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## General Fund 2026-27 Preliminary Budget Status and Multi-Year Forecast - Citywide

This report transmits the preliminary status for the General Fund (GF) Fiscal Year (FY) 2026-27 budget and a multi-year GF forecast through FY 2028-29 ([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 2026-27 reflects a projected surplus and includes resources that can be used for ongoing and one-time purposes. After taking into account required resources for operational and financial continuity of \$93 million further described in this report, the remaining surplus is \$62 million and includes \$36 million in ongoing resources and \$26 million in one-time resources. This positive budget outlook reflects the City Council's leadership last year to adopt the budget balancing strategies recommended by staff to resolve projected deficits including increasing the Transaction Privilege Tax (TPT) and Use Tax rate from 2.3% to 2.8% to offset the negative impacts of State action to eliminate residential rental sales tax and implementation of the flat income tax.

While the outlook for FY 2026-27 is positive, continuing uncertainty remains over the State's resolution to income tax conformity with the One Big Beautiful Bill. Decisions on conformity will impact the City's state-shared income tax revenues beginning in FY 2027-28. Due to this uncertainty, staff has prepared two versions of the multi-year forecast for comparison purposes ([Attachments B and C](#)). [Attachment B](#) reflects the baseline forecast, which does not reflect any tax conformity reductions. [Attachment C](#) assumes full tax conformity, which reduces state-shared income tax revenues by \$21.5 million in FY 2027-28 and by \$16.7 million in FY 2028-29. Additionally, staff continues to closely monitor state legislative proposals, several of which would significantly negatively impact City revenues if signed into law and represent a risk to the forecast.

The attached multi-year forecast report includes estimates of future GF resources and expenditures for FY 2026-27 through FY 2028-29 based on several economic and

budgetary assumptions. The baseline forecast (**Attachment B**) projects a range of ending balances, with a potential deficit of \$(6) million to a potential surplus of \$36 million in FY 2027-28 and a potential deficit of \$(31) million to a potential surplus of \$47 million in FY 2028-29. The forecast reflecting full tax conformity (**Attachment C**) also projects a range of ending balances, with a potential deficit of \$(7) million to a potential surplus of \$35 million in FY 2027-28 and a potential deficit of \$(48) million to a potential surplus of \$30 million in FY 2028-29. These forecasts are 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.

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. These projections will then be used to guide the FY 2026-27 proposed City Manager's trial budget, which is scheduled to be presented to City Council on March 24.

### **GF FY 2026-27 Preliminary Budget Status**

The projected positive ending fund balance in FY 2026-27 is good news and is primarily due to additional revenue generated from the TPT rate increase from 2.3% to 2.8% effective July 2025. The increase was necessary to offset the ongoing revenue losses caused by the State's action to eliminate residential rental sales tax effective January 2025 and to lower the individual income tax rate to a flat tax of 2.5 percent effective in tax year 2022. It also reflects the Council approved set-aside of the projected \$17 million surplus from last year's budget and \$11.6 million in carryover fund balance from FY 2024-25. Additionally, Budget and Research staff worked closely with departments to identify savings through the 3+9 technical expenditure review process, which frees up additional resources and benefits the fund balance.

As discussed last fiscal year, ongoing resources totaling approximately \$18 million are required in FY 2026-27 to continue services for the Office of Homeless Solutions to provide services to individuals experiencing homelessness in our community due to the expiration of American Rescue Plan Act funds; and for the Parks and Recreation Department to add positions for Esteban Park included in the 2023 General Obligation Bond Program and Lone Mountain Park both expected to be fully operational by FY 2027-28. Additionally, \$75 million of one-time resources is recommended to be set-aside to balance FY 2027-28 to ensure continuation of existing programs and services. The remaining FY 2026-27 surplus of \$62 million is made up of \$36 million in ongoing resources and \$26 million in one-time funds. The proposed City Manager's trial budget presented on March 24 will make recommendations on how to allocate the surplus, which could be used for new programs and services for the community and negotiated labor increases.

The GF preliminary estimated resources in FY 2026-27 are \$2.289 billion, which is 4.5 percent higher than FY 2025-26 estimated resources. GF revenue for FY 2026-27 is estimated at \$1.987 billion, which is \$65 million or 3.4 percent higher than the FY 2025-26 revised revenue estimate of \$1.922 billion. These projections reflect modest economic growth and the ongoing effect of the TPT rate increase. They also reflect the negative impact to state-shared revenues from the incorporation of San Tan Valley, which reduces state-shared revenues by more than \$10 million in FY 2026-27.

Revenue projections also reflect lower state-shared income tax collections due to the flat income tax and the elimination of residential rental sales tax. Staff will further refine GF revenue estimates over the coming weeks in preparation for the proposed City Manager's trial budget. 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 2026-27 GF expenditures to continue existing levels of service are projected at \$2.134 billion, including contingency funds. This compares to the FY 2025-26 GF expenditure estimate of \$1.944 billion. The increase includes higher costs for employee salaries, which continue to reflect the ongoing impact of the Classification and Compensation Study. Public Safety pension costs also continue to rise, with projected FY 2026-27 costs almost \$16 million higher than the FY 2025-26 budget. Notably, civilian pension costs are forecasted to remain flat throughout the forecast, highlighting the positive impact of prior pension reforms and continued progress in paying down the unfunded liability. Other cost increases include higher fringe benefit costs and increases for contractual, commodity, and vehicle replacement costs. These increases are partially offset by lower GF costs for capital pay-as-you-go projects.

The FY 2026-27 preliminary GF budget also accounts for increasing the contingency or "rainy day" fund from \$92 million to \$94 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. It does not assume any period of recession but rather includes a baseline, optimistic, and pessimistic projection, based on ranges for revenues and expenditures. The forecast assumes any annual deficit is resolved by reducing the following year's expenditures to achieve a

balanced budget, as the City is required by City Charter XVIII Section 6 and Arizona Revised Statute 42-17151 to pass a balanced annual budget each year.

The baseline multi-Year Forecast (**Attachment B**) includes a range of ending fund balances to account for additional uncertainty with projections further out in the forecast period, with a potential deficit of \$(6) million to a potential surplus of \$36 million in FY 2027-28 and a potential deficit of \$(31) million to a potential surplus of \$47 million in FY 2028-29. The baseline forecast reflects surpluses of \$15 million and \$8 million in FY 2027-28 and FY 2028-29, respectively and requires a set-aside of \$54 million to balance FY 2027-28. The forecast reflecting full tax conformity (**Attachment C**) also projects a range of ending balances, with a potential deficit of \$(7) million to a potential surplus of \$35 million in FY 2027-28 and a potential deficit of \$(48) million to a potential surplus of \$30 million in FY 2028-29. This forecast reflects a surplus of \$14 million and a deficit of \$(9) million in FY 2027-28 and FY 2028-29, respectively and requires a set-aside of \$75 million to balance FY 2027-28.

The current baseline forecast assumes no changes to existing labor contracts or service levels. It also 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 and presents a risk to projections. Staff will continue to closely monitor these bills.

The forecast accounts for anticipated cost increases for operating expenses associated with the voter-approved 2023 General Obligation Bond Program, totaling \$29 million over the forecast period. It includes annual investments of \$21 million toward addressing critical City facility and capital equipment maintenance needs. It also reflects efforts to reduce the City's vehicle backlog by allocating additional resources to vehicle replacements, beginning with \$28 million in FY 2026-27 and increasing to \$44 million in FY 2028-29. Additionally, pension costs are forecasted separately based on information from the City of Phoenix Employees Retirement System and the Public Safety Personnel Retirement System actuaries. These costs are anticipated to increase \$46 million from FY 2025-26 to FY 2028-29 (**Attachment H**).

Finally, the attached report 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**).

**Next Steps and Community Engagement**

On March 24, a balanced FY 2026-27 City Manager’s Trial Budget will be presented to City Council, along with the Preliminary Five-Year Capital Improvement Program. Engaging residents in the budget process is a priority of the City Council, and staff will continue the practice of seeking community input on the proposed budget with multiple opportunities for residents to participate through community budget hearings, scheduled for late March through mid-April. Residents are also invited to 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](http://phoenix.gov/budget). Feedback received from residents will be provided to the City Council for consideration ahead of final budget adoption.

**Responsible Department**

This item is submitted by City Manager Ed Zuercher, Deputy City Manager Amber Williamson and the Budget and Research Department.

# ATTACHMENT A

<b>RESEARCH REPORT BUDGET AND RESEARCH DEPARTMENT</b>		B.R. REPORT NUMBER <b>2026-12</b>
		DATE ISSUED February 24, 2026
TO: <b>ED ZUERCHER</b> CITY MANAGER	FROM: <b>AARON MERTZ</b> BUDGET AND RESEARCH DIRECTOR	
SUBJECT <b>MULTI-YEAR FORECAST AND FY 2026-27 PRELIMINARY GENERAL FUND BUDGET STATUS</b>		
<b>BACKGROUND</b> <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 2028-29. 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 2026.</p> <p>The General Fund (GF) multi-year forecast (<a href="#">Attachments B and C</a>) is provided to the City Council and the community for consideration and provides City policy makers with:</p> <ul style="list-style-type: none"><li>• A strategic financial management best practice.</li><li>• A framework for strategic decision-making to ensure a balanced budget each fiscal year.</li><li>• The opportunity to make policy changes to maximize City resources and service delivery.</li><li>• A roadmap to continued fiscal health and award-winning budgetary and financial reporting.</li></ul> <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 <a href="#">Attachment D</a>.</p> <p>The forecast is built on several assumptions outlined in <a href="#">Attachment D</a> regarding:</p> <ul style="list-style-type: none"><li>• The national, state, and local economy.</li><li>• Population and job growth.</li></ul>		

- Revenue and expenditure growth.
- Impacts of anticipated increasing sworn public safety pension liabilities.
- Effects of the State's action to eliminate residential rental sales tax effective January 2025 (Senate Bill 1131).
- Effects of the State's action to reduce the individual income tax rate to the current flat tax of 2.5% (Senate Bill 1828).
- State-shared revenue reductions due to San Tan Valley's incorporation.
- Negative impact of Arizona's income tax conformity with the One Big Beautiful Bill Act.
- Ongoing costs for the Class and Compensation 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 2026-27 could result in a \$19 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

For the first several years following the pandemic, strong economic performance, coupled with inflationary pressures, supported growth in tax revenues. These gains were driven by higher consumer prices, an expanding population, and rising income levels. However, the retail sector, the City's largest source of sales tax, has slowed since June 2022. In FY 2023-24, retail sales tax grew by 3.1%, the slowest rate since FY 2012-13, and growth in FY 2024-25 was even more modest at 1.1%. This slowdown, combined with recent legislative changes, has negatively impacted overall revenue collections. General Fund revenue reduction in the previous fiscal year totaled \$59.4 million, representing a 3.1% decline compared to FY 2023-24. The reduction is primarily

attributable to the State's elimination of the residential rental sales tax under Senate Bill (SB) 1131 and the implementation of a flat individual income tax rate of 2.5% under SB 1828. To address the projected FY 2025-26 budget shortfall and maintain essential programs and services, the City Council approved a revenue enhancement measure. On March 18, 2025, the Council authorized an increase in the City Transaction Privilege Tax (TPT) and Use Tax rate from 2.3% to 2.8%, effective July 1, 2025. However, significant economic uncertainty and a slowdown in sales tax revenue collections in the first six months of FY 2025-26 require a cautious approach to forecasting. The baseline revenue forecast projects a 4.1% increase for FY 2025-26 and a 3.4% increase for FY 2026-27. This modest growth is mainly due to higher City TPT and Use Tax revenues from the approved rate increase, though these gains are partially offset by reduced state-shared revenues due to the San Tan Valley's incorporation, lower state-shared income tax collections resulting from the flat individual income tax rate, and the elimination of residential rental sales tax.

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 \$593 million if passed and signed into law.

Additionally, to better prepare for future challenges, this report includes stress testing of the baseline forecast that incorporates tax conformity under moderate and severe recession scenarios, which is an essential fiscal tool to evaluate how revenues might respond to different levels of economic crisis ([Attachments 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 to the City Council on how best to allocate the GF surplus in FY 2026-27 to achieve a required balanced budget will be presented in the proposed City Manager's Trial Budget on March 24.

It is also worth noting the preliminary FY 2026-27 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 2026-27 Preliminary Budget Status**

FY 2026-27 Resources - The chart below shows the preliminary resources projection:

<b>GF Resource Category</b>	<b>2026-27 Preliminary Estimate (in millions)</b>	<b>2026-27 Preliminary Projected Annual Growth Rate %</b>
Local Sales & Excise Taxes <sup>1</sup>	\$834	1.8%
State-Shared Revenue <sup>2</sup>	\$710	5.6%
Primary Property Tax <sup>3</sup>	\$232	4.1%
User Fees and Other	\$211	1.9%
Unused Contingency/Set-Aside from PY <sup>4</sup>	\$201	N/A
Transfers/Recoveries/Carryover Balance <sup>4</sup>	\$101	N/A
<b>Total GF Resources</b>	<b>\$ 2,289</b>	<b>4.5%</b>

<sup>1</sup> 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. Reflects 0.5 percentage point increase in the City TPT and Use Tax rates effective July 1, 2025.

<sup>2</sup> Reflects the negative impact of San Tan Valley's incorporation on State-Shared Sales Tax and Income Tax revenues, and reflects the reduction in 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 2026-27 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

<sup>3</sup> 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.

<sup>4</sup> Estimates for unused contingency/set-aside from prior year (PY) and transfers/recoveries/carryover balance 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 2026-27 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 2025-26 and FY 2026-27 General Fund operating expenditure estimates excluding contingency are projected to be \$1.944 billion and \$2.038 billion, respectively. The increase includes the ongoing costs for the Class and Compensation study, and increased costs for sworn public safety pension liabilities, contractual services, and commodities. The outer years of the forecast assume personal services expenditures, excluding pension 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 grow by an inflationary factor. Further details 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 2026-27 for civilian employees are estimated at \$112 million and are expected to remain at \$112 million in FY 2028-29. The overall stable 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 2026-27 for sworn Police and Fire are estimated at \$375 million and are expected to increase to \$401 million in FY 2028-29. 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 \$26 million from the FY 2026-27 through FY 2028-29 (**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 decrease from \$201 million in FY 2025-26 to \$94 million in FY 2026-27, as the FY 2025-26 amount includes a \$109 million set-aside to balance the FY 2026-27 budget. The contingency rate remains at 4.75% for the entire forecast period. 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 in case of adversity. 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 2026-27 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 Tax Conformity
Attachment D	Forecast Assumptions
Attachment E	Background, Methodology and Assumptions for Stress Testing
Attachment F	Stress Testing for Moderate Recession Scenario, with Tax Conformity
Attachment G	Stress Testing for Severe Recession Scenario, with Tax Conformity
Attachment H	Pension Cost Increases

**Multi-Year General Fund Forecast (\$ Millions)**

	2025-26	2026-27	For Planning Purposes Only	
	Adopted Budget	Preliminary Budget Estimate	2027-28 Forecast	2028-29 Forecast
<b>Resources</b>				
Local Taxes	\$841	\$834	\$862 - \$874	\$889 - \$916
State Shared Revenues	682	710	737 - 748	765 - 788
Primary Property Tax	223	232	240 - 243	249 - 257
User Fees and Other	191	211	213 - 217	216 - 222
Other (Set-Aside ,Carryover Balance, Transfers, Recoveries)	168	101	104	53
Unused Contingency/Set-Aside from Prior Year	89	201	94	101 - 100
<b>Total Resources</b>	<b>\$2,194</b>	<b>\$2,289</b>	<b>\$2,250 - \$2,280</b>	<b>\$2,273 - \$2,336</b>
<b>Expenditures</b>				
Operating Expenditures	\$1,422	\$1,476	\$1,565 - \$1,554	\$1,593 - \$1,579
Civilian Pension	116	112	111	112
Sworn Public Safety Pension	359	375	399	401
Contingency/Set-Aside	201	94	101 - 100	103 - 102
Pay-As-You-Go Capital	74	49	36	31
Operating Costs for GO Bond Program	-	-	9	20
Vehicle Replacements	22	28	35	44
<b>Total Expenditures</b>	<b>\$2,194</b>	<b>\$2,134</b>	<b>\$2,256 - \$2,244</b>	<b>\$2,304 - \$2,289</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$155</b>	<b>\$(6) - \$36</b>	<b>\$(31) - \$47</b>
<b>BASELINE FORECAST (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$155</b>	<b>\$15</b>	<b>\$8</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes modest revenue growth with no recession from 2026-27 to 2028-29. The forecast includes the 0.5 percentage point increase in the City TPT and Use Tax rates effective 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 2026-27 was based on the 2024 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period and accounts for the San Tan Valley's incorporation. 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 2026-27 through 2028-29.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2026-27 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 Compensation 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 2026-27 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.

**Multi-Year General Fund Forecast with Tax Conformity (\$ Millions)**

	2025-26	2026-27	For Planning Purposes Only	
	Adopted Budget	Preliminary Budget Estimate	2027-28 Forecast	2028-29 Forecast
<b>Resources</b>				
Local Taxes	\$841	\$834	\$862 - \$874	\$889 - \$916
State Shared Revenues	682	710	737 - 748	765 - 788
Impact of Tax Conformity	-	-	(22)	(17)
Primary Property Tax	223	232	240 - 243	249 - 257
User Fees and Other	191	211	213 - 217	216 - 222
Other (Set-Aside, Carryover Balance, Transfers, Recoveries)	168	101	125	53
Unused Contingency/Set-Aside from Prior Year	89	201	94	101 - 100
<b>Total Resources</b>	<b>\$2,194</b>	<b>\$2,289</b>	<b>\$2,249 - \$2,279</b>	<b>\$2,256 - \$2,319</b>
<b>Expenditures</b>				
Operating Expenditures	\$1,422	\$1,476	\$1,565 - \$1,554	\$1,593 - \$1,579
Civilian Pension	116	112	111	112
Sworn Public Safety Pension	359	375	399	401
Contingency/Set-Aside	201	94	101 - 100	103 - 102
Pay-As-You-Go Capital	74	49	36	31
Operating Costs for GO Bond Program	-	-	9	20
Vehicle Replacements	22	28	35	44
<b>Total Expenditures</b>	<b>\$2,194</b>	<b>\$2,134</b>	<b>\$2,256 - \$2,244</b>	<b>\$2,304 - \$2,289</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$155</b>	<b>\$(7) - \$35</b>	<b>\$(48) - \$30</b>
<b>BASELINE FORECAST (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$155</b>	<b>\$14</b>	<b>\$(9)</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes modest revenue growth with no recession from 2026-27 to 2028-29. The forecast includes the 0.5 percentage point increase in the City TPT and Use Tax rates effective July 1, 2025.
- \* The forecast reflects the projected fiscal impact of full tax conformity with the One Big Beautiful Bill Act, based on the Joint Legislative Budget Committee's analysis dated December 5, 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 2026-27 was based on the 2024 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period and accounts for the San Tan Valley's incorporation. 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 2026-27 through 2028-29.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2026-27 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 Compensation 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 2026-27 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 (BLS)
- 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**

By the end of 2025, the U.S. economy displayed both resilience and underlying challenges. Real gross domestic product (GDP) increased at an annual rate of 4.4% in the third quarter of 2025, according to the updated estimate from the U.S. Bureau of Economic Analysis. The increase in real GDP reflected increases in consumer spending, exports, government spending, and investment. Still, the road to 2026 remains challenging. The Blue Chip Economic Indicators (BCEI) consensus projects that real GDP will grow at a slower pace, with an estimated growth of 2.0% in 2026 and 2.1% in 2027. Forecasters anticipate continued consumer spending support, though at a slower pace. Persistent uncertainties – including tariff policy shifts, geopolitical tensions, elevated consumer debt, housing affordability constraints, labor market frictions, and inflationary pressures – are to weigh on confidence and investment decisions.

Arizona's future economic performance, along with that of Phoenix, will be closely tied to national and global trends. Arizona's economy continues to grow, though at a slower pace than usual. Job gains are modest due to reduced hiring and slightly higher layoffs. Arizona's nonfarm job growth has decelerated, shifting from roughly 1.2% in 2024 to 0.6% in 2025, according to the U.S. Bureau of Labor Statistics (BLS). Income levels are rising gradually, reflecting post-pandemic normalization in employment costs. For the 12-month period ending September 2025, wages and salaries for private industry workers increased 2.6% in the Phoenix Metropolitan Area, down from 3.4% in September 2024.

Despite these challenges, Arizona taxable retail sales, including remote sellers, increased by 4.3% in December 2025. The rebound in taxable retail sales demonstrates resilient consumer activity. However, December 2025 marked the fifth consecutive month with a year-over-year decline in State TPT contracting revenue, primarily due to weakness in the residential construction sector. After the COVID-19 pandemic, Arizona saw a surge in home and rent prices. Housing affordability has remained a primary challenge for the state. Housing permit activity statewide has been weak through the first eight months of 2025; seasonally adjusted total Arizona housing permits were down 13.1% compared to the same period last year (EBRC Benchmark).

Looking ahead, the baseline forecast anticipates continued economic growth in Arizona in 2026, supported by increased U.S. economic activity. However, gains are expected to remain modest relative to historical trends due to federal policy uncertainty, higher costs from increased tariffs, and demographic aging amid national immigration restrictions.

Other significant economic assumptions from trusted sources include the following:

- Personal income growth for the Phoenix Metro area is projected to slightly increase from 5.7% in 2025 to 6.0% in 2026 and range from 6.2% to 5.6% from 2027 to 2029 (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 1.5% in 2026 and 2027, and 1.4% for the remaining forecast period (UofA Economic Business Research Center).
- Non-farm employment in metro Phoenix is estimated to increase from the growth of 0.9% in 2025 to 1.6% in 2026 and range from 1.7% to 1.6% from 2027 to 2029 (UofA Economic Business Research Center).
- Arizona unemployment rate is estimated to increase from 4.1% in 2025 to 4.4% in 2026 and range from 4.5% to 4.3% for the remaining forecast horizon (UofA Economic Business Research Center).
- Arizona house price increases have slowed, but housing cost burdens remain elevated and housing permit activity was down by 11.3% in 2025. Housing permits are projected to slightly increase by 0.3% in 2026 and decline by 8.4% in 2027 (UofA Economic Business Research Center).
- Stabilizing house prices have contributed significantly to reduced consumer price inflation in the Phoenix MSA, which is running well below the U.S. The Consumer Price Index-All Urban Consumers (CPI-U) West region is estimated to slightly increase from 3.1% in 2025 to 3.2% in 2026 and range from 2.6% to 2.2% for the remaining forecast period (UofA Economic Research Center).

**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 3.4% to 4.1%.
- 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.

- The relative population share used to calculate state shared revenues for FY 2026-27 is based on the 2024 Census Bureau Population Estimate and has recently been adjusted downward following the incorporation of San Tan Valley in September 2025 and its eligibility for state-shared revenues. In addition, Laws 2021, Chapter 412 (Tax Omnibus) increased 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.
- The forecast includes the 0.5 percentage point increase in the City TPT and Use Tax rates, effective July 1, 2025.
- The forecast with tax conformity reflects the projected fiscal impact of full tax conformity with the One Big Beautiful Bill Act, based on the Joint Legislative Budget Committee's analysis dated December 5, 2025.
- 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 Compensation (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, roadway safety, flood hazard mitigation, information technology, and money earmarked for future expenses.
- The contingency fund is set at 4.75% of the total GF operating expenditures from FY 2026-27 through FY 2028-29.
- The FY 2026-27 total compensation costs are based on projections under the current Council adopted pay plan ordinance and existing employee contracts. Any negotiated labor increases will reduce the resources available for programs and services.
- The Class & Compensation study continues to put upward pressure on personal services costs as employees progress through the new pay scales.
- 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.

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 is currently presented.

- The forecast incorporates the estimated annual ongoing operating costs in FY 2027-28 and FY 2028-29 for the voter approved 2023 General Obligation (GO) Bond Program totaling \$29 million over the two fiscal years. These costs have been factored into the forecast; however, further resources may still be required.
- The forecast reflects the continued funding of approximately \$21 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 \$28 million for FY 2026-27, \$35 million in FY 2027-28, and \$44 million in FY 2028-29 to replace units in the fleet. Vehicle replacement costs have experienced significant inflation in recent years. It should be noted the current GF backlog of vehicles is estimated by Public Works at a value of \$27 million, and more vehicle replacement funding may 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 projections indicate an ongoing funding requirement of approximately \$18 million beginning in FY 2026-27.
- 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 address 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. While the City has not noted significant impact from this action yet, it will monitor closely given the impact of any state shared revenue loss.
- Beyond the potential risks and headwinds stated in the economic outlook section, several proposed legislative bills would significantly reduce City revenues. For bills that can be quantified with available information, the estimated impact to City revenue is approximately \$593 million per year (See Attachment D1 for details), 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.

## **ATTACHMENT D1**

### **Proposed Legislation Current Session – Negative Revenue Impacts**

**SB 1106, SB 1638, and HB 2785** – Arizona state tax conformity with Federal 2025 tax changes (estimated \$21,500,000 reduction beginning FY 2027-28)

**SB 1745** – Municipalities local excise tax rate limit (estimated \$229,000,000 reduction beginning FY 2026-27)

**HB 2011** – expands allowable deductions from Arizona gross income (estimated \$540 reduction beginning FY 2028-29)

**HB 2269** – Tax deduction on gross proceeds/income from gas and electricity retail sales (estimated \$9,400,000 reduction beginning FY 2026-27)

**HB 4096** – Withhold state shared revenue to compensate property owners for diminution in property values caused by zoning ordinances or other City actions (\$333,000,000 reduction per year from FY 2026-27 to FY 2028-29)

## **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. The stress test model also accounts for the anticipated fiscal impact of full tax conformity with the One Big Beautiful Bill Act, as outlined in the Joint Legislative Budget Committee's analysis dated December 5, 2025.

**Attachment F** shows a hypothetical moderate recession estimated to start in FY 2026-27. 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 2028-29.

**Attachment G** shows a hypothetical severe recession that is estimated to start in FY 2026-27. 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 2028-29.

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.

**Multi-Year General Fund Forecast – Moderate Recession Scenario, with Tax Conformity (\$ Millions)**

	2025-26 Adopted Budget	2026-27 Preliminary Budget Estimate	2027-28 Forecast	2028-29 Forecast
<b>Resources</b>				
Local Taxes	\$841	\$806	\$789 - \$801	\$814 - \$839
State Shared Revenues	682	693	704 - 715	709 - 731
Impact on Tax Conformity	-	-	(22)	(17)
Primary Property Tax	223	220	217 - 220	249 - 257
User Fees and Other	191	202	198 - 201	200 - 207
Other (Set-Aside, Carryover Balance, Transfers, Recoveries)	168	91	131	53
Unused Contingency/Set-Aside from Prior Year	89	201	94	98
<b>Total Resources</b>	<b>\$2,194</b>	<b>\$2,213</b>	<b>\$2,111 - \$2,140</b>	<b>\$2,106 - \$2,168</b>
<b>Expenditures</b>				
Operating Expenditures	\$1,422	\$1,474	\$1,510 - \$1,500	\$1,467 - \$1,456
Civilian Pension	116	112	111	112
Sworn Public Safety Pension	359	375	399	401
Contingency/Set-Aside	201	94	98	97
Pay-As-You-Go Capital	74	49	36	31
Operating Costs for GO Bond Program	-	-	9	20
Vehicle Replacements	22	28	35	44
<b>Total Expenditures</b>	<b>\$2,194</b>	<b>\$2,132</b>	<b>\$2,198 - \$2,188</b>	<b>\$2,172 - \$2,161</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$81</b>	<b>\$(87) - \$(48)</b>	<b>\$(66) - \$7</b>
<b>BASELINE FORECAST (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$81</b>	<b>\$(68)</b>	<b>\$(29)</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes moderate recession in 2026-27 and 2027-28. The forecast includes the 0.5 percentage point increase in the City TPT and Use Tax rates effective July 1, 2025.
- \* The forecast reflects the projected fiscal impact of full tax conformity with the One Big Beautiful Bill Act, based on the Joint Legislative Budget Committee's analysis dated December 5, 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 2026-27 was based on the 2024 Census Bureau Population Estimate. It is projected to remain flat throughout the forecast period and accounts for the San Tan Valley's incorporation. 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 2026-27 through 2028-29.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2026-27 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 Compensation 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 2026-27 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.

**Multi-Year General Fund Forecast – Severe Recession Scenario, with Tax Conformity (\$ Millions)**

	2025-26	2026-27	For Planning Purposes Only	
	Adopted Budget	Preliminary Budget Estimate	2027-28 Forecast	2028-29 Forecast
<b>Resources</b>				
Local Taxes	\$841	\$787	\$753 - \$765	\$729 - \$752
State Shared Revenues	682	686	689 - 700	664 - 686
Impact on Tax Conformity	-	-	(22)	(17)
Primary Property Tax	223	216	208 - 211	200 - 207
User Fees and Other	191	198	190 - 193	183 - 188
Other (Set-Aside, Carryover Balance, Transfers, Recoveries)	168	90	97	53
Unused Contingency/Set-Aside from Prior Year	89	201	94	98
<b>Total Resources</b>	<b>\$2,194</b>	<b>\$2,178</b>	<b>\$2,009 - \$2,038</b>	<b>\$1,910 - \$1,967</b>
<b>Expenditures</b>				
Operating Expenditures	\$1,422	\$1,474	\$1,510 - \$1,500	\$1,362 - \$1,351
Civilian Pension	116	112	111	112
Sworn Public Safety Pension	359	375	399	401
Contingency/Set-Aside	201	94	98	97
Pay-As-You-Go Capital	74	49	36	31
Operating Costs for GO Bond Program	-	-	9	20
Vehicle Replacements	22	28	35	44
<b>Total Expenditures</b>	<b>\$2,194</b>	<b>\$2,132</b>	<b>\$2,198 - \$2,188</b>	<b>\$2,062 - \$2,051</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$46</b>	<b>\$(189) - \$(150)</b>	<b>\$(152) - \$(84)</b>
<b>BASELINE FORECAST (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$46</b>	<b>\$(170)</b>	<b>\$(118)</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes severe recession from 2026-27 to 2028-29. The forecast includes the 0.5 percentage point increase in the City TPT and Use Tax rates effective July 1, 2025.
- \* The forecast reflects the projected fiscal impact of full tax conformity with the One Big Beautiful Bill Act, based on the Joint Legislative Budget Committee's analysis dated December 5, 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 2026-27 was based on the 2024 Census Bureau Population Estimate. It is projected to remain flat throughout the forecast period and accounts for the San Tan Valley's incorporation. 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 2026-27 through 2028-29.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2026-27 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 Compensation 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 2026-27 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 2025-26 through 2028-29 is based on information from plan actuaries and on the valuations dated June 30, 2025. Projected amounts account for updated salary, inflation, and demographic data. The PSPRS Board continued the decrease in the payroll growth assumption from 1.5% to 0.75%, resulting in an increase to the employer contribution rate.

