefore, the City must continue to exercise fiscal caution and carefully evaluate any new or ongoing operating expenditure commitments.

## Tucson Water Utility Fund

The Tucson Water Utility's operating revenues for Fiscal Year 2026 are projected at \$348.1 million, representing a 7.4% increase over the adopted Fiscal Year 2025 budget of \$324.1 million. The Tucson Water budget is based on a financial plan adopted by the Mayor and Council in the Winter, which includes the third year of the four-year approved 5.5% rate increases, which are expected to generate an additional \$12 million per year. In addition, the department plans to use bond proceeds to fund capital projects.

On June 17, 2025, the Mayor and Council will review the potential implementation of revenue-neutral differential rates based on the actual cost-of-service for customers in unincorporated areas.

For Fiscal Year 2026, budgeted expenditures total \$387.6 million, an increase of \$25.4 million or 7% compared to the Fiscal Year 2025 adopted budget of \$362.2 million. This planned growth reflects Tucson Water's ongoing commitment to maintaining high service standards, investing in infrastructure renewal, and meeting increasing operational and regulatory demands.

## Environmental Services Fund

For Fiscal Year 2026, revenues for the Environmental Services Fund are budgeted at \$75.9 million, representing a \$4.1 million increase over the adopted Fiscal Year 2025 of \$71.8 million.

The Environmental Services Department (ESD) budgeted expenditures total \$73.9 million for Fiscal Year 2026, reflecting a \$2 million or 2.8% increase over the Fiscal Year 2025 adopted budget of \$71.9 million. This modest increase supports increases to fund the acquisition of critical heavy equipment to support both landfill and collections operations. The utility is expected to use available cash to fund some capital improvement projects such as the completion of the plastic waste diversion facility and critical campus upgrades at the Los Reales Sustainability Campus. This funding will also support several projects bringing the City closer to its climate action goals, such as planned enhancements to food waste diversion and composting and landfill gas system upgrades. The projected ESD available cash balance as of June 30, 2025, is \$44.2 million, which is sufficient to fund these needs.

## Highway User Revenue Fund (HURF)

The budget revenues for Fiscal Year 2026 is set at \$66 million, reflecting an increase of \$1.1 million from Fiscal Year 2025 Adopted Budget of \$64.9 million. The increase is based on a 2% revenue growth assumption, following fluctuating growth rates since Fiscal Year 2023.

The budgeted expenditures for Fiscal Year 2026 are set to \$69.5 million, reflecting a \$4.6 million increase over the Fiscal Year 2025 Adopted Budget of \$64.9 million. Most of the increase will cover personnel increases and copper wire theft. This budget includes a five-year, \$11 million annual commitment to the Collector Street Improvement program under Proposition 411 – Road Repair and Safety.

## Park Tucson

For Fiscal Year 2026, total projected revenues are \$6 million, reflecting a 7.1% increase compared to the Fiscal Year 2025 adopted budget of \$5.6 million. For this fiscal year, fee increases of 8% and 17% for two different On Street permits will take effect and the department will see the annual impact. Budgeted expenditures for fiscal Year 2026 are \$1 million higher than the previous year, primarily due to an increase in the security vendor contract. The department's priority continues to be the safety and security of City parking lots and garages.

# Capital Improvement Program

The Capital Improvement Program (CIP) is a comprehensive five-year planning tool that identifies, prioritizes, and coordinates the location, timing, and financing of the City's capital needs. The CIP supports the City's mission to maintain, expand, and improve public infrastructure and facilities in a manner that promotes efficiency, sustainability, and community growth. The Adopted Five-Year Capital Improvement Program (CIP), covering Fiscal Years 2026 through 2030, totals \$1.9 billion. The Fiscal Year 2026 CIP plan is estimated at \$639.4 million, which is \$142 million more than in Fiscal Year 2025. The Capital Improvement Plan section of this book highlights proposed capital projects for implementation in Fiscal Year 2025 and provides a five-year outlook.

## Salary and Benefits Costs

Employee retention continues to be a growing concern for the City. In response, the Fiscal Year 2026 Adopted Budget includes \$23.6 million (\$16.3 million General Fund and \$7.3 million non-General Fund) for additional investment in employee compensation. The following are four key components that will be implemented this fiscal year to provide employees with market-based, fair compensation, and an environment to be successful, therefore creating excellent and sustainable service to the community.

- **In-range pay placement adjustments:** In-range pay placement refers to where an individual employee's pay is placed within their position's salary range. Placement should largely be based on the individual's job-related experience and education, as long as they demonstrate adequate performance (see fourth bullet, below). Pay placement for workers in the same job classification has been an emerging issue of concern for many supervisors and employees over the past two years. A key part of the employee investment plan is to make adjustments to in-range pay placements for employees who have met or exceeded performance standards but are currently placed lower in their position's salary range than they should be based on their job-related experience.
- **Pay Progression (across-the-board) increases** provide the opportunity for virtually all employees to receive an annual salary adjustment. This recognizes employees' continued growth, experience, and contributions over the past year.
- **Market adjustments to job classifications** address salaries to remain competitive within our state and region. Because wages among different job sectors change at different market rates, adjustments will vary, with some positions receiving increases at times when others have no change. This strategy aims to bring positions that are further from market rates closer to competitive levels while maintaining competitiveness across the workforce.
- **Employee Performance Evaluations** across the organization will be a required component of the compensation plan.

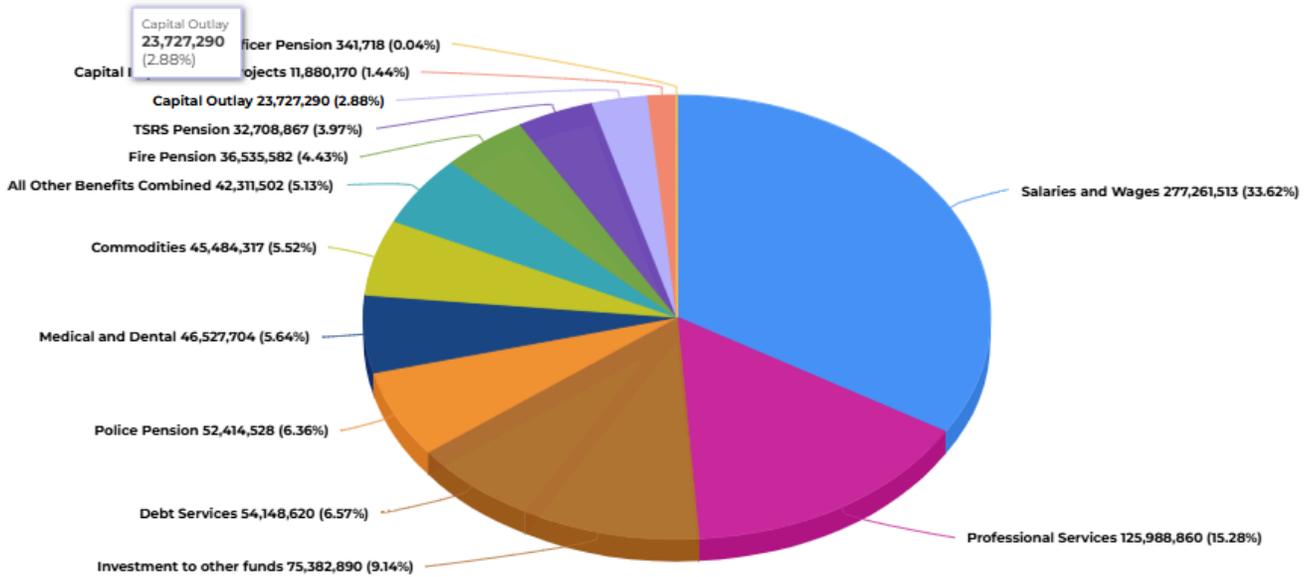
Health insurance costs are projected to rise by 8.5% across all plan types. The City currently covers a larger share of employee medical premiums than most similarly sized Arizona municipalities or those in our region—paying 88% of premiums for Network plans and 91% for HSA and HRA plans. This substantial employer contribution places added strain on the City's budget, making it more challenging to also support market-competitive wages and pension obligations, all of which draw from the same funding pool. Based on actual employee enrollment and recent claims data, the projected \$4.8 million increase in health insurance costs will be shared roughly equally between the City and its employees.

An independent actuarial study determines pension costs. The Tucson Supplemental Retirement System (TSRS) employer contribution rate remains unchanged at 27.5% for Fiscal Year 2026. Employee contribution rates were also held flat from prior year rates. In Fiscal Year 2025, General Fund pension expenses totaled \$29.9 million—\$2.7 million lower than the \$32.6 million included in the Fiscal Year 2025 adopted budget. The TSRS Board of Trustees received the June 30, 2024 Actuarial Valuation Report on Oct. 24, 2024. The Plan experienced an increase in the funded ratio (a decrease in the unfunded liability) to 76.3%, which is up from 75.0% in the prior year. Based on the Actuarial Valuation Report and assumptions, and the continued use of the adopted funding policy, the plan is anticipated to achieve full funding in Fiscal Year 2034.

The City contributes to the Public Safety Personnel Retirement System (PSPRS) on behalf of eligible Fire and Police employees. In recent years, factors such as employee wage increases, changes to PSPRS actuarial assumptions, and lower-than-expected investment returns have contributed to rising pension liabilities and higher required City contributions. These annual increases have been substantial.

As part of the City's strategy to manage public safety pension obligations, \$21.8 million of required PSPRS contributions are planned annually from the Section 115 Trust Fund. This Trust, funded with proceeds from the City's pension obligation bonds, is invested to support the City's ongoing pension costs. The Section 115 Trust was created to provide the City with greater local investment control and flexibility in managing its annual pension contributions and long-term liabilities.

As of the latest valuation dated June 30, 2024, the City's total unfunded actuarial accrued liability is \$627.3 million, with a combined funded ratio of 68.4% for both the Fire and Police plans, remaining consistent with the prior year's funding status.



*Note: All Other Benefits Combined include Workers' Compensation , uniform allowance, second language pay, downtown employee allowance, state unemployment, meal allowance, paramedic certification, fire prevention pay, and compressed natural gas certification. Student Loan Repayments and Education Reimbursement for Employees.*