



MAYOR & COUNCIL MEMORANDUM

April 8, 2025

Subject: Fiscal Year 2026 (FY26) Budget Discussion (City Wide)

Page: 1 of 1

Issue – Time has been set aside for discussion regarding Fiscal Year 2026 (FY26) Budget.

City Manager's Office Recommendation – The Mayor and Council are asked to discuss the information contained in Attachment A and give their comments. Staff have prepared Attachment B to guide the discussion.

Financial Considerations – See Attachment A: Memorandum from Assistant City Manager Anna Rosenberry and Business Services Director Angele Ozoemelum dated April 8, 2025

Legal Considerations – None at this time.

Respectfully submitted,

Timothy M. Thomure, P.E., ENV SP
City Manager

AO:mlf
Business Services Department

Attachment(s): A: Memorandum from Anna Rosenberry CFO/ACM and Angele Ozoemelum,
Business Services Director dated April 8, 2025
Exhibit 1 - GF 5YR Forecast
Exhibit 2 - Employee Budget Town Hall Results
B. FY26 Budget Discussion Presentation



Date: April 8, 2025
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MEMORANDUM

To: Honorable Mayor Romero and Council Members

From: Anna Rosenberry, CFO/Assistant City Manager
Angele Ozoemelum, Business Services Director

Subject: FY26 Budget Discussion

This memorandum provides preliminary information on the FY26 budget development, including updates on revenues and expenditures, the draft General Fund Unrestricted Five-Year Forecast, and the status of major Enterprise and Special Revenue budgets.

Budget Development - We continue to develop the City Manager's Recommended Budget for FY26, which will be presented on April 22, 2025.

Revenues - As reported to Mayor and Council in the January 22 memorandum, city sales taxes through the end of December were up 7.38% over FY24 mid year levels. At that point city sales taxes exceeded our budget estimates of 3% growth over FY24, and as such projections through the end of FY25 were estimated at 3.5%. As of March 30, city sales tax collections were at \$234.8 million compared to \$232.1 million over the same periods in FY24, 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 is unprecedented in recent years. As a precautionary measure, the business services department is recommending a reduction in the projected sales tax revenues to \$318.5 million and \$326.3 million in FY25 and FY26 respectively.

The League of Cities and Towns released a draft of the FY26 Preliminary State Shared Revenue Report, revealing a declining estimate in state sales tax for the City, as shown in Table 1. Due to this information, our updated forecast will reflect a decline of \$1.4 million in General Fund revenues in FY26.

Table 1: FY26 General Fund State Shared Revenue

FY26 General Fund State Shared Revenue				
	<i>Previous Forecast</i>		<i>Updated Forecast</i>	
				<i>Difference</i>
Income Tax	\$	108,583,831	\$	108,890,141
Sales Tax	\$	86,648,101	\$	84,354,093
Auto Lieu	\$	29,410,824	\$	29,981,693
Total	\$	224,642,756	\$	223,225,927
				\$ (1,416,829)

Expenditures - The major areas of work on budget development include the various supplemental expenditure requests made by departments and the need to incorporate a small number of Proposition 414 critical needs into the existing budget, despite the failure of the sales tax increase that would have supported them if voters had approved the ballot measure.

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Supplemental Requests – In reviewing departments' supplemental requests, certain proposed amounts have been added to the base budget or as one-time funding in FY26 because they are essential to continuing our current operations. The departments submitted requests totaling approximately \$82 million including increased costs, new requests, and the addition of over 110 positions across different funding sources. At this time, the City Manager has tentatively approved a total of supplemental requests of approximately \$12.7 million dollars for FY26, with \$3.5 million designated for one-time expenses and \$9.2 million for recurring expenses within the General Fund. The General Fund's previous five-year forecast included \$17.1 million as a placeholder and is currently at \$12.7 million. The remaining departmental supplemental requests, including those that modify or expand our operations, are still being reviewed and analyzed for possible inclusion in the Recommended Budget. Please note that additional departmental supplemental requests were submitted for non-General Fund budgets. At this time, the Manager is prepared to recommend approval of approximately \$4.8 million of these supplemental requests that are outside of the General Fund.

Investment Plan – We remain fully committed to the Investment Plan, and the allocated amounts have not been altered in the financial plan. Our continued adherence to this plan reflects our long-term strategy to honor voter commitments and support key initiatives.

Proposition 414 Critical Needs Plan - \$14.6 million - On March 11, City of Tucson voters chose not to approve Proposition 414, a ballot measure that would have created a new, temporary half-cent sales tax to fund public safety and community resiliency investments over the next ten years. Despite the results of the vote, there are a number of critical needs that the City Manager will be recommending in the FY26 budget as recurring costs. In addition, it is expected that the FY27 budget recommendation would need to add further resources in similar areas. The needs identified in FY26 include:

- **Tucson Police Department - \$5.5 million**
 - **Additional Sworn Police Officers**
 - **Community Oriented Policing Services (COPS) Hiring Program (CHP) Grant** - In the Fall of 2024, the City was awarded a five-year COPS Hiring Program grant totaling \$6.25 million over five years to fund up to 50 new officers. This grant provides critical funding to support hiring additional career law enforcement officers, enabling our police department to enhance crime prevention efforts. The grant requires a General Fund match and a requirement to retain COPS hired for at least five years.
 - **Additional Professional Staff** - Community Service Officers (CSOs), Professional Investigators, etc.
 - **Equipment for New Officers including Vehicle, Firearm, Laptop & all Essential Gear**
- **General Capital Fund - \$4.0 million**

Investing in asset management and capital infrastructure through the General Fund budget is essential for ensuring the long-term sustainability, efficiency, and reliability of City services. Dedicating funding for asset management and capital investment is a strategic, fiscally responsible approach that supports service reliability, public safety, economic growth, and sustainability. By integrating these priorities into the General Fund budget, the City can proactively maintain infrastructure, extend asset lifespan, reduce long-term costs, and enhance the quality of life for all residents.

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- **Tucson Fire Day Truck Operations - \$1.624 million - Funding for 14 FTEs**

Fire Day Truck Operations refers to a strategic staffing and deployment model used by fire departments to optimize resources and improve emergency response efficiency. These trucks are typically smaller, more cost-effective units, that operate only during peak hours (usually daytime) when call volumes are highest. This approach involves assigning dedicated “day trucks” already in the fleet, to operate primarily during daytime hours when call volumes are highest to enhance efficiency and response times. Benefits of Fire Day Trucks are:

- Cost savings by reducing wear on full-time fire apparatus.
- Increased efficiency in responding to non-critical calls.
- Better resource allocation for emergency services.
- Reduced firefighter fatigue by optimizing shift workloads.

- **Office of Violence Prevention and Intervention and Thrive Zone Investments- \$2.0 million**

The Office of Violence Prevention & Intervention focuses on reducing violence, particularly gun violence, through community-based strategies. Housed in the City Manager’s Office, it connects communities with resources and leadership to prevent crime. Funding supports three staff members to oversee programs like VIVA (Violence Interruption and Vitalization Actions), which has shown promising results.

Thrive Zones are areas in Tucson affected by historic disinvestment, which has led to economic and social challenges. The City has two Thrive Zones, and it works with residents and businesses to improve education, services, jobs, and public safety.

- **Information Technology Improvements \$1.0 million**

A \$1.0 million increase will be included in the General Fund to support a limited amount of information technology upgrades for public safety services.

- **Public Safety Communications - \$470,000 Funding to hire 7 FTEs**

We propose adding four 9-1-1 Operators and three 3-1-1 Operators to the FY26 budget. Tucson's regional 9-1-1 system is crucial for emergency response. The city launched a 24/7 3-1-1 system to handle non-emergency calls, ensuring efficient service delivery by directing residents to the appropriate resources.

Draft General Fund Unrestricted Five-Year Forecast – Exhibit 1 is an updated General Fund Five Year Forecast. The last version of this Forecast, provided to Mayor & Council at the March 4 Study Session, showed the FY26 Projected Operating Deficit of (\$13.1 million) and the Projected Year End Available Fund Balance at the end of FY26 is \$7.4 million. The new projection has these numbers at (\$27.8 million) and (\$8.1 million), respectively. The FY26 Base Budget Preliminary revenues and expenditures have been updated to reflect the items discussed above. The FY 26 Base Budget – Preliminary amounts have also been adjusted for:

- **PSPRS Estimate** - An updated PSPRS funding model has been developed with our pension consultant to guide financial planning over the next five years. While the model provides a structured approach, it relies on assumptions that may not fully capture long-term pension liabilities. Factors such as market fluctuations, demographic shifts, and retirement patterns could impact projections. We have incorporated the model’s estimates into our financial forecast and allocated additional funding as a fiscally responsible approach. This approach ensures the City remains on a sustainable path in meeting its public safety pension obligations.

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- **Health Insurance Costs** – Health insurance costs have been updated based on the City Manager’s recommendation presented at the March 4 Study Session.
- **Compensation Amounts** - Compensation amounts align with the figures outlined in the FY26 Compensation Plan, as well as FY27 and FY28, ensuring consistency with our financial strategy and commitment to fair and competitive pay.
- **Supplemental Requests** – The financial forecast has been updated to incorporate the Critical Needs Plan listed above and select supplemental items that the City Manager will recommend as recurring costs in the FY26 budget. Supplemental requests are still under consideration.

We are still in the process of balancing the budget; however, the five-year forecast has been updated and now reflects a gap of the FY26 Projected Operating Deficit of (\$27.8 million) and the Projected Year End Available Fund Balance at the end of FY26 is negative at (\$ 8.1 million). This projection provides a snapshot of our current financial position and the challenges ahead as we work toward a balanced budget recommendation for you at the next Study Session.

Special Revenue & Enterprise Funds - The FY26 operating budget requests for the Highway User Revenue Fund, Water, and Environmental Services are summarized below.

Highway User Revenue Fund (HURF) - \$65,686,858

The FY26 HURF budget is based on a 2% revenue growth assumption, following fluctuating growth rates since FY23. Preliminary revenue projections from the League of Cities and Towns are slightly higher than previously forecast, with \$62.6 million in the financial plan compared to the earlier estimate of \$61.4 million. The budget balances recurring expenditures with expected revenues, with key cost drivers including consultant project management for voter-approved initiatives and copper wire theft. Road repair and maintenance remain a top priority. The budget includes a five-year, \$11.0 million annual commitment to the collector improvement program under Proposition 411, supplemented by \$4.0 million annually from the General Fund. The projected fund balance as of June 30, 2025, is \$18.5 million.

Environmental Services Fund

- Utility Fund: \$63,080,559
- General Fund: \$662,078
- Grant Fund: \$245,700

No new rate increases are planned for FY26; however, the department is in the process of conducting a cost-of-service study scheduled to be completed this Fall. The FY26 Environmental Services Department (ESD) operating budget has increased in the last few years and was offset by previous rate increases. Funding is planned to support operational expenditures and the acquisition of critical heavy equipment to support both landfill and collections operations. The utility is expected to use fund balance to cover some capital improvement projects, such as the completion of the plastic waste diversion facility and critical campus upgrades at the Los Reales Sustainability Campus, and the Nearmont landfill. The 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 fund balance as of June 30, 2025, is \$44.2 million. The FY26 request for General Fund dollars reflects the amount necessary to manage the City’s graffiti abatement program.

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Tucson Water Utility (TW)

- Tucson Water Utility Fund \$355,684,011
- Conservation Fund: \$5,204,417
- Green Stormwater Infrastructure Fund: \$9,081,100

The FY26 Water Utility budget aligns with the five-year financial plan and includes the third year of a 5.5% rate increase. Overall revenue is projected to decrease by \$46 million compared to FY25, mainly due to a \$75 million reduction in budget capacity from revenue bond proceeds. However, compensated conservation payments will increase by \$8 million, and water supply revenues will rise by \$6.1 million due to the Water Supply Fee increase. Potable water sales revenue is expected to decline by \$3.7 million despite the rate increase.

Operating expenditures will grow by \$13.9 million, driven by higher personnel costs (\$4.6 million), CAP water costs (\$3.8 million), and PFAS treatment-related professional services (\$1.5 million); and fleet and equipment replacements will add \$1.4 million.

Conservation Fund - Program-specific budgets include a \$1.7 million reduction in professional services for the Water Conservation Program, along with a new \$300k rebate program for replacing nonfunctional turf.

Green Stormwater - The Storm to Shade Program has allocated \$750k for maintenance and \$7.0 million for new green stormwater infrastructure projects and use fund balance.

Tucson Water is evaluating whether the previously approved rate increases are sufficient to sustain future operations and capital needs, with recommendations expected in FY26. At tonight's regular meeting, Mayor and Council will consider a Notice of Intent to adopt differential rates for customers located in unincorporated areas (which will be revenue neutral) along with increases to the conservation fee and green stormwater infrastructure fee.

Budget Engagement Events

Employee Budget Town Hall Feedback – This employee engagement event was held on March 3, 2025, at the Tucson Convention Center. Approximately 270 people attended in person, with representation from various departments and several Ward offices. The event facilitated dialogue on pressing issues, presented key budget information, educated about Prop 414, and provided an interactive feedback session for employees. Following the event, the recorded presentation and accompanying survey were made available to employees to participate remotely for 48 hours. Combined with in-person attendance, over 400 employees participated and provided over 1,000 comments on budget priorities, fiscal challenges, and potential solutions.

The City Manager shared a summary of the survey results with employees during a "Team Focus with Tim" event on March 20, 2025. Top issues of concern among employees were the City's investments in employees (compensation plan), infrastructure, and federal funding risks. Top areas identified for savings, efficiency, and/or new funding included remote work and flexible schedules, charging transit fares, and analyzing the use of outside contractors vs. hired employees. More details are shown on slides that summarize the event feedback, attached in Exhibit 2.

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Community Budget Meetings & Survey – We have scheduled and advertised the following events:

- Tuesday, April 1, Randolph Recreation Center, 6-7 pm
- Wednesday, April 2, El Pueblo Senior Center, 6-7 pm
- Thursday, April 3, Morris K. Udall Center, 6-7 pm
- Thursday, April 10, Virtual Town Hall Event, 6-7 pm. Tucsonaz.gov for the link.

All of these meetings will include a live presentation and question/answer opportunities.

Community feedback is being collected using an online survey. Paper copies of the survey will be available at the in-person events and at the entry to City Hall. The survey will be open until 5 pm, April 11 and can be found at www.tucsonaz.gov. We will report back to the Mayor & Council with the results of the survey in a future budget study session.

Budget Calendar - We plan to present information regarding various budget development issues during each study session. Key dates include:

- April 22: Submission of the City Manager's Recommended Budget during Study Session
- May 6: Public Hearing on FY26 Budget
- May 20: Tentative Budget Adoption
- June 3: Public Hearing on Tentative Budget/Property Tax Levy/Final Budget Adoption
- June 17: Fixing, Levying, and Assessing Primary and Secondary Property Taxes

Attachments:

- Exhibit 1 – Draft Unrestricted General Fund Five-Year (FY26-FY30) Financial Forecast
- Exhibit 2 – Employee Budget Town Hall Results

Exhibit 1 – Draft Unrestricted General Fund Five-Year (FY26-FY30) Financial Forecast

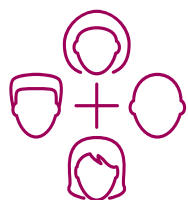
General Fund Five Year Forecast 04/01/25	FY25 Adopted		FY26 Base Budget -				
	Budget	FY25 Projections	Preliminary	FY27 Forecast	FY28 Forecast	FY29 Forecast	FY30 Forecast
Total Revenues	\$ 758,368,681	\$ 780,883,009	\$ 775,287,384	\$ 797,692,028	\$ 823,205,938	\$ 849,980,762	\$ 875,993,185
Total Expenditures	\$ 757,839,517	\$ 757,959,544	\$ 779,344,359	\$ 807,794,126	\$ 831,457,670	\$ 841,863,214	\$ 854,660,494
Potential Base Increases			\$ 9,173,251	\$ 9,173,251	\$ 9,173,251	\$ 9,173,251	\$ 9,173,251
Critical Needs Plan - Prop 414			\$ 14,594,000	\$ 22,594,000	\$ 18,594,000	\$ 18,594,000	\$ 18,594,000
Projected Operating Surplus (Deficit)	\$ 529,164	\$ 22,923,465	\$ (27,824,226)	\$ (41,869,349)	\$ (36,018,983)	\$ (19,649,703)	\$ (6,434,560)
Investment Plan Total	\$ 44,624,630	\$ 44,624,630	\$ 37,900,000	\$ 27,144,800	\$ 5,117,295	\$ 1,500,000	\$ 950,000
Total Carry Forward and One-Time Items	\$ 17,262,500	\$ 35,529,640	\$ 7,194,313	\$ 6,943,632	\$ 1,678,000	\$ 1,000,000	\$ 740,000
Total Planning and One-Time Items	\$ 61,887,130	\$ 80,154,270	\$ 45,094,313	\$ 34,088,432	\$ 6,795,295	\$ 2,500,000	\$ 1,690,000
Expenditure Grand Total	\$ 819,726,647	\$ 838,113,814	\$ 848,205,923	\$ 873,649,809	\$ 866,020,216	\$ 872,130,465	\$ 884,117,745
Available Fund balance	\$ 142,484,757	\$ 122,332,223	\$ 63,845,162	\$ (8,122,121)	\$ (87,888,691)	\$ (135,040,334)	\$ (161,741,756)
Projected Operating Surplus (Deficit)	\$ 529,164	\$ 22,923,465	\$ (27,824,226)	\$ (41,869,349)	\$ (36,018,983)	\$ (19,649,703)	\$ (6,434,560)
Less Total Planning and One-Time	\$ (61,887,130)	\$ (80,154,270)	\$ (45,094,313)	\$ (34,088,432)	\$ (6,795,295)	\$ (2,500,000)	\$ (1,690,000)
Incremental Fund Balance Policy Level	\$ 5,547,309	\$ (1,256,256)	\$ 951,257	\$ (3,808,789)	\$ (4,337,365)	\$ (4,551,720)	\$ (4,422,112)
Projected Year End Available Fund Balance	\$ 86,674,100	\$ 63,845,162	\$ (8,122,121)	\$ (87,888,691)	\$ (135,040,334)	\$ (161,741,756)	\$ (174,288,429)



Employee Budget Town Hall Summary

Overview

Event Summary



400 employees participated



+1,000 comments collected



Goal: employee feedback, challenges, ideas.

Survey Findings by Question

Top Concerns:

Employee Investments	35%
Infrastructure/Development	17%
Federal Funding Risks	15%

Budget Priorities:

Retention & Compensation	23%
Cost-Saving Measures	21%
Workplace Culture	12%

Community Needs:

Roads & Transportation	29%
Housing & Homelessness	25%
Public Safety & Crime	18%

What important issues do you know about that can help us make good decisions about the budget?

Top Response Categories

Employee Investments



Retention tied to pay equity, new hires earning more than tenured staff, need for clarity on pay progression

Budget, Spending & Cost-Saving Measures



Debate over transit fares, concerns over outsourcing, performance accountability

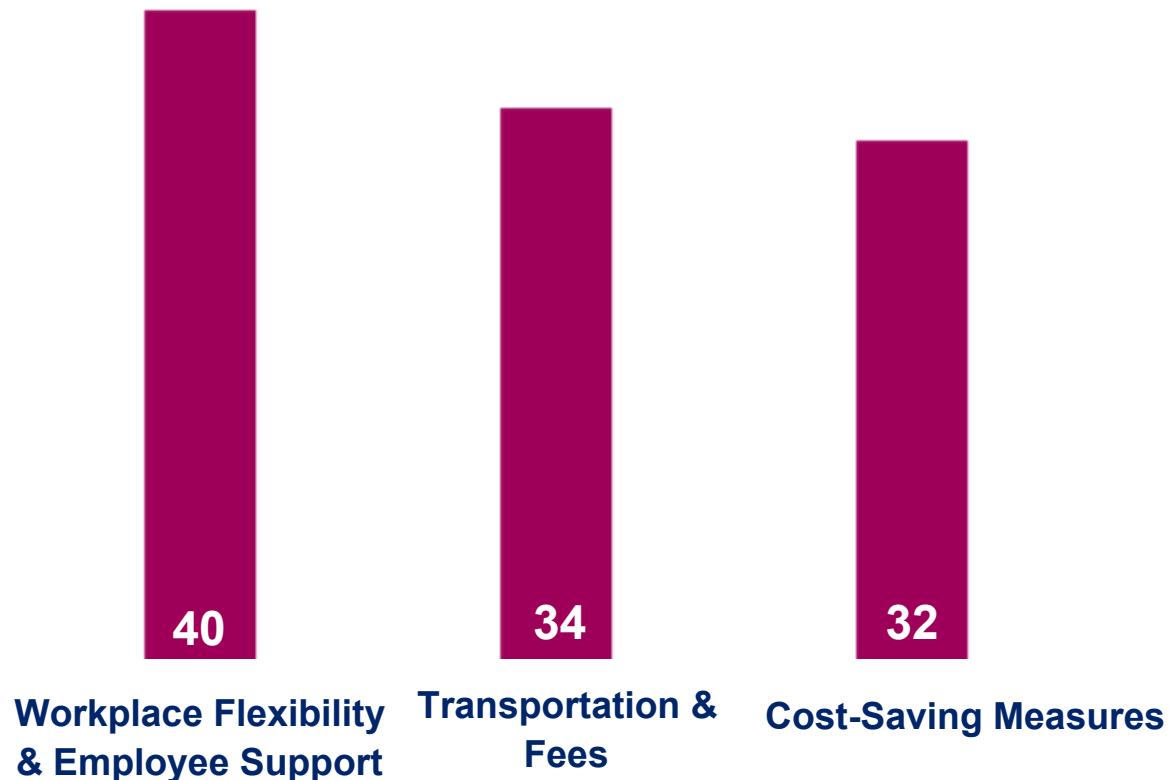
Workplace Culture & Transparency



Top needs: leadership training, consistent standards, interdepartmental communication

If we could start any idea(s) tomorrow to save money, work more efficiently, or bring in new funding, what would it be?

**Top Categories of
255 Responses**



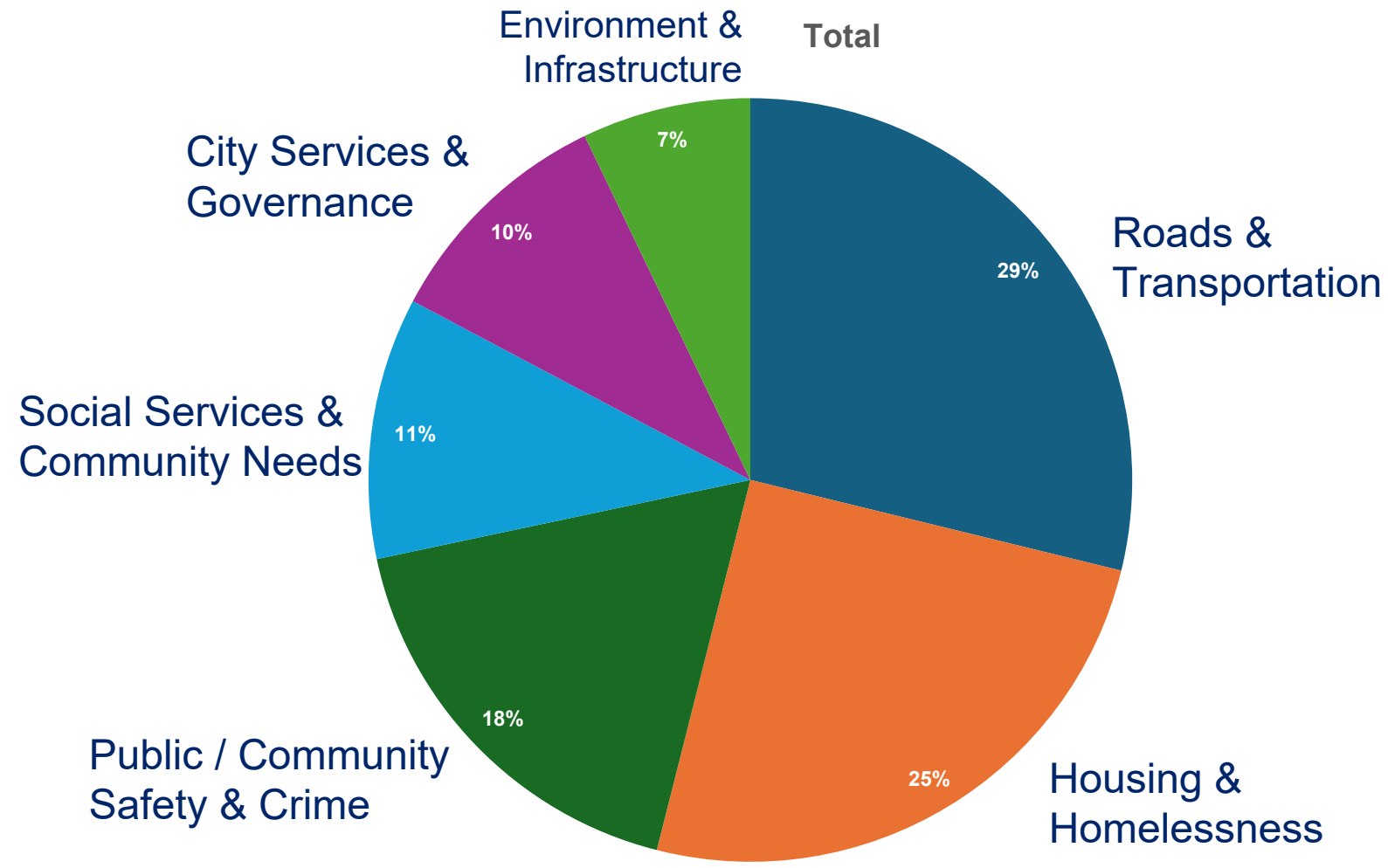
Common Thoughts

“Remote work or flexible schedules!”

“Stop free bus fares.”

"Look at how much we spend on city contractors versus how much it would cost to do the jobs in-house."

Tell us about priorities or needs for services you hear from the community.



FY26 Budget Discussion

FY26 Budget Development

Revenue Update

FY26 General Fund Local Revenue					
	<i>Previous Forecast</i>		<i>Updated Forecast</i>		<i>Difference</i>
Local Sales Tax	\$	340,449,923		326,342,070	\$ (14,107,853)

FY26 General Fund State Shared Revenue					
	<i>Previous Forecast</i>		<i>Updated Forecast</i>		<i>Difference</i>
Income Tax	\$	108,583,831	\$	108,890,141	\$ 306,310
Sales Tax	\$	86,648,101	\$	84,354,093	\$ (2,294,008)
Auto Lieu	\$	29,410,824	\$	29,981,693	\$ 570,869
Total	\$	224,642,756	\$	223,225,927	\$ (1,416,829)

FY26 Budget Development

Supplemental Requests

Total Request Received from Departments					
			Number	FTE Count	Amount
General					
	Personnel		38	74	\$ 11,184,295
	Non Personnel		167	-	\$ 65,446,825
	Subtotal		205	74	\$ 76,631,120
Non-General Fund					
	Personnel		6	38	\$ 900,547
	Non Personnel		3	-	\$ 4,494,904
	Subtotal		9	38	\$ 5,395,451
Total			214	112	\$ 82,026,897

FY26 Budget Development

Supplemental Requests

Tentatively Approved to Date					
			Number	FTE Count	Amount
General Fund					
	Personnel		4	4	\$ 482,339
	One-time		1	1	\$ 173,838
	Recurring		3	3	\$ 308,501
	Non Personnel		53	-	\$ 12,191,225
	One-time				\$ 3,326,475
	Recurring				\$ 8,864,750
General Fund Total					\$ 12,673,564

Tentatively Approved to Date					
			Number	FTE Count	Amount
Non-General Fund					
	Personnel		0	3	\$ 307,884
	One-time				\$ -
	Recurring				\$ 307,884
	Non Personnel		3	-	\$ 4,494,904
	One-time				1,246,000
	Recurring				3,248,904
Non-General Fund Total					4,802,788

City Wide Total	60	7	\$ 17,476,352
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FY26 Budget Development

Proposition 414 Critical Needs Plan

- **Tucson Police Department:** \$5.5M funding for additional sworn officers and Community Safety Officers
- **Tucson Fire Day Truck Operations:** \$1.624M to add 14 new positions aimed at enhancing emergency response efficiency.
- **Public Safety Communications:** \$470k to hire four 911 operators and three 311 operators to improve emergency and non-emergency response times.
- **Office of Violence Prevention and Intervention and Thrive Zone Investments:** \$2 million to support community-based strategies for reducing violence and revitalizing underserved areas.
- **General Fund Capital:** A \$4M investment in asset management and infrastructure to ensure sustainable city services.
- **Information Technology Improvements:** \$1M for critical public safety technology upgrades.

Unrestricted General Fund Five-Year (FY26-FY30)

Financial Forecast

General Fund Five Year Forecast 04/01/25	FY25 Adopted Budget	FY25 Projections	FY26 Base Budget - Preliminary	FY27 Forecast	FY28 Forecast	FY29 Forecast	FY30 Forecast
Total Revenues	\$ 758,368,681	\$ 780,883,009	\$ 775,287,384	\$ 797,692,028	\$ 823,205,938	\$ 849,980,762	\$ 875,993,185
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FY26 Budget Development

Special Revenue and Enterprise Funds

Requested Operating Budgets

Highway User Revenue Fund - \$65,686,858

Environmental Services - \$72,551,259

Tucson Water:

Utility - \$355,684,011

Conservation - \$5,204,417

Green Stormwater Infrastructure - \$9,081,100

FY26 Budget Development

Budget Engagement

Employee Engagement Event & Survey

- March 3 - over 400 employees participated

Community Engagement Events & Survey

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- Thursday, April 3, Morris K. Udall Center, 6-7 pm
- Thursday, April 10, Virtual Town Hall, 6-7 pm. – Link below:

<https://www.tucsonaz.gov/News-articles/City-of-Tucson-Budget-Engagement-Town-Halls-for-FY26>

FY26 Budget Development Timeline

Budget Calendar

- April 22: Submission of City Manager's FY26 Recommended Budget
- May 6: Public Hearing on FY26 Recommended Budget
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