Investments in a **Stronger** Phoenix

COMMUNITY BUDGET GUIDE

PHOENIX

2026-2027

Contents

Outlook

State and Local Economy

For the first several years following the pandemic, Arizona's 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. Real GDP rose 4.6 percent in the third quarter of 2025, slightly above the national pace of 4.4 percent. Arizona's population growth was 1.3 percent in 2025 and projected to be 1.2 percent in both 2026 and 2027. Income growth also supported this momentum. Arizona personal income rose 4.5 percent in the third quarter of 2025.

However, this strong economic foundation masks emerging challenges. Retail activity, the City's largest source of sales tax revenues, has slowed significantly since June 2022. Retail sales tax collections grew only 3.1 percent in 2023-24, the slowest rate since 2012-13, and slowed further to 1.1 percent in 2024-25. This slowdown, combined with recent legislative changes, has negatively affected overall revenue collections. Additionally, significant economic uncertainty and a further slowdown in sales tax revenue during the first six months of 2025-26 suggest a cautious approach to forecasting.

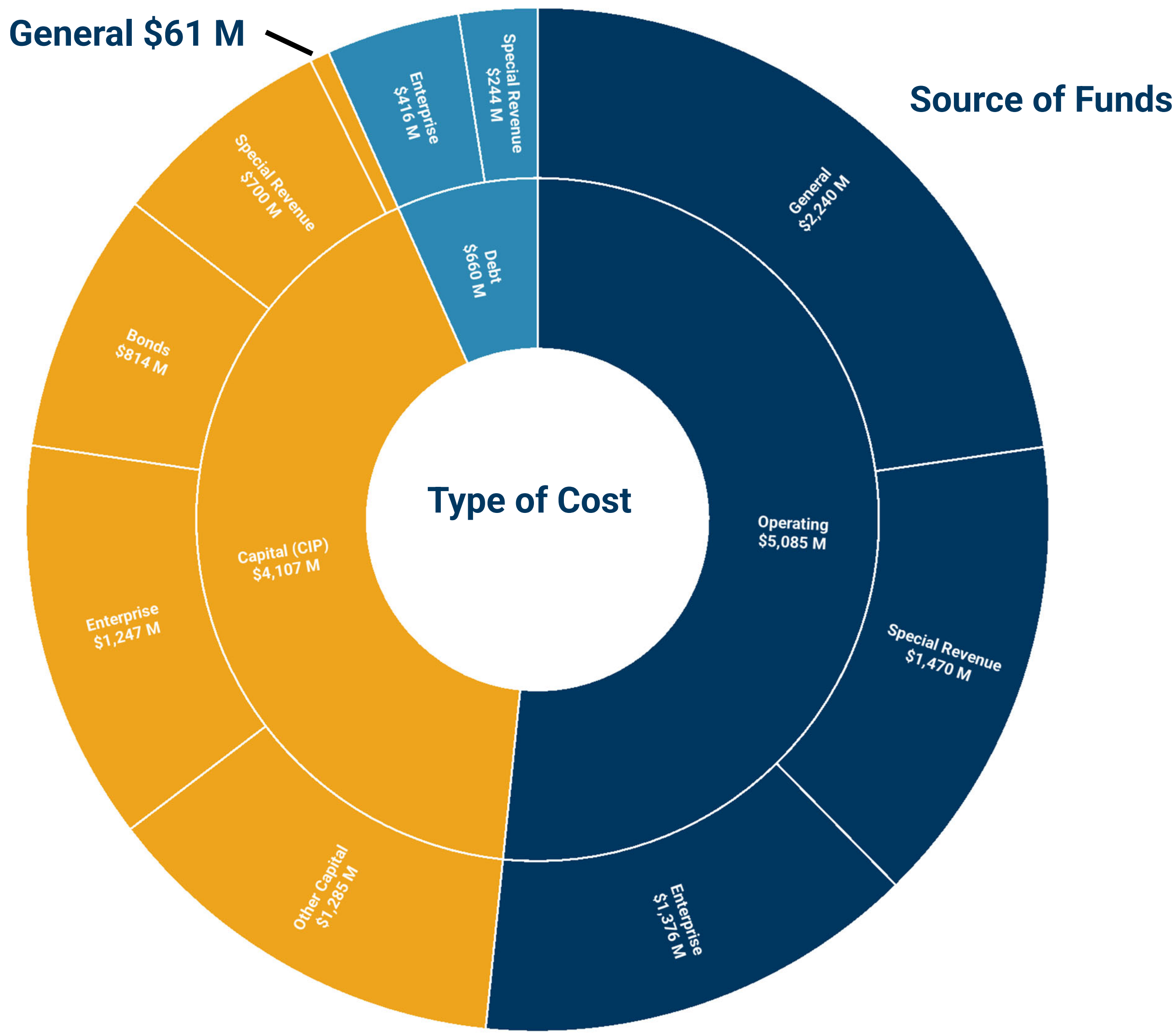
Looking Ahead

The 2026-27 City of Phoenix Budget is balanced and reflects the leadership of the Mayor and City Council and extensive community input. The City projected a $162.5 million General Fund surplus. Of that surplus, $37.5 million is allocated to key Council and community priority areas:

- Community Health and Safety - $1.6 million
- Children, Youth, and Families - $9.4 million
- Homeless Service Continuity - $18.4 million
- Housing Affordability - $6.6 million
- Planning and Development Customer Service Enhancements - $1.5 million

The budget also addresses employee compensation, with $50 million dedicated toward negotiated labor increases. This investment both underscores the value of our employees and ensures the City remains competitive in the labor market, able to attract and retain the talent needed to continue delivering high quality services to residents. Finally, the budget sets aside $75 million to ensure future budget years stay balanced.

City Budget Structure & Sources: Operating, Capital and Debt Service



Operating

Operations and maintenance costs. These include costs like the salaries of police officers and firefighters and costs of repairing City streets.

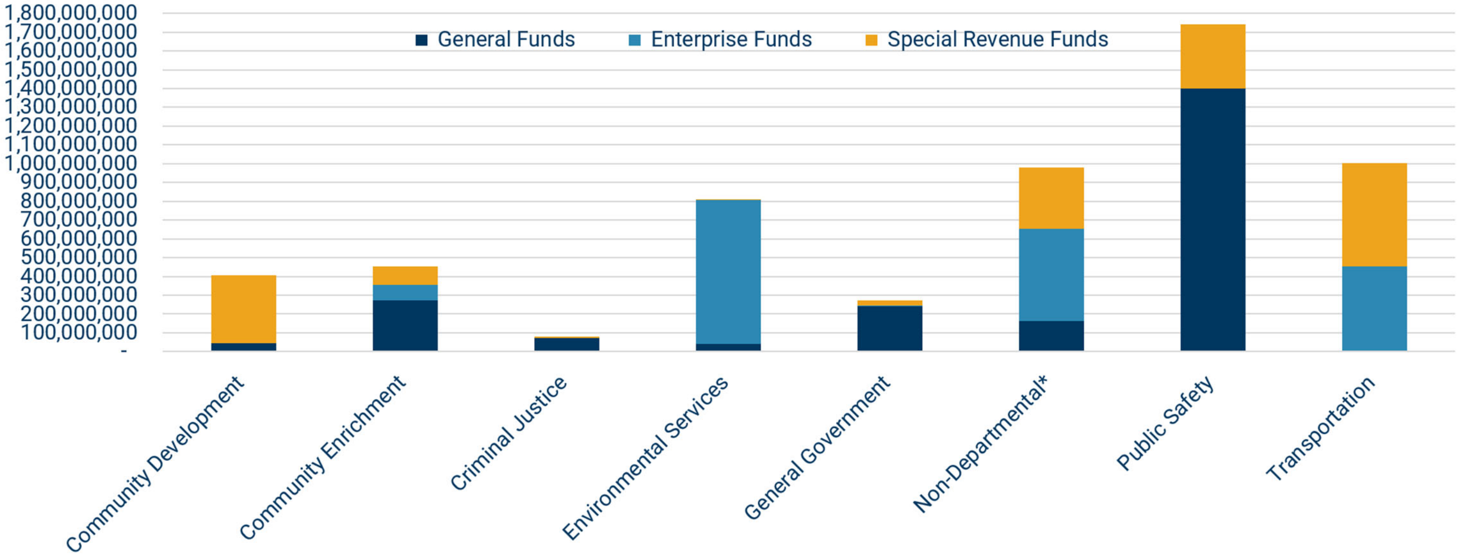
Debt Service

Principal and interest payments on bonds issued by the City for projects like water treatment plants.

Capital Improvement Program

Investments in infrastructure and similar assets. The construction of new light rail extensions, for example, is included in the Capital Improvement Program.

The Operating Expenditure Budget



* Debt service, contingency funds; net unassigned budgeted vacancy savings

General Funds

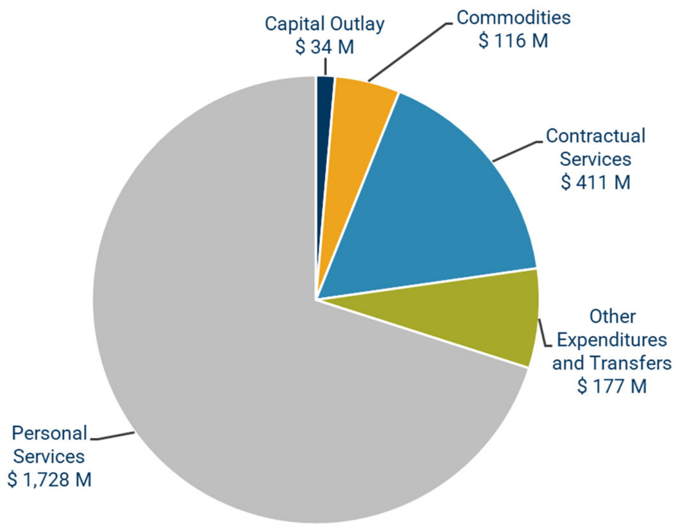
Money from taxes and fees that have an unrestricted use.

Enterprise Funds

Money generated from fees for goods or services that the City provides, like water and trash pick-up, that operate like a business. This money is only used to offset the City's cost of providing these services.

Special Revenue Funds

Funds for specific activities that may be governed by state law, provided under grant agreements, or earmarked by voters.



General Fund by Character

The chart to the left represents the General Fund operating expenditure budget by character of spending, illustrating that expenditures are predominantly related to personal services costs: salaries and benefits of City employees. The costs shown are partially offset by $226 million in charges out to other funds, making the net General Fund operating budget $2,240 million.

General Fund Revenue Sources

State Shared Revenues
$711 million (36%)

Includes the City's population-based share of state sales taxes, state income taxes, and vehicle license taxes.

Property Taxes
$233 million (12%)

The primary portion of the City's property tax serves as a General Fund resource.

Local Taxes & Related Fees
$834 million (42%)

Includes local sales taxes, use taxes on purchases where no sales tax are paid, annual tax license fees, and jail and general excise taxes on municipal service bills.

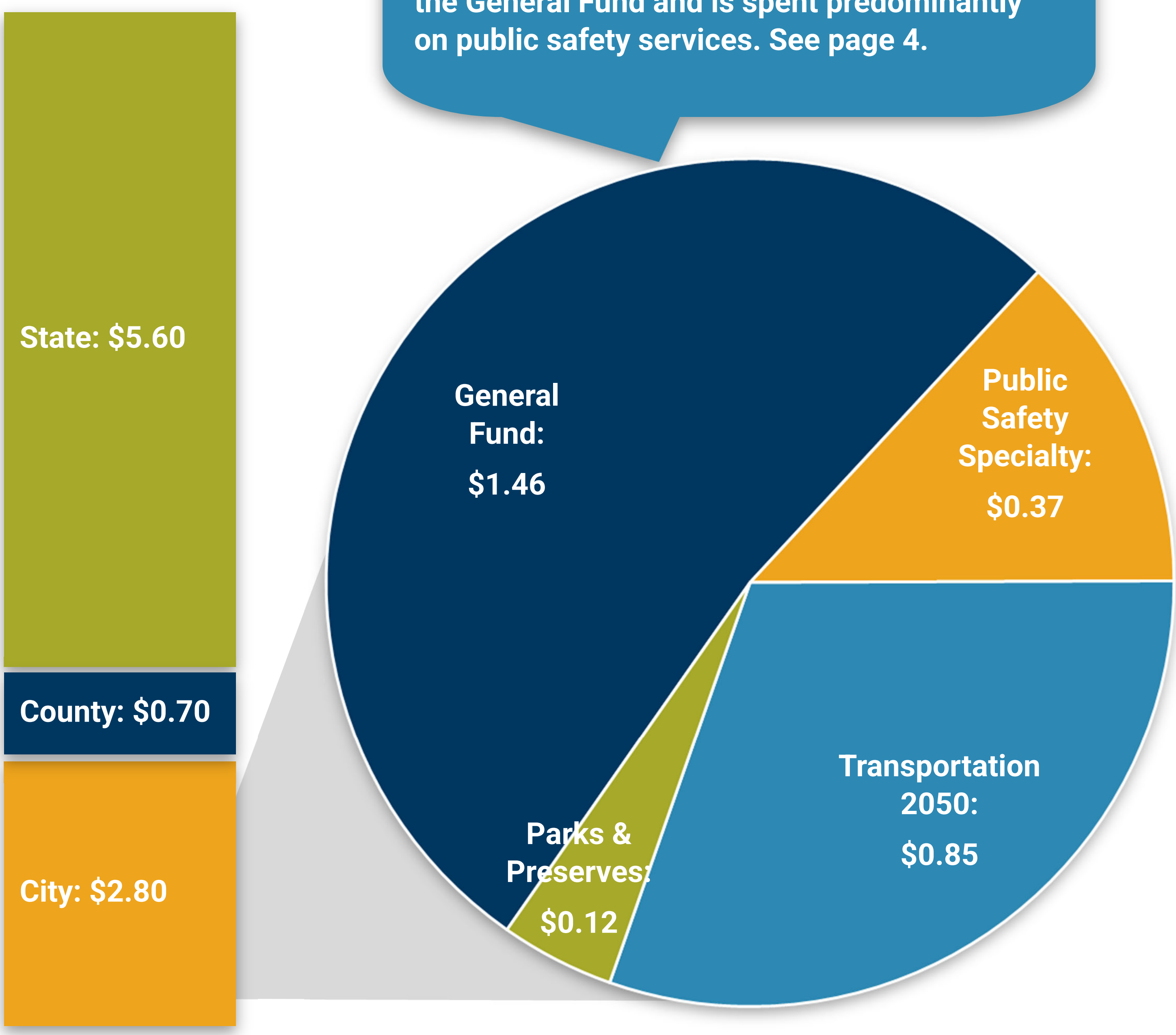
User Fees & Other Revenue
$213 million (10%)

Licenses and permits, cable television fees, fines and forfeitures, parks and libraries fees, various cost recovery-based user fees, and miscellaneous General Fund revenue sources.

Distribution of Local Sales Tax Dollars Example: $100 Retail Purchase

While City voters have approved several initiatives to set aside portions of the City's sales tax for specific purposes, most goes to the General Fund and is spent predominantly on public safety services. See page 4.

Total Sales Tax: $9.10



City Budget Process

August — February. Staff update revenue and expenditure estimates for the current year, prepare baseline budget requests for the coming year that assume current levels of service, and prepare proposed service level changes.

March. Staff present the Trial Budget and Preliminary Capital Improvement Program to Council.

April. Public budget hearings are held to gather residents' input on the Trial Budget; comments are compiled and reviewed by City management and Council.

May. Reflecting public input, staff present the City Manager's Budget to Council; Council reviews the presented budget and provides policy guidance.

June. Reflecting Council input, staff present the Tentative and Final budgets to Council, and the 5-year CIP is adopted.

July. Council adopts the property tax rates and property tax levies specified in the budget.

This budget process is longer than many other cities' processes to give our residents and the City Council many opportunities to shape the budget. How do residents participate?

At community budget hearings each April: posted on www.phoenix.gov/budget.

Through social media, email or phone:

#PhoenixBudget **budget.research@phoenix.gov** **602-262-4800**

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200 W. Washington St., 14th floor
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Budget and Research Director
Aaron Mertz

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or alternative format/reasonable accommodations,
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