



MAYOR & COUNCIL MEMORANDUM

June 3, 2025

Subject: Discussion of the Compensation Plan and Final Budget for
Fiscal Year 2026 (FY26) (City Wide)

Page: 1 of 1

Issue – Time has been set aside for the discussion of the Final Budget for Fiscal Year 2026.

City Manager's Office Recommendation – The Mayor and Council are asked to discuss and provide feedback on the information contained in Attachment A - Memorandum from City Manager, Timothy M. Thomure, P.E., dated June 3, 2025, on the FY26 Final Budget of \$2.413 billion. Staff have prepared Attachment B to guide the discussion.

This discussion is in preparation for the Special Regular Agenda Item #2 Adoption of Fiscal Year 2026 (FY26) Budget, scheduled for this evening.

Financial Considerations – No Action is required at this time.

Legal Considerations – The City Attorney has reviewed this Memorandum and its attachments.

Respectfully submitted,

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

Attachment(s): A – Memorandum from City Manager, Timothy M. Thomure, P.E., dated June 3, 2025
Exhibit 1 – State Forms
B – FY26 Budget Presentation dated June 3, 2025

MEMORANDUM

To: Honorable Mayor Romero and Council Members

From: Timothy Thomure, P.E., City Manager

Subject: Discussion of the Adoption of the Final Budget and Compensation Plan for Fiscal Year 2026 (FY26)

I am pleased to formally present the Final FY26 Operating and Capital Budget for the City of Tucson, as well as the FY26 Compensation Plan. The \$2.4 billion budget reflects months of diligent work, guided by your priorities and shaped by input from community members, employees, and partners. Together, we have developed a fiscally responsible plan that supports core services, invests in our workforce, and navigates ongoing economic and policy uncertainty.

We continue to focus on aligning recurring revenues with ongoing expenditures. Given economic and policy uncertainty, we actively monitor the risks related to revenue shortfalls and inflation, while protecting reserve levels and ensuring financial resilience into the future. For the second year, state policy decisions, including the flat income tax, have reduced our share of income tax revenues. We faced significant uncertainty due to shifting federal directives that temporarily halted the disbursement of federal grants. This experience underscores the vulnerability of more than 200 grant-funded positions and over \$280 million in federal awards still to be spent. We remain vigilant in monitoring this risk.

While national indicators such as low unemployment and easing inflation show strength, there continues to be ongoing volatility, including trade policy shifts, stock market swings, and declining consumer confidence making long-term forecasting challenging. This impacts local revenue sources such as sales taxes, other local taxes, and hospitality revenues.

Critical Needs Funding - Following the March defeat of Prop 414, which proposed a temporary half-cent sales tax for public safety and resilience, we have reallocated approximately \$15 million in funding toward several of the proposition's priority areas. These critical services have been prioritized in FY26, and further funding considerations will be necessary in FY27. These include:

- Police operations and equipment
- Fire day truck operations
- Public safety communications personnel
- Violence prevention and Thrive Zone efforts
- General capital needs
- IT system sustainment

Investing in Our Workforce

TO: Honorable Mayor Romero and Council Members

SUBJECT: FY26 Budget Discussion

Page 2

Our employees are our most valuable asset. As described in the FY26 Recommended Compensation Plan, the FY26 budget includes \$23.6 million (\$16.3 million General Fund and \$7.3 million non-General Fund) for employee compensation investments, nearly doubling the investment made in FY25. This plan reflects our commitment to fairness, retention, and excellence in public service. Key elements of our multi-year strategy include, in-range pay adjustments based on experience and performance, annual progression increases for all eligible employees, and market-based salary adjustments to remain competitive.

City staff have communicated with the employees that will receive the Phase 1 in-range pay placement salary adjustments and we are prepared to execute that plan at the start of the fiscal year. I will provide updates on any refinements and final actions under market-based salary movement in August or September 2025, for deployment in October 2025 per the FY26 Compensation Plan. Finally, the Mayor & Council have expressed interest in potentially “front-loading” some of the planned salary increase for certain public safety personnel. I will be prepared to discuss these options at the June 3, 2025 Study Session.

Since the May 20, 2025, Study Session, one additional employee dispute was identified. This dispute was filed by the employee in a timely manner, but was inadvertently mis-filed by the clerk’s office and not submitted to the Human Resources Department. The following information describes the dispute and our suggested resolution. This information has been incorporated into the materials for Compensation Plan adoption during the Regular Meeting tonight, and the employee received written response to their dispute filing on May 27, 2025.

Department/Labor	Dispute Number	Job Profile	Dispute Issue	Disputable/Not Disputable	Status
Tucson Police	00094	J6328 - Crime Laboratory Coordinator	Market Comparators	Disputable	Under review.

Jail Boarding - The actual FY26 jail board rates from Pima County were received during the second week of May and are lower than the preliminary estimate we presented on May 6th. The updated total estimated cost for FY26 is \$5.4 million, representing an increase of approximately \$300,000 or 5.7% over the current year. This estimated is significantly lower than the previously projected \$1.7 million increase (33%). As a result, this update reflects a reduction of approximately \$1.4 million in projected jail board expenditures next fiscal year. The City’s actual jail boarding costs will be paid on a per-capita basis as jail bookings and housings occur. I am not suggesting that you decrease the final budget for this amount; rather, the \$1.4 million that is likely to go unspent for Jail Boarding costs would contribute to General Fund fund balance at the end of FY26. The table below shows the last five-year history of rates charged by Pima County for the incarceration of city prisoners, along with the previous estimated rate for FY26.

Table 1. Pima County Jail Board Rate History & FY26 Rates

TO: Honorable Mayor Romero and Council Members

SUBJECT: FY26 Budget Discussion

Page 3

Pima County Jail Board Rate History							
						Estimated 5/6/25	Actual 6/3/25
	FY21	FY22	FY23	FY24	FY25	FY26	FY26
First Day Booking Rate	\$ 348.41	\$ 422.73	\$ 401.17	\$ 396.30	\$ 495.94	\$ 659.60	\$ 524.25
Second Day Housing Rate	\$ 102.84	\$ 123.90	\$ 107.43	\$ 107.91	\$ 125.09	\$ 166.37	\$ 128.26
		\$ Change					
First Day Booking Rate		\$74.32	-\$21.56	-\$4.87	\$99.64	\$163.66	\$28.31
Second Day Housing Rate		\$21.06	-\$16.47	\$0.48	\$17.18	\$41.28	\$3.17
		% Change					
First Day Booking Rate		21%	-5%	-1%	25%	33%	5.7%
Second Day Housing Rate		20%	-13%	0%	16%	33%	2.5%

Employee Benefits – Fee Holiday

The City's Deferred Compensation Board voted to approve a 'fee holiday' for FY26. Participants in the deferred compensation plan would normally pay an annual fee of \$39. The board was able to waive this fee for participants because there is a balance in the account established to pay administrative costs. The balance will be used to cover the fees for FY26. The fee holiday is a way to put employee contribution money directly to work for participants. Though not a large amount, it is a savings for employees who contribute to their retirement future through these accounts.

Service Delivery Adjustments

While most service levels remain consistent with FY25, some departments that have historically exceeded their base budgets will undergo realignments. Parks and Recreation, Housing, Planning and Development, and Fleet/Facilities maintenance will need to operate within their adjusted base funding. Additionally, targeted service reductions have been made to ensure a balanced budget.

Community and Employee Engagement

Our budget development process was informed by robust public engagement designed to capture a wide range of community and employee perspectives. In the months leading up to this final budget, staff hosted dozens of educational sessions on Proposition 414 to help residents understand the proposal and its potential impact. Following the election, we conducted four public budget town halls across the city to hear directly from the community about their priorities. Additionally, an online survey garnered responses from over 4,300 residents, offering valuable insights into the services and investments that matter most to them. Internally, we held an Employee Budget Town Hall and circulated a staff survey that generated more than 400

TO: Honorable Mayor Romero and Council Members

SUBJECT: FY26 Budget Discussion

Page 4

comments, reflecting the perspectives of those who deliver our services every day. This feedback played a central role in shaping the FY26 budget.

TO: Honorable Mayor Romero and Council Members

SUBJECT: FY26 Budget Discussion

Page 5

Key Goals for FY26

The FY26 Final Budget is a product of collaboration, resilience, and shared purpose. It positions Tucson to meet today's challenges while preparing responsibly for tomorrow. I thank you for your leadership and continued partnership as we move forward together.

As we look beyond the FY26 budget, we must initiate comprehensive strategic planning to guide long-term investments. The following are some of the areas of focus:

Public and Community Safety remains a cornerstone of a thriving city. As Tucson continues to grow, so does the complexity of maintaining a safe and secure environment. We must plan for sustained investment in modernizing public safety facilities, expanding emergency response capabilities, and increasing staffing levels to match community demand. This includes not only traditional policing and fire services but also proactive community-based strategies that build trust, reduce harm, and foster long-term safety outcomes. Ensuring a timely response to emergencies and expanding community engagement initiatives will strengthen public confidence and improve the quality of life.

Housing Affordability continues to be one of Tucson's most pressing challenges. Rising housing costs, limited inventory, and economic pressures have widened the gap between supply and demand. To address this, we must develop innovative funding strategies, leverage federal and state resources, and foster public-private and nonprofit partnerships that support both new construction and the preservation of existing affordable units. Strategic land use planning, incentives for affordable housing developers, and alignment with our climate and sustainability goals will be critical components of this effort.

Unmet Capital Needs - It is increasingly clear that we must address a growing backlog of unmet capital needs. Years of deferred maintenance, aging infrastructure, and new demands across departments, from parks to public safety to technology, require sustained capital investment to ensure continuity and quality of service. As part of our long-term financial strategy, we must begin planning for future funding mechanisms and resource alignment to meet these needs. Without proactive planning and investment, the City risks compounding costs, reduced operational efficiency, and diminished service delivery over time. Ensuring we have the infrastructure to support a thriving, safe, and equitable community will be essential in the years ahead.

Taking a forward-looking, strategic approach to these investment priorities will position the City to adapt to evolving challenges, deliver equitable services, and remain resilient well into the future. By laying the groundwork today, we will ensure that Tucson continues to be a vibrant, safe, and inclusive place to live for generations to come.

Special Motion – The final budget includes \$19,580 for Metropolitan Education Commission (MEC) that should be considered under a separate motion at the Special Meeting on the Adoption of the Final Budget on June 3, 2025.

TO: Honorable Mayor Romero and Council Members
SUBJECT: FY26 Budget Discussion
Page 6

TO: Honorable Mayor Romero and Council Members

SUBJECT: FY26 Budget Discussion

Page 7

Budget & Compensation Plan Calendar – A Public Hearing on the Budget as Tentatively Adopted and the Increase in Property Tax Levy will be held at tonight’s Regular Meeting. Immediately following the Public Hearing, the Mayor and Council will recess the Regular Meeting and convene a Special Meeting to formally adopt the FY26 Budget. The final step in the budget adoption process is fixing, levying, and assessing the Primary and Secondary Property Taxes scheduled for June 17.

The FY26 Compensation Plan Adoption is also scheduled for tonight’s Regular Meeting. Key dates for implementation of the Plan include July 13, 2025 (in-range pay placement and pay progression) and October 5, 2025 (market adjustments).

After Budget Adoption

Throughout the budget development process, we have identified several key activities that will take place after the budget is adopted. These efforts are essential to effectively implementing the budget and tracking our financial performance throughout the fiscal year. Table 2 outlines our planned actions for the summer and fall.

Table 2. Post Budget Adoption Activities

Date	Description
June 17, 2025 M&C Meeting	<ul style="list-style-type: none">Comprehensive Financial Policies – Amendment for General Fund Reserve AmountsFixing Levies and Assessing Primary & Secondary Property Taxes
July 13, 2025	Implementation of In Range Pay Placement – Phase 1 and Pay Progression
August 6, 2025	Study Session Discussion regarding Additional & New Revenue Options
August 15, 2025	Begin Monthly Mayor & Council Off-Agenda Financial Update, including status of Local Sales Tax collections
August 19, 2025 M&C Meeting	Adoption of FY26 Ward Carryover amounts and uses (consent item)
September 3, 2025	Publication of FY26 Budget Document
October 5, 2025	Implementation of Market-Based Compensation Adjustments
Later Summer/Fall	Study Session regarding Cost of Service Studies and Fee Adjustments, including implementation plans (mostly impacting FY27 revenues)
Later Summer/Fall	Development & implementation of new fall Community Budget Engagement process, for FY27 Budget Development

Fiscal Year 2026 Final Budget and Compensation Plan Discussion

FY26 Budget for Final Adoption Tonight

- \$2.413B Total – Almost Level to FY-25 [+0.8%]
- Includes Critical Needs Funding
- Robust Investments in Our Workforce
- Balanced Budget – Challenges Ahead

FY26 Compensation Plan

Regular Agenda for Adoption Tonight

- \$23.6 million in FY26 Budget for Employee Investments (\$16.3M General Fund & \$7.3M other funds)
 - In Range Pay Placement, Phase 1 (July)
 - Annual Pay Progression (July)
 - Market Adjustments (October)
 - Performance Evaluations (Now)
 - 4900 Workday Employee Project – for In Range Pay Placement, Phase 2 (Fall/Winter)

Next Steps

Tonight:

- **Public Hearing** on FY26 Budget as Tentatively Adopted and Increase in Primary Tax Levy
- **Final Budget Adoption** (Special Regular Meeting)
- **Compensation Plan Adoption** (Regular Meeting)

June 17

- Financial Policies - Reserve Policy Change (Regular Meeting – consent)
- Fixing Levies and Assessing Primary & Secondary Property Taxes (Regular Meeting)

After Budget Adoption

Date	Description
June 17, 2025 M&C Meeting	<ul style="list-style-type: none">• Comprehensive Financial Policies – Amendment for General Fund Reserve Amounts• Fixing Levies and Assessing Primary & Secondary Property Taxes
July 13, 2025	Implementation of In Range Pay Placement – Phase 1 and Pay Progression
August 6, 2025	Study Session Discussion regarding Additional & New Revenue Options
August 15, 2025	Begin Monthly Mayor & Council Off-Agenda Financial Update, including status of Local Sales Tax collections
August 19, 2025 M&C Meeting	Adoption of FY26 Ward Carryover amounts and uses (consent item)
September 3, 2025	Publication of FY26 Budget Document
October 5, 2025	Implementation of Market-Based Compensation Adjustments
Later Summer/Fall	Study Session regarding Cost of Service Studies and Fee Adjustments, including implementation plans (mostly impacting FY27 revenues)
Later Summer/Fall	Development & implementation of new fall Community Budget Engagement process, for FY27 Budget Development