



PHOENIX

Community Budget Guide



2024 - 2025

Building the Phoenix of Tomorrow

Contents

Outlook. What are the budget’s major economic assumptions? What are the most significant cost trends?

2

City Budget Structure and Sources. How is the City’s funding allocated between operating costs, debt payments, and infrastructure? What are the sources of funding for each?

3

The Operating Budget. How do the City’s ongoing costs for public safety services like police and fire compare to ongoing costs for community enrichment activities like parks and libraries? Where are the City’s unrestricted General Fund resources invested?

4

General Fund Revenue Sources. What types of taxes, fees and other revenue sources flow to the City’s General Fund? How reliant is the City on state-shared revenue sources like income taxes?

5

Distribution of Local Sales Tax Dollars. When you make a purchase, how much of the sales tax goes to the City? Can the City spend that sales tax revenue on any service? Or is some of it set aside for dedicated purposes?

6

City Budget Process. How far in advance of the budget year does the budget development process begin? At what stages is the budget presented to the public and to the City Council? How can residents participate in the process?

7



Outlook

State and Local Economy

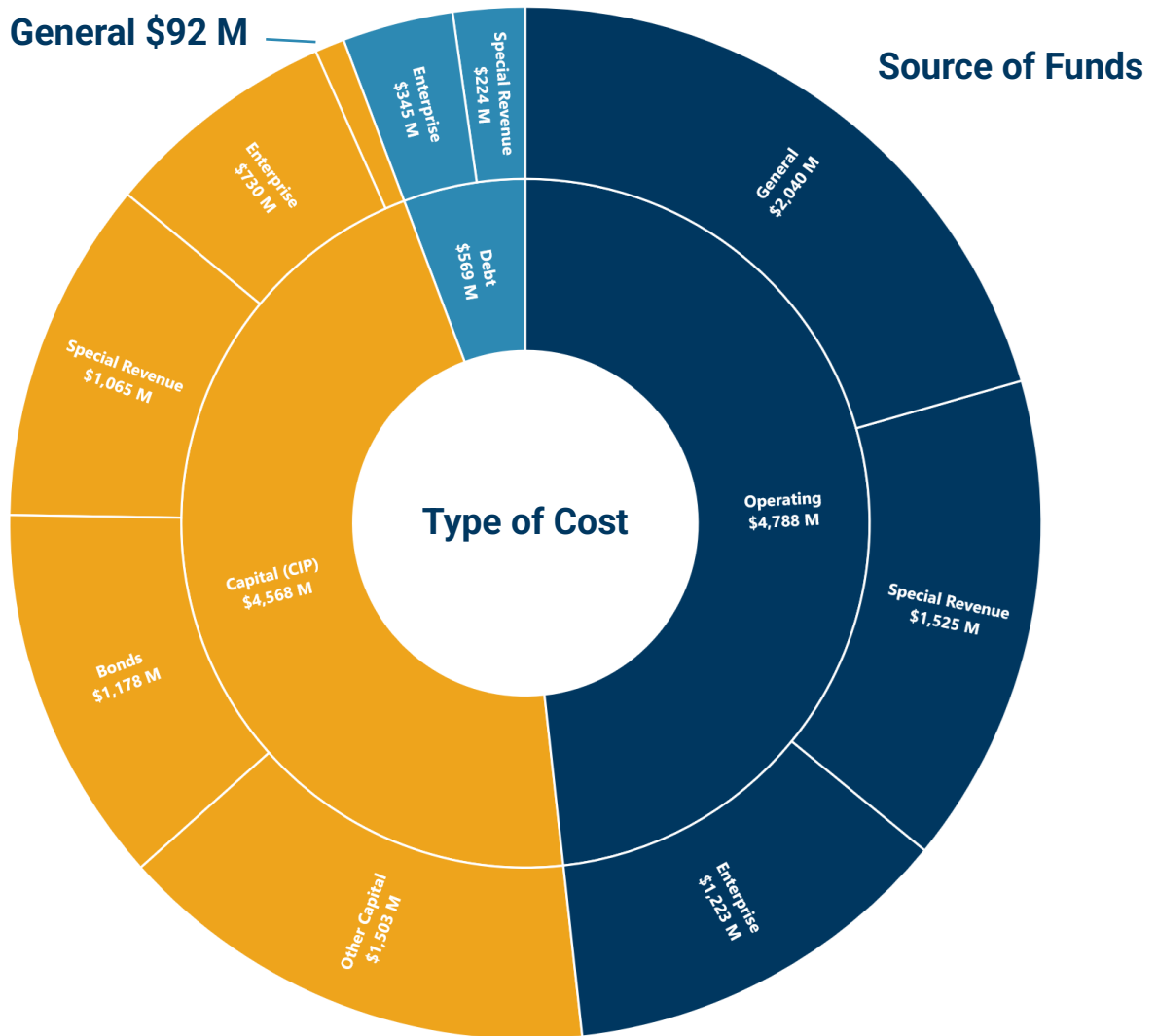
It has been over four years since the emergence of COVID-19 in December 2019, and Arizona has recovered from the pandemic downturn ahead of most states. Arizona was also one of the fastest states to recover its lost jobs during the pandemic. After the pandemic, Arizona's economy has been in solid shape, with a strong labor market and historically low unemployment rates. Phoenix inflation has moderated and is now below the national rate, and real income growth has accelerated. However, retail sales, including remote sales, have lost momentum, and housing affordability has become a concern due to rising home prices and elevated interest rates. City revenue growth in the previous fiscal year was strong despite the onset of geopolitical conflicts, high inflation, actions by the Federal Reserve to increase interest rates, tighter monetary policy, and volatile markets. However, significant economic uncertainty and volatility in sales tax revenue collections in the first eight months of 2023-24 require a cautious approach to forecasting. City sales tax, primary property tax, state-shared sales and vehicle license taxes are projected to grow in 2024-25, with growth rates ranging from 4.1 percent to 4.8 percent. Staff will closely monitor revenue activity in order to develop revised revenue estimates for the current year and to prepare a balanced budget for 2025-26.

Looking Ahead

The General Fund budget sets aside a projected \$80 million one-time surplus to help resolve future projected deficits. Shortfalls are expected due to the State's actions to eliminate residential rental sales tax and to reduce the individual income tax rate to the current "flat tax" of 2.5 percent. These actions significantly reduce resources while the City faces financial pressures due to continuing inflation and necessary compensation increases to ensure a high-quality workforce. Baseline deficits are projected in 2025-26 of (\$92) million and in 2026-27 of (\$31) million based on the most recent multi-year forecast available on the Budget & Research Department website at phoenix.gov/budget. While we will face budgetary challenges in the future, City leadership is committed to identifying solutions to balance the budget going forward, and to continue the tradition of delivering exceptional services to our residents. Phoenix also continues to be an economic leader in the country due to diverse business and development opportunities, a strong job market, and population growth. Over the past three fiscal years the City has benefited from strong revenue growth and the Council made strategic decisions to responsibly allocate available resources to resident priorities, and to invest in our City employees by approving competitive pay increases. The City will continue the annual tradition of seeking community input on the proposed 2025-26 spending plan ahead of City Council budget adoption scheduled for June 2025. Residents can learn more about the annual budget process and ways to provide feedback on our website at phoenix.gov/budget.



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

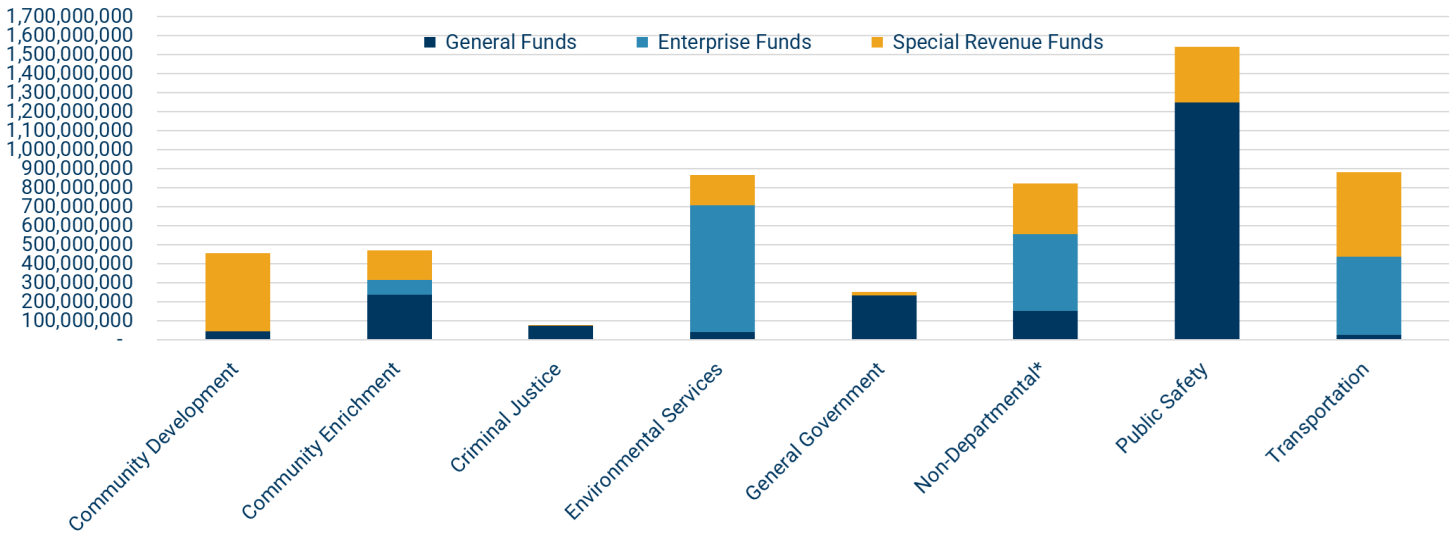
Principal and interest payments on bonds issued by the City for projects like water treatment plants.

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, American Rescue Plan Act (ARPA) funds; net unassigned budgeted vacancy savings

General Funds

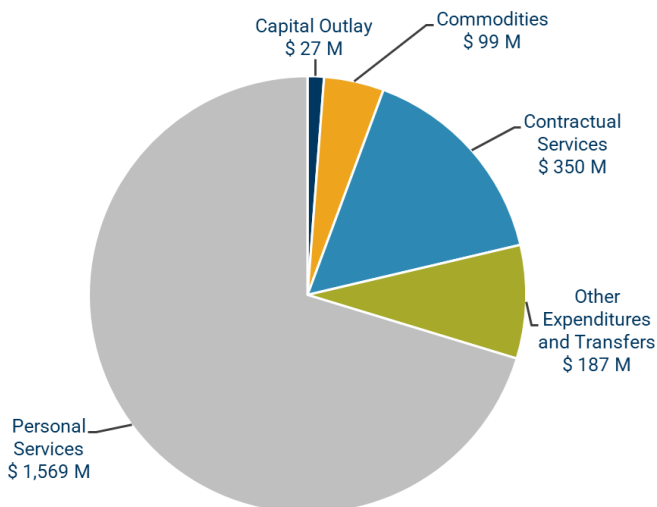
Money from taxes and fees that have an unrestricted use.

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 \$192 million in charges out to other funds, making the net General Fund operating budget \$2,040 million.



General Fund Revenue Sources



State Shared Revenues \$699 million (38%)

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

Property Taxes \$215 million (12%)

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

Local Taxes & Related Fees \$737 million (40%)

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 \$192 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.

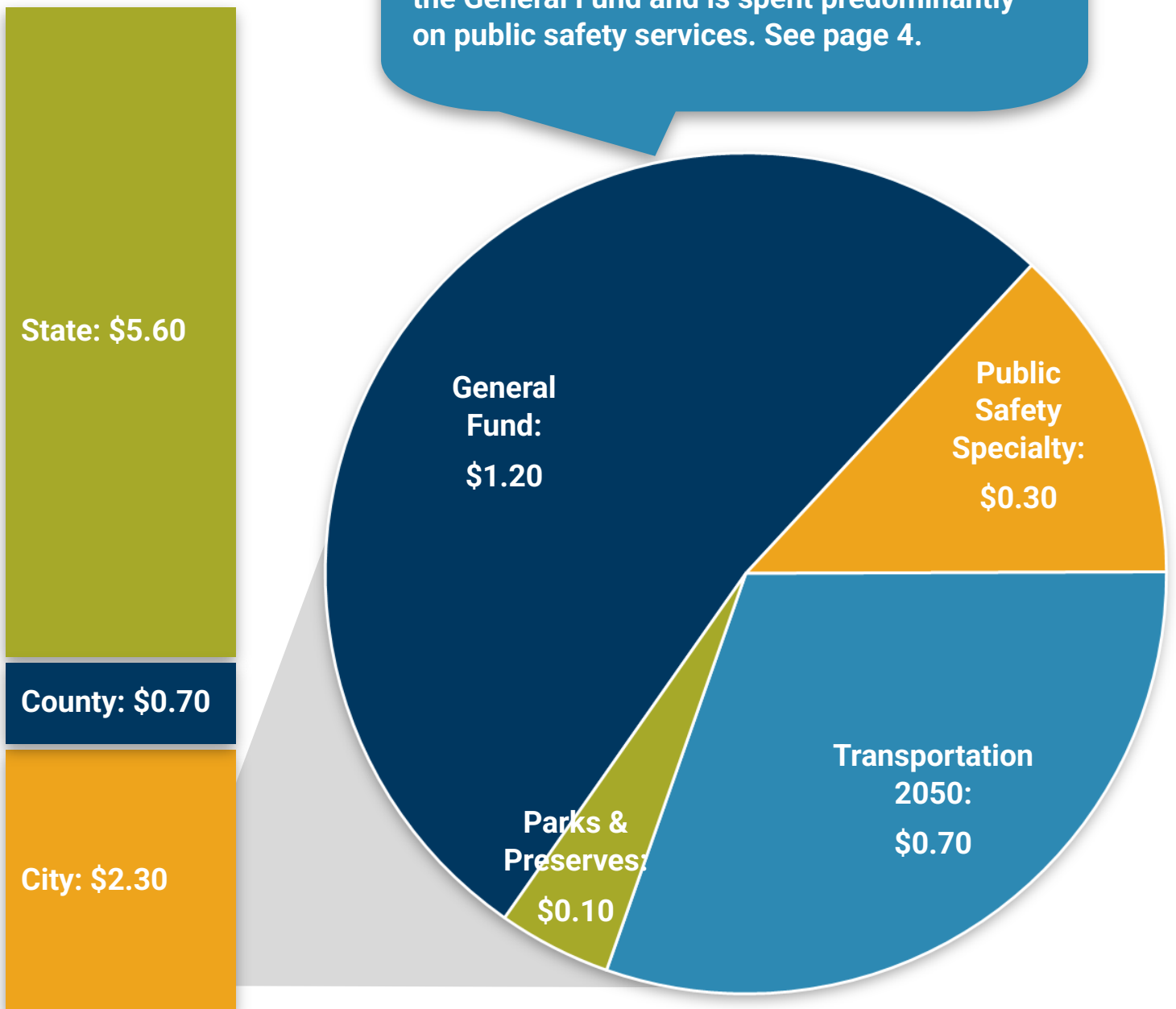


Distribution of Local Sales Tax Dollars

Example: \$100 Retail Purchase

Total Sales Tax:
\$8.60

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.



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?

Through the interactive online tool "FundPHX". The tool gives residents an opportunity to try their hand at balancing the city's \$2.0 billion General Fund operating budget, provide feedback on current funding levels and share community priorities with staff. The tool is available on the Budget and Research Department website, www.phoenix.gov/budget.

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

Through social media, email or phone:

#PhoenixBudget

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Published by

City of Phoenix
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