



City Council Report

Date: May 18, 2026
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Brian A. Ritschel, Management and Budget Director
Subject: Tentative Adoption of the Fiscal Year 2026/27 Budget

Overview of Tentative Budget

The balanced budget continues the City's commitment to providing quality services to residents and businesses in a fiscally responsible manner. The FY26/27 budget represents a significant step toward reaching a structural balance earlier than was estimated just one year ago. While state and federal actions led the City to this challenging situation, the City has responded by cutting spending and finding efficiencies. Every decision we have made has been with the interest of our taxpayers in mind.

Executive Staff have met with each department to discuss reducing their on-going base budget by 2.0% for the upcoming fiscal year. All departments were asked to review items in their base budgets that they could reduce that is not part of their core services. For FYs 2024/25 to 2026/27, a total of \$55.7M in General Governmental Funds ongoing expenditures have been reduced from the budget and the forecast.

The total tentative budget for FY26/27 is \$2.87 billion. This includes an annual operating budget of about \$2.1 billion and the annual portion of the five-year capital improvement program (CIP) budget of about \$775 million. Included within the operating budget is \$169.9 million in carryover and \$76.2 million in contingency budget authorization.

The tentative adoption of the budget sets the maximum expenditure budget amount for FY26/27. The budget summary is then published on the City's website and in the local paper for two consecutive weeks before the public hearing and final adoption of the budget take place.

The City also continues to place a high priority on capital investments to enhance core services. A few examples of this are the construction of three new fire stations, police headquarters renovation, park renovations and improvements, and street and intersection improvements.

There are projects that will not be completed, and items ordered that will not be received before the end of the fiscal year. These expenditures will occur in the following fiscal year and therefore budget capacity will be needed. The City identifies these “carryover” expenses separately on the budget document to allow for better year-over-year budget comparisons.

The carryover expenses must be added to the FY26/27 budget and included in the City Council budget appropriation as State law does not allow prior year budget authorization to be used in a subsequent year.

State Expenditure Limitation/Home Rule

The State sets the maximum expenditure budget amount for municipalities based on the FY79/80 adopted budget adjusted for population and inflation. The Mesa voters approved a Home Rule option in November 2022 that allows the City to determine its own expenditure limitation, within available resources. Home Rule approval is effective for four fiscal years. In the case of Mesa’s 2022 Home Rule option, this includes FY26/27.

Comparison of FY 26/27 to FY 25/26 General Governmental Funds Budget

The expenditure budget for the General Governmental Funds for FY26/27 is \$738.9 million (excludes carryover), compared to \$718.8 million (excludes carryover) for the FY25/26 adopted budget.

The change is primarily due to the combination of increase costs of existing positions to recruit and retain quality employees, increase in overtime costs, and increase costs to commodities, services, and contracts.