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# MAYOR & COUNCIL MEMORANDUM

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March 18, 2025

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

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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.

The unofficial results are in for Prop 414, and we now know that the voters chose not to approve the temporary, half-cent sales tax increase to fund the public safety and community resiliency needs included in the ballot measure. We are examining the implications of this decision and will include that information in the City Manager's Recommended Budget for discussion at the April 22 Mayor and Council Meeting.

Financial Considerations – See Attachment A: Memorandum from Assistant City Manager Anna Rosenberry and Business Services Director Angele Ozoemelum dated March 18, 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 Assistant City Manager Anna Rosenberry and Business Services Director Angele Ozoemelum dated March 18, 2025  
B – FY26 Budget Discussion Presentation dated March 18, 2025



Date: March 18, 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 FY26 budget development related to employee compensation, outside agency funding, the five-year capital improvement program, housing asset management properties (AMPs) funds, and historical permit and valuation fees.

**Compensation - Employee Investment** - The draft five-year General Fund financial plan includes \$17.8 million for additional investment in city employee compensation in FY26. The City Manager is working to develop a recommendation that features a multi-year employee investment plan, including four key components: in-range pay placement adjustments where necessary, market adjustments for various job classifications, a modest progression, or "across-the-board" increase, and ties between compensation and employee performance. While this plan is more complex than previous years, it also represents nearly double the dollars invested in additional employee compensation when compared to FY25.

- 1) In-range pay placement addresses where an individual employee is placed within their position's salary range. Placement will be based on the individual's job-related experience and education, so long as they demonstrate adequate performance (see 4, below). Wages established for workers in the same job classification has been an emerging issue of concern over the past two to three years.
- 2) Pay Progression (across-the-board) increases provide an opportunity for all employees to receive some form of salary adjustment. This recognizes employees' continued growth, experience, and contributions over the past year.
- 3) 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.
- 4) Employee performance evaluation across the organization will be a required component of the compensation plan recommendation.

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**Compensation Plan Calendar** – The calendar for the Compensation Plan is as follows:

- April 8: Recommended FY26 Compensation Plan Presented
- April 14: Mayor's Hearing on Compensation Plan Disputes
- May 20: Study Session regarding Dispute Resolution
- June 3: FY26 Compensation Plan Adoption
- July 1: FY26 Compensation Plan Implementation

### **Outside Entity Requests**

Annually, the City funds a very small number of outside entity requests within its budget. The primary source of funding available to the City for outside entity funding requests has come through the American Resource Plan Act (ARPA). ARPA funding was a one-time source that has not been replenished by the Federal government.

**Community Partnership Funding** - Over the past few years, the City has awarded \$28 million to community partners to deliver 146 projects across the city. This funding was made available through a combination of resources from the American Rescue Plan Act - State and Local grants, and the city's General Fund Framework program. Awards were provided in three rounds of funding, with the final round awarded in FY25. Although all funds were awarded prior to FY26, some of the projects funded in the final round will continue through December 2026, receiving award distributions of \$8 million spanning FY26 through FY27. This amount represents the final available funding, as the City does not have access to additional resources for new community partner projects in FY26 and beyond.

**Pima Early Education Program (PEEP)** – The City has provided funding to PEEP for the past four years, (FY22 – FY25), with \$750K budgeted from the General Fund in FY25. This contribution helps support the cost of 5 school district pre-school classrooms. The County has estimated costs to fund the 5 pre-school classrooms at \$778K and is requesting the full amount from the City in FY26. This funding for FY26 is uncertain at this point of the budget process.

**Community Home Repair Projects of Arizona (CHRAPA)** – is a non-profit organization that assists low-income homeowners with emergency home repairs and safety modifications. The city provides funding of \$400K from the Water Utility and \$90K from Housing's General Fund allocation. The amounts from the Water Utility is expected to remain flat in the FY26 Recommended Budget, while the General Fund portion is uncertain at this point.

### **Five-Year Capital Improvement Program (CIP)**

Included in the city's budget process is the development and maintenance of a 5-year continuing Capital Improvement Program (CIP). The CIP is a planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements over five years. Capital improvements refer to major, non-recurring expenditures such as land, buildings, public infrastructure, and equipment, each with a cost of \$100,000 or more. The CIP is necessary to improve public facilities and infrastructure assets for the economic and functional viability of our city. The plan identifies our city's specific capital needs based on various long-range plans, goals, and policies and also provides analysis for decision making for city officials and strategic capital planning efforts with city departments.

There are exceptions made for inclusion of select projects that do not meet the above criteria (i.e. CIP projects include voter-approved proposition projects) to make the planning, funding, and acquisition of these purchases more visible to the public and governing body.

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The following discussion points highlight major capital projects by departments included in the FY26 -FY30 CIP. The first year or FY26 capital project budget requests are being reviewed before they are added to the recommended budget. In total, Table 1 reflects the proposed 5-year CIP amounts by department and fiscal year.

- **Water Utility** – The five-year CIP totals \$574.2 million. Funding will come from water revenues, revenue obligation bonds, and external sources including state and federal grants, and loans. The program allocates funds for potable and reclaimed water projects. Key investments focus on PFAS treatment, well drilling, infrastructure rehabilitation, and transmission system improvements to enhance water delivery and renewable resource use. Additionally, as part of the rate setting process, the CIP is developed/updated in the Fall and incorporated into the 5-Year financial plan. Some featured projects include:
  - The Northwest Wells Treatment System Project will include the addition of treatment for PFAS and 1,4-dioxane at three wells which were removed from the potable system due to groundwater contamination. Returning these three wells to service will restore over 3 million gallons per day in potable water supply and provide much needed redundancy to the northwest portion of Tucson Water's service area. The total estimated project cost is \$33.5M, and estimated costs for this project for FY26 and FY27 are \$16.0M and \$9.2M respectively. This project is currently in design.
  - The Tucson Airport Remediation Project (TARP) utilizes an Advanced Oxidation Process (AOP) followed by granular activated carbon (GAC) to treat 1,4-dioxane and trichloroethylene. The elevated PFAS levels continuing to enter the TARP wellfield have impacted the intended operation by increasing the frequency of GAC change outs at a substantial cost to Tucson Water. The addition of an Ion Exchange and Sediment Filtration system before existing treatment will remove the PFAS allowing the AOP process to operate as intended. The total estimated cost for the project is approximately \$27M, with an estimated cost for this project for FY26 and FY27 of \$12.25M and \$2.0M, respectively. This project is currently under construction. The Arizona Department of Environmental Quality has \$25M in funding to aid in the design and construction of the new system.
  - South Houghton 24" Transmission Main, I-10 to Old Vail Reservoir Site (Corona De Tucson Interconnect Transmission Main) is the final portion of transmission main, along Houghton Rd, which will allow Tucson Water to deliver water from the central system to the currently isolated Corona de Tucson located at the base of the Santa Rita Mountains. This project, paired with the Old Vail Reservoir expansion (also under construction), will deliver renewable supplies to this portion of Tucson Water's service area, reducing reliance on groundwater. This project is estimated to cost \$7.46 million FY26. This project is currently in final design and pre-bid.

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- **Department of Transportation and Mobility** – The 5-year CIP total is \$1.251 billion. Funding comes from Highway User Revenue Funds (gas tax), sales tax and general obligation bond propositions, Region Transportation Authority (RTA), impact fees, and grant funds. These funds provide for a wide range of projects: Streets, public transit, street safety, and facility rehabilitation. Highlights include:
  - Tucson Delivers: Better Street/Safer Streets Program - Proposition 411 – This program extends a previous temporary half-cent sales tax for an additional 10 years. This funding will be used for improvements to neighborhood streets and systemwide street safety. The City anticipates using \$94.3 million to fund these projects in FY26.
  - Collector Roadways - Road repair program is to improve street safety systemwide. The city dedicated \$11 million per year for five years from the Highway User Revenue Fund, in support of Proposition 411, Better Streets/Safer Streets. This commitment began in FY23 and combines with \$4 million per year in the General Fund Investment Plan. This totals to \$15 million per year (\$75 million grand total) towards this program from FY23 through FY27.
  - Valencia Road: Kolb to Houghton - This project will widen Valencia Road to a six-lane, divided roadway with bike lanes and sidewalks. The design and right-of-way phases commenced in Fiscal Year 2020. The construction phase began in Fiscal Year 2023. There will be a two-year landscape establishment period after the construction is complete. This project will be completed by the end of the Fiscal Year 2025. This project was approved as part of the May 2006 RTA Plan.
  - 22<sup>nd</sup> Street: I-10 to Tucson Blvd. - This project widens 22<sup>nd</sup> Street relieving congestion and bottlenecks and enhancing the carrying capacity of the corridor. The scope includes widening the road to a six-lane divided roadway, reconstructing the Kino Overpass, and creating a new 22<sup>nd</sup> Street Bridge. Road improvements are phased along the 22<sup>nd</sup> Street corridor. Phase I, Kino Overpass is completed. Phase II, Kino to Tucson Blvd (22<sup>nd</sup> Street Bridge), will begin this fiscal year. The 22<sup>nd</sup> Street Bridge will replace the existing weight-restricted bridge and eliminate the freight/transit detour. The anticipated completion of Phase II is in Fiscal Year 2028.
  - Compressed Natural Gas (CNG) Buses - Construction of a CNG fueling station at the Northwest Bus Maintenance Facility. The construction of the fueling station will facilitate efficient transit services by maximizing operational flexibility and meeting an 8-hour window for fueling CNG buses. The construction of the fueling station is underway. The FY26 budget request is \$8.1 million.
- **Parks and Recreation** – The 5-year CIP total is \$197.2 million. Funding primarily comes from general obligation bond proceeds approved under Prop 407: Parks and Connections, development impact fees, zoo sales tax proposition, and grant funds. These funds provide for a wide range of projects: improvements at regional parks, greenways, zoo rehabilitation, and amenities at neighborhood parks.

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- Morris K. Udall Park - Funded by Proposition 407 and impact fees, Morris K. Udall Park project includes two new covered basketball courts, a new parking lot, two new playgrounds with shade, baseball field and 2 soccer field light upgrades to LED, two new lighted soccer fields, and renovated softball fencing. Look for project outreach starting this year. The FY26 budget request is \$500K, and a combined total of \$17.5 million is planned for FY27 and FY28.
- Robert A. Price Sr. Park - Funded by Proposition 407 and Impact Fees, this brand-new park is in the design phase with construction scheduled to begin later this year. Two little league fields and soccer fields with LED lights, parking lot, playground with shade, ramada, restroom, and splash pad are on the way. The FY26 Budget request is \$7 million.
- Mission Manor Aquatic Complex - Funded by Proposition 407, Congressman Grijalva's Office, Tohono O'odham Nation Grant, city framework, and impact fees, this Aquatic Complex will bring a whole new series of water features to the Southside. A new bathhouse and offices, new therapy pool, new zero-depth entry recreation and lap pool, and a new splash pad are expected to be in construction mid-2025 and complete in mid-2026. FY26 Budget request is \$844K.
- **Housing and Community Development** - The 5-year CIP total is \$5.7 million. Funding primarily comes from Community Development Block Grants, other federal grant funds, and the general fund. These funds provide for a wide range of projects, including public housing building improvements.
  - Housing Zone 3 Asset Management Properties (AMP) - Modernize offline units across Public Housing AMPS to make ready for occupancy. Improvements to the exterior of the sites, such as Green Stormwater Infrastructure to include sidewalks, fencing, landscaping, ramada, solar for Willard St Unit Phase II, Econolodge Stone Ave Youth Transitional Housing Rehab Project. Remodel 49-unit motel into transitional housing units. Knights Inn, Design and site improvements for safety and security. Wildcat Inn Playground and GSI improvements. Provide and install a complete solar set up for 15 single family units. The FY26 Budget Request is \$1.5 million.
- **Environmental Services** - The 5-year CIP total is \$18 million. Funding comes from Environmental Services revenues and General Fund framework for landfill and facility improvements and plastics diversion efforts. Additionally, as part of the rate setting process, the CIP is developed/updated in the Fall and incorporated into the 5-Year financial plan.
  - Los Reales Container Maintenance Campus Relocation – Container maintenance division to Los Reales campus as 10<sup>th</sup> Avenue location is currently slated for a city housing project. FY26 budget estimated cost is \$1.7 million.
  - Los Reales New Building for ByFusion – development of a ByBlock manufacturing facility to re-use hard to recycle plastics. Facility construction is currently underway, FY26 budget request is \$1.0 million, funding is slated to come from the General Fund Framework.
  - Los Reales Landfill Gas System Improvements – system upgrades to landfill gas collection. FY26 budget request is \$1.0 million.
- **Public Safety** - Fire and Police department's combined 5-year CIP total is \$34.5 million. Funding comes from Tucson Delivers: Safer City sales tax proposition and development impact fees. These funds provide for facility rehabilitation and equipment replacement.

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- New Southside Complex - Tucson Police and Fire joint southside complex facility project is underway. The facility will be expanded to incorporate a community meeting room, youth basketball court, square footage adjustment to meet the needs of a larger patrol division, and colocation of Fire Station 10 at this site. The project is anticipated to be completed in 2026. The FY26 Budget request for this project is \$18.4 million.
- Eastside Annex – the Police Department will construct a facility to support eastside operations based on expansion in the southeast area of the City. The facility is a 3,300 square foot office building designed to provide the department with a small base of operations strategically located between major substations. The building will have a conference room with lobby access designed for multiple uses, and open concept workspace. This project broke ground on February 25, 2025. The FY26 Budget request is \$4 million.

Tabel 1 below provides the total 5-Year CIP by department. The FY26 CIP Budget Request total is \$683.3 million. From FY27 through FY30 the combined CIP forecast total equals \$1.398 billion, and the 5-Year CIP grand total is \$2.081 billion.

Table 1 – 5-Year (FY26 – FY30) CIP Funding by Department

Department Name	FY26	FY27	FY28	FY29	FY30	Total
Department of Transportation and Mobility	\$ 396,405,980	\$ 335,857,200	\$ 266,678,300	\$ 159,409,600	\$ 93,149,600	\$ 1,251,500,680
Environmental Services	9,225,000	4,606,000	3,193,200	500,000	500,000	18,024,200
Fire Department	16,899,120	-	-	-	-	16,899,120
Housing and Community Development	1,538,200	2,080,000	2,039,400	-	-	5,657,600
Parks and Recreation	95,983,490	55,482,390	26,855,330	9,500,000	9,350,000	197,171,210
Police Department	17,633,625	-	-	-	-	17,633,625
Water Utility	145,614,000	106,314,550	99,285,193	111,387,297	111,603,179	574,204,219
Total	\$ 683,299,415	\$ 504,340,140	\$ 398,051,423	\$ 280,796,897	\$ 214,602,779	\$ 2,081,090,654

**Housing Asset Management Properties (AMPs) Funds** – During the January 22 Study Session discussion with the Mayor and Council, the City Manager reported the status of the Public Housing program recently being adjusted to a “troubled” status. The status was triggered when our program fell below various thresholds in Housing and Urban Development (HUD) performance standards. Staff have taken swift actions to improve by taking steps to implement efficiency measures in operations to align costs with available revenue sources. To help reestablish a minimum required cash reserve level, the City Manager will be recommending a one-time \$2 million transfer from the General Fund to meet HUD requirements for FY25.

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**Planning and Development Services Historic Permit Fee Collections** - Planning and Development Services permit collection revenue from FY22 through FY25 is provided below. Table 2 illustrates FY22 – FY24 fee collections and our projection for collections through the end of FY25. The city saw an increase to fees in FY23 due to growth of new construction permits, whereas in FY24 there was a decline in revenues. The decline is primarily due to less costly permits being sought by customers. The FY25 projection is a combined increase of \$551k, mostly a result of last year's approved fee increase.

Table 2 – FY22 – FY25 Permit and Valuation assessment fee historical collections and projection

Permit Type	FY22	FY23*	FY24	FY25 Projection
Permit Fee (Planning, DTM, and Fire)	\$ 7,729,144	\$ 9,902,664	\$ 8,811,987	\$ 8,879,420
Permit Valuation Assessment Fee	2,776,366	3,932,497	4,841,293	5,325,050.00
Total Permit Fees	\$ 10,505,510	\$ 13,835,161	\$ 13,653,280	\$ 14,204,470
Year over Year \$ Change		\$ 3,329,651	\$ (181,881)	\$ 551,190

\*This increase is generated by new construction permits issued due to lag caused by the pandemic.

**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
- July 22: Fixing, Levying, and Assessing Primary and Secondary Property Taxes



# FY26 Budget Discussion

# FY26 Budget Development

## Compensation

- Compensation Plan being developed, presented on April 8
- \$17.8 million for additional investments in employees
- Key Components of Multi-Year Employee Investment Plan
  - In-Range Pay Placement Adjustments
  - Market Adjustments for various job classifications
  - Pay Progression - Across-the-board Increases
  - Employee Performance Evaluations

# FY26 Budget Development

## Capital Improvement Program (CIP)

Table 1 – 5-Year (FY26- FY30) CIP Funding by Department

Department Name	FY26	FY27	FY28	FY29	FY30	Total
Department of Transportation and Mobility	\$ 396,405,980	\$ 335,857,200	\$ 266,678,300	\$ 159,409,600	\$ 93,149,600	\$ 1,251,500,680
Environmental Services	9,225,000	4,606,000	3,193,200	500,000	500,000	18,024,200
Fire Department	16,899,120	-	-	-	-	16,899,120
Housing and Community Development	1,538,200	2,080,000	2,039,400	-	-	5,657,600
Parks and Recreation	95,983,490	55,482,390	26,855,330	9,500,000	9,350,000	197,171,210
Police Department	17,633,625	-	-	-	-	17,633,625
Water Utility	145,614,000	106,314,550	99,285,193	111,387,297	111,603,179	574,204,219
<b>Total</b>	<b>\$ 683,299,415</b>	<b>\$ 504,340,140</b>	<b>\$ 398,051,423</b>	<b>\$ 280,796,897</b>	<b>\$ 214,602,779</b>	<b>\$ 2,081,090,654</b>

# FY26 Budget Development

## Permit and Valuation Assessment

Table 2 – FY22-25 Permit and Valuation Assessment Fee Historical Collections and Projection

Permit Type	FY22	FY23*	FY24	FY25 Projection
Permit Fee (Planning, DTM, and Fire)	\$ 7,729,144	\$ 9,902,664	\$ 8,811,987	\$ 8,879,420
Permit Valuation Assessment Fee	2,776,366	3,932,497	4,841,293	5,325,050.00
Total Permit Fees	\$ 10,505,510	\$ 13,835,161	\$ 13,653,280	\$ 14,204,470
Year over Year \$ Change		\$ 3,329,651	\$ (181,881)	\$ 551,190

\*This increase is generated by new construction permits issued due to lag caused by the pandemic.

# FY26 Budget Development Timeline – Next Steps

## **BUDGET CALENDAR**

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