2027-2028
CITY OF TACOMA

BIENNIAL OPERATING & CAPITAL BUDGET

Financial Forecast

City Council Study Session

June 9, 2026

Item 1

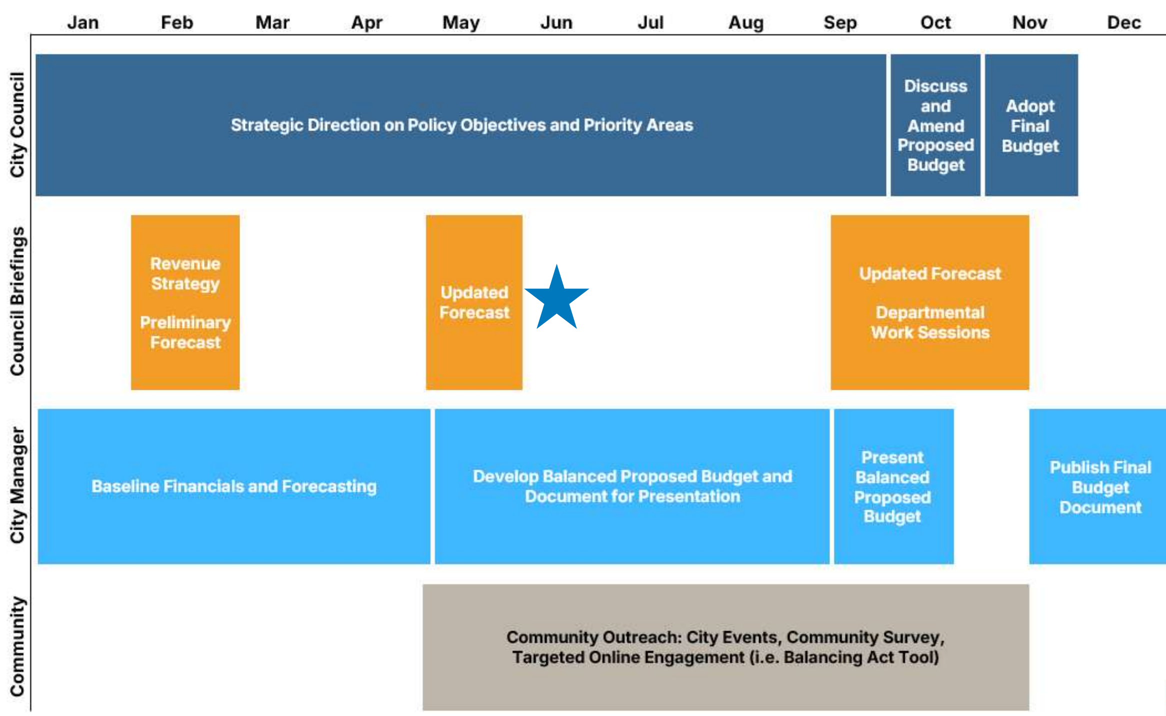
Agenda

- Budget Process & Calendar
- Economic Conditions
- Financial Outlook & Components
  - General Fund
  - Other Major Funds
- Actions

Budget Process & Calendar

2027-2028 CITY OF TACOMA
BIENNIAL OPERATING & CAPITAL BUDGET

2027-2028 Budget Calendar



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Roadmap to Recovery

A phased approach to building a stronger, more resilient Tacoma

This Supports…

- Reliable Services
- Access & Opportunity
- Financial Stability
- Resilience
- Stewardship

2026

Alignment & Options

Explore options, engage community, align priorities, and begin to stabilize costs.

2027 - 2028

Analysis & Refinement

Build momentum, partner with community, and develop structural solutions.

2029 - 2030

Long-Term Recovery

Continue change, improve outcomes, and deliver sustainable city services.

Short-term actions
support long-term recovery.

Community Engagement & Input

Balancing Act Tool

Explore budget trade-offs and share your priorities. Coming in July!

Updated Budget Information

View the latest information and materials at tacoma.gov/budget.

Community Survey

Survey is complete & will be published this month. Results will help inform budget decisions.

Working together to build an informed, more engaged Tacoma

Economic Conditions

2027-2028 CITY OF TACOMA
BIENNIAL OPERATING & CAPITAL BUDGET

Economic News
The Good

National Data

- Unemployment rate remains steady at 4.3%
- Three, consecutive months of strong job growth (three-month average: +188k jobs)
- 1.6% GDP growth
- Wages continue to grow (+3.4%)

State

- Continued population growth
- Strong housing growth (47,900 units added last year)
- Washington State ranked 2nd best economy in US by WalletHub

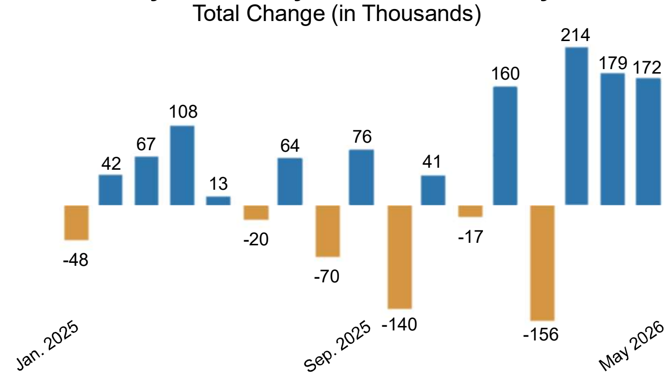
County

- 34,000+ jobs added between 2020 and 2025
- County's largest employer is JBLM, generating $9 billion in economic activity

City

- Credit rating upgraded to AA+
- Continued population and housing growth
- Diverse local economy: healthcare, transportation and logistics, education, and government

January 2025 – May 2026 Non-Farm Payrolls
Total Change (in Thousands)



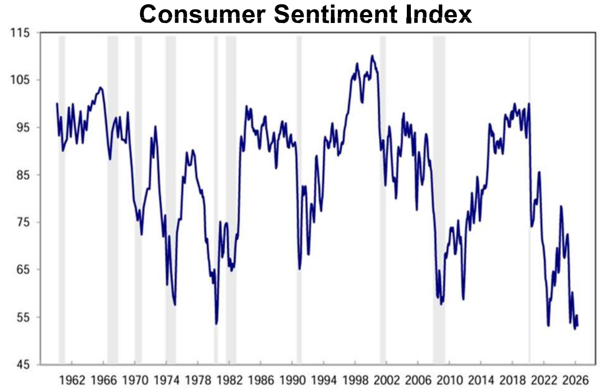
Source: Bureau of Labor Statistics & HilltopSecurities Asset Management

Economic News
The Bad

National Data

- Consumer sentiment at all-time low
- Inflation (3.8%) at highest level since 2023
- Elevated oil/gas/energy costs will continue to put upward pressure on inflation

Consumer Sentiment Index



Source: Surveys of Consumers, University of Michigan
Data as of April 10, 2026

State

- High cost of housing
- Slow job growth (ranked 35th in US for non-agricultural jobs)
- Agricultural sector ranked last (50th) in US for net farm revenue

County

- New construction activity declining
- Office, retail, and warehouse vacancy rates increasing

City

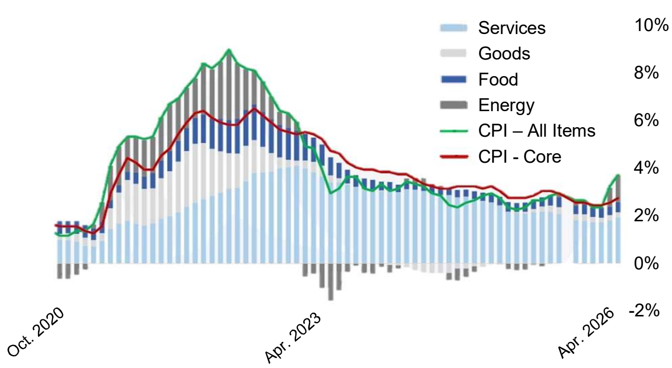
- Population growth increases demand for services
- Expenditures growing at twice the rate of revenues
- Permit data indicates decreasing demand

Economic Summary
Risks and Uncertainty

Conflict in the Middle East

- Will continue to add to uncertainty, price volatility, and inflationary pressures to the broader economy
- The longer the conflict continues, the greater the impact on oil/gas/energy prices, supply chains, and food supplies/cost

October 2020 – April 2026 Consumer Price Index
Year-Over-Year Percent Change



Source: Bureau of Labor Statistics

Job Growth

- Continued job growth will allow the Federal Reserve to focus on controlling inflation
- The longer inflation is rising above expecations, the greater the impact on consumers and thier ability to afford essentials

Interest Rates

- Earlier this year, analysts and markets were predicting rate cuts
- That has now switched to anticipated interest rate hikes
- Higher interest rates impact mortgage rates, car loans, credit card debt, business investment, and federal debt
- Higher interest rates will impact housing and real estate development

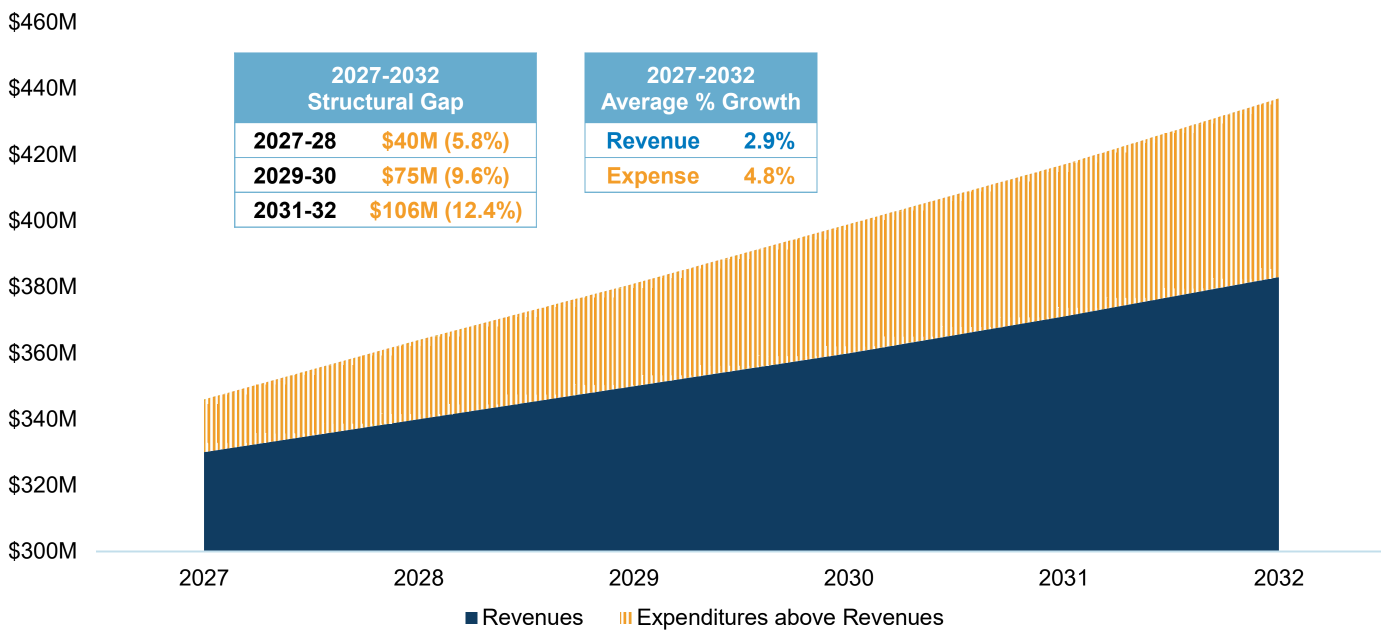
Inflation

- Inflation has been rising the past several months (currently at 3.8%)
- Focus for Federal Reserve will be to contain/constrain inflation to policy benchmarks (2%-3%)

Financial Outlook & Components

2027-2028 CITY OF TACOMA
BIENNIAL OPERATING & CAPITAL BUDGET

General Fund Forecast



2027-2032 Structural Gap	
2027-28	$40M (5.8%)
2029-30	$75M (9.6%)
2031-32	$106M (12.4%)

2027-2032 Average % Growth	
Revenue	2.9%
Expense	4.8%

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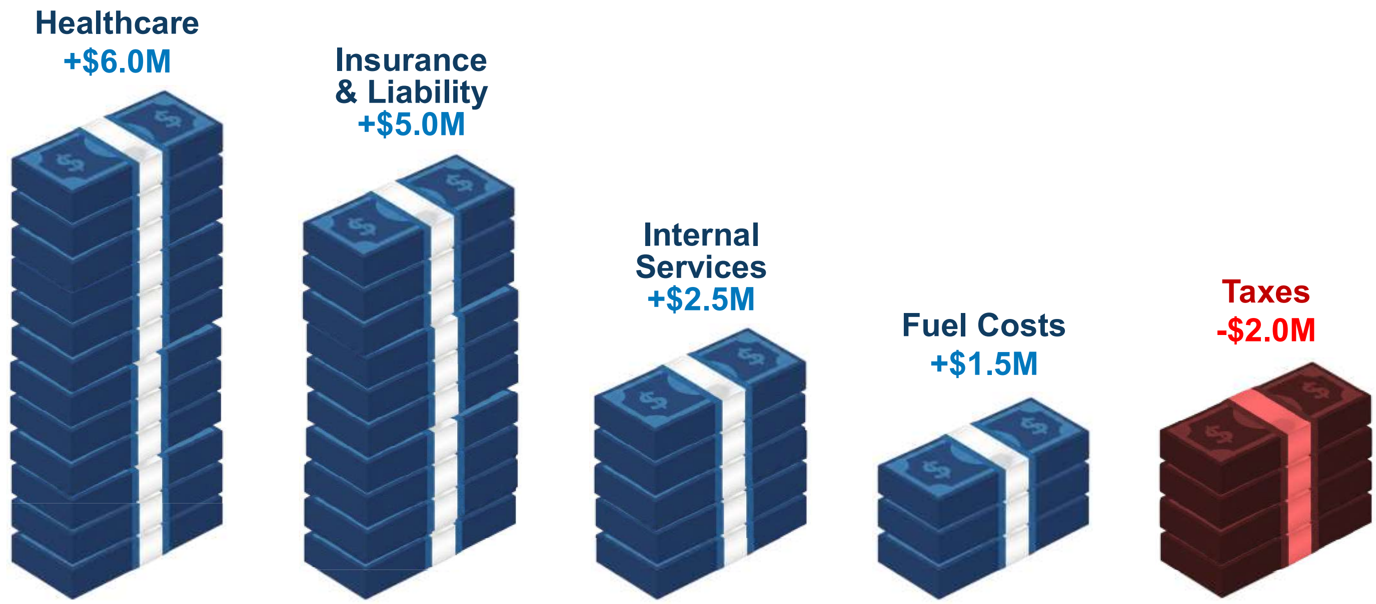
What Changed from February's Forecast

Increased Expenses & Decreased Revenues



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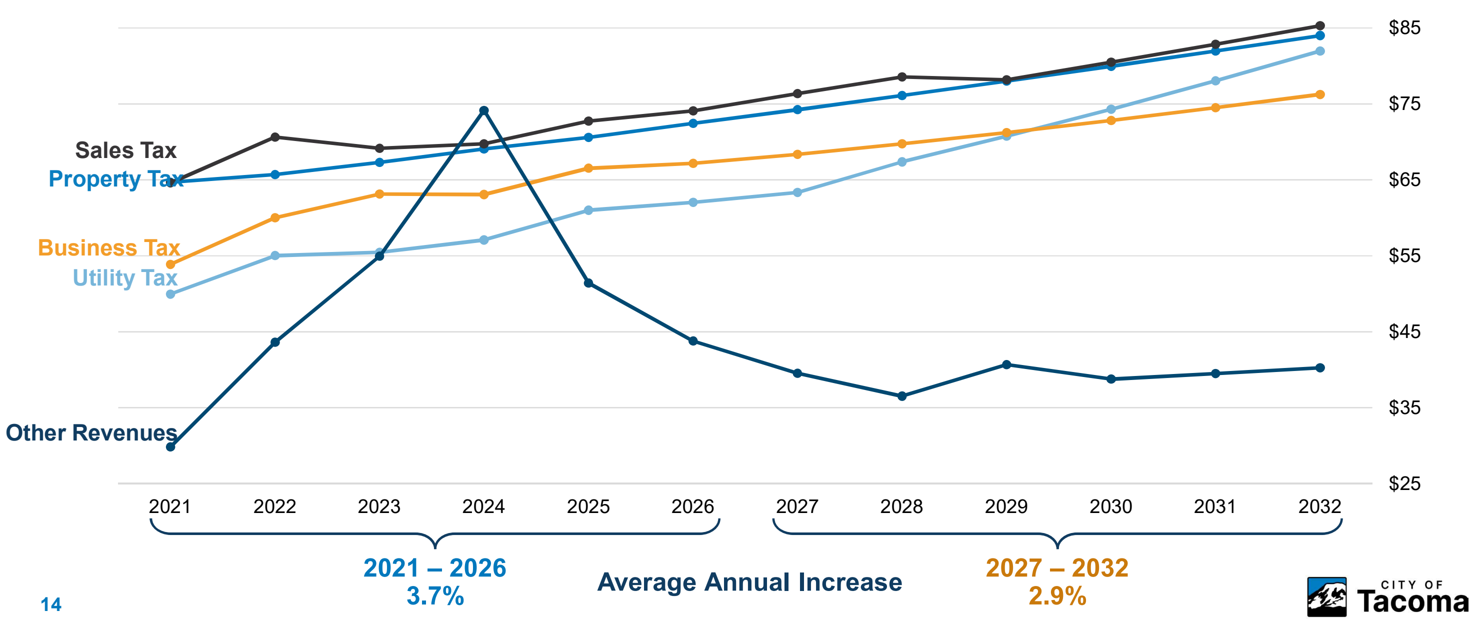
Forecasted General Fund Revenues

2021 – 2032 General Fund Revenue by Category

(in Millions)



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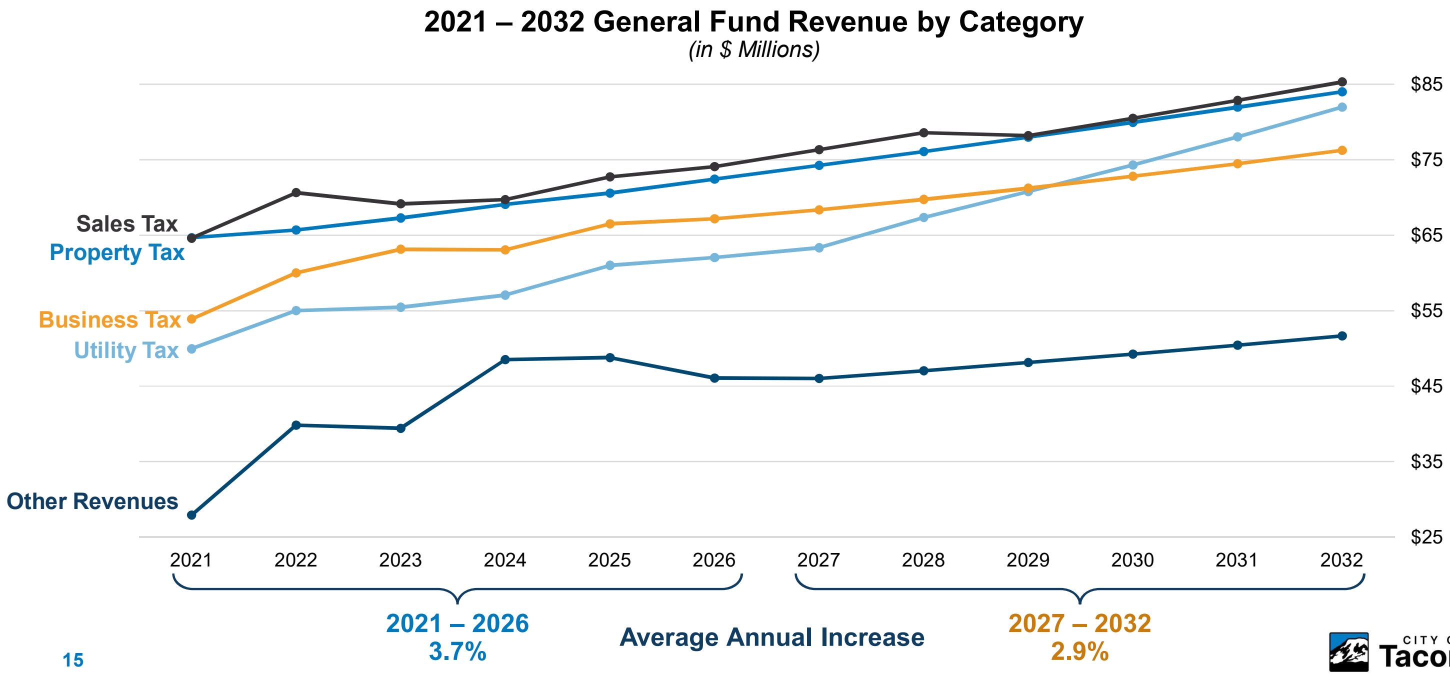
Forecasted General Fund Revenues
(Excluding One-Time Funds, i.e. ARPA)



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Assumptions, Risks, and Trends
Revenue

Sales Tax
- Net impact from millionaire tax and retail tax exemptions
- Vulnerable to consumer sentiment

Property Tax
- Steady and reliable, but limited
- 1% annual growth, including any new construction value

Business Tax
- Cable TV and telephone revenues decreasing
- Vulnerable to broader economic trends

Utility Tax
- Grows with rate increases
- Power wholesaling sensitive to natural gas prices and weather trends

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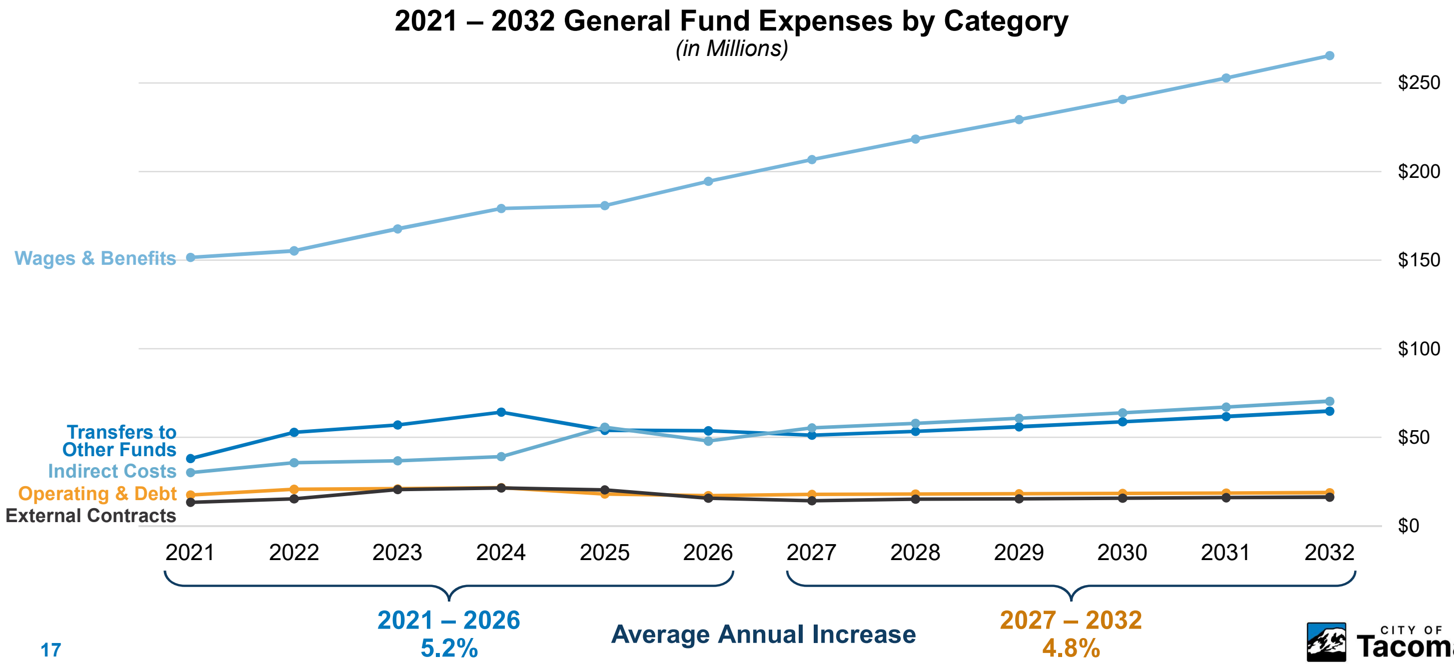
Forecasted General Fund Expenses



Assumptions, Risks, and Trends
Expenses

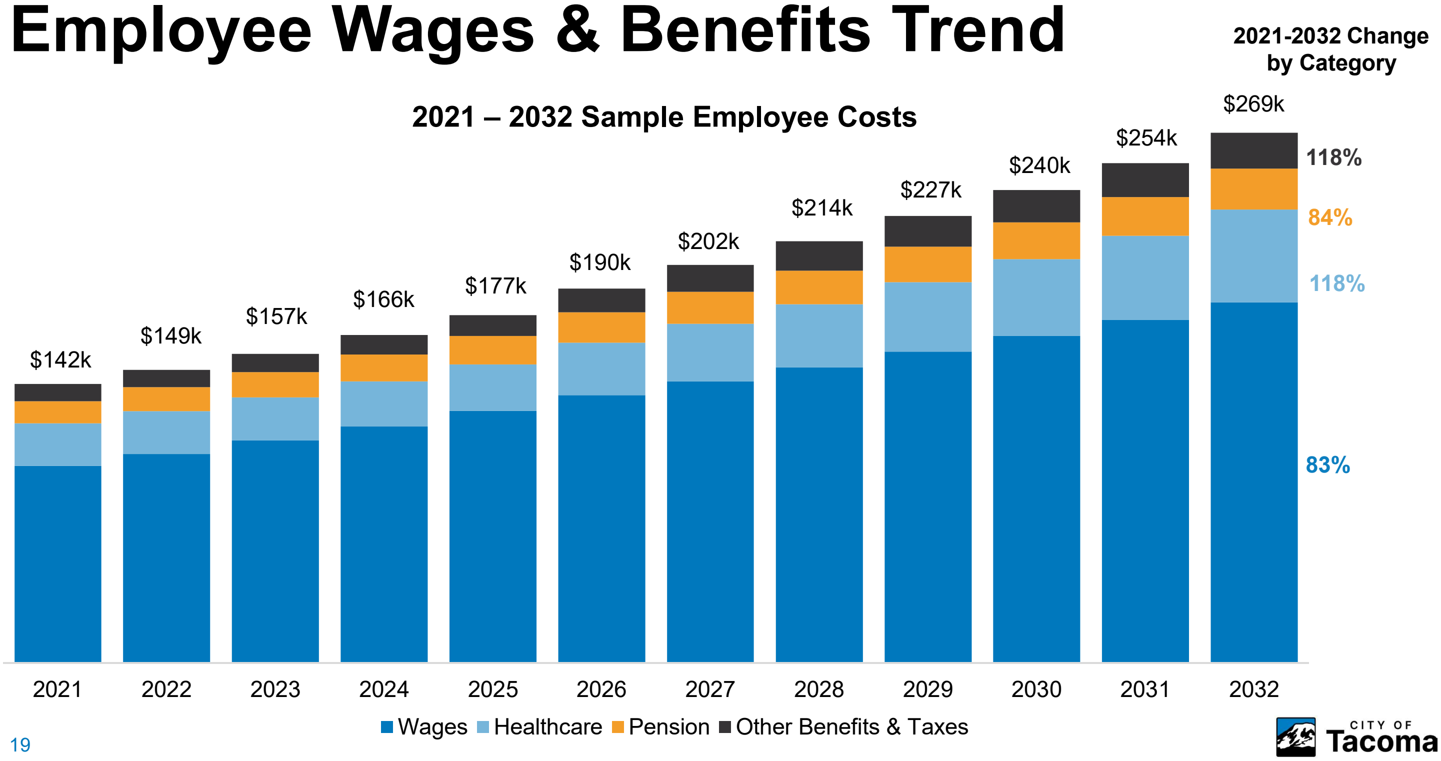
Wages
- Average wage per employee **increased 28%** between 2021 and 2025
- 70% of employees are represented by 31 different bargaining agreements

Operating Costs
- Increasing for inflation and new retail sales tax
- Increasing for rising costs of goods and services

Benefits
- City-paid healthcare cost **increased 41%** between 2021 and 2025
- Cost increases are borne by City

Internal Services
- Subject to increases in all areas
- Increased cost of service is spread to funds throughout the City

Employee Wages & Benefits Trend



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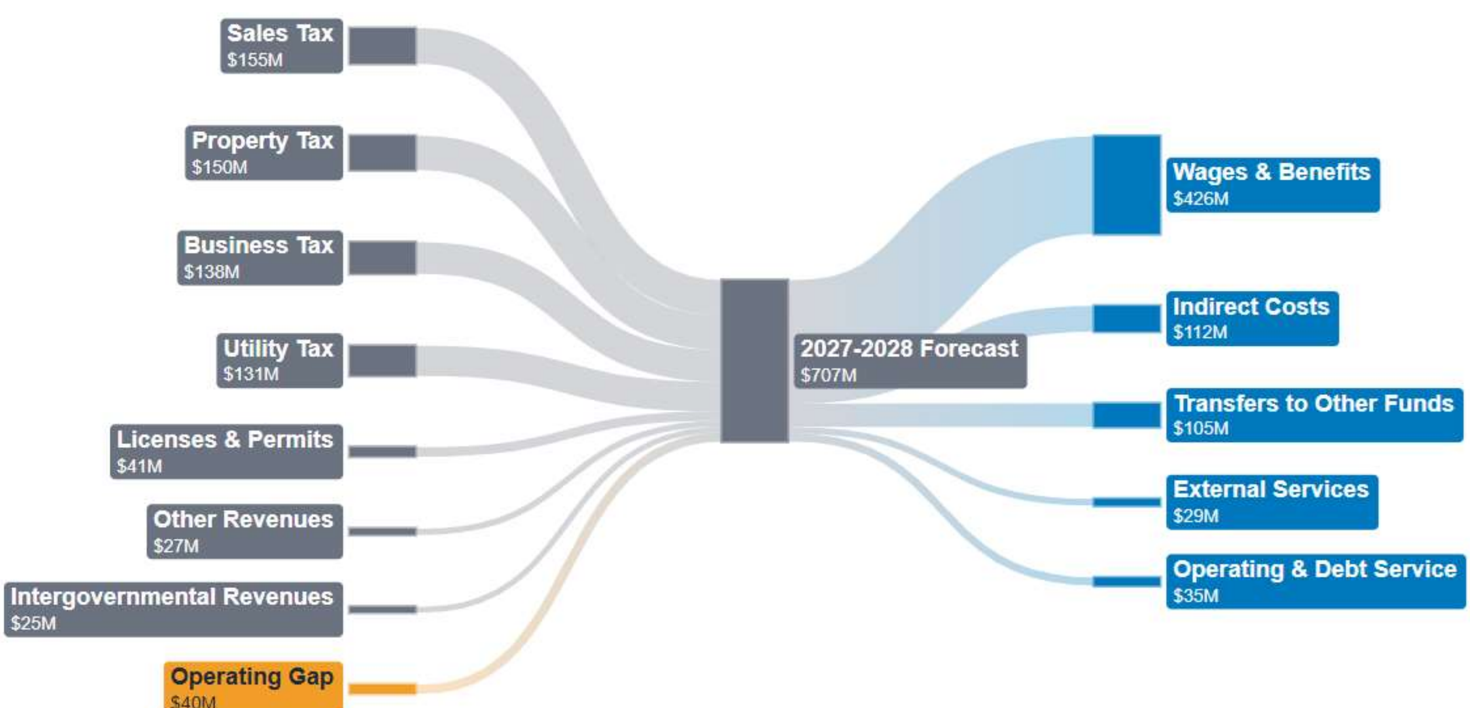
2027-2028 General Fund Sources & Uses



Reminder, the General Fund structural gap does *not* include:

$120M
in deferred
fleet
replacements

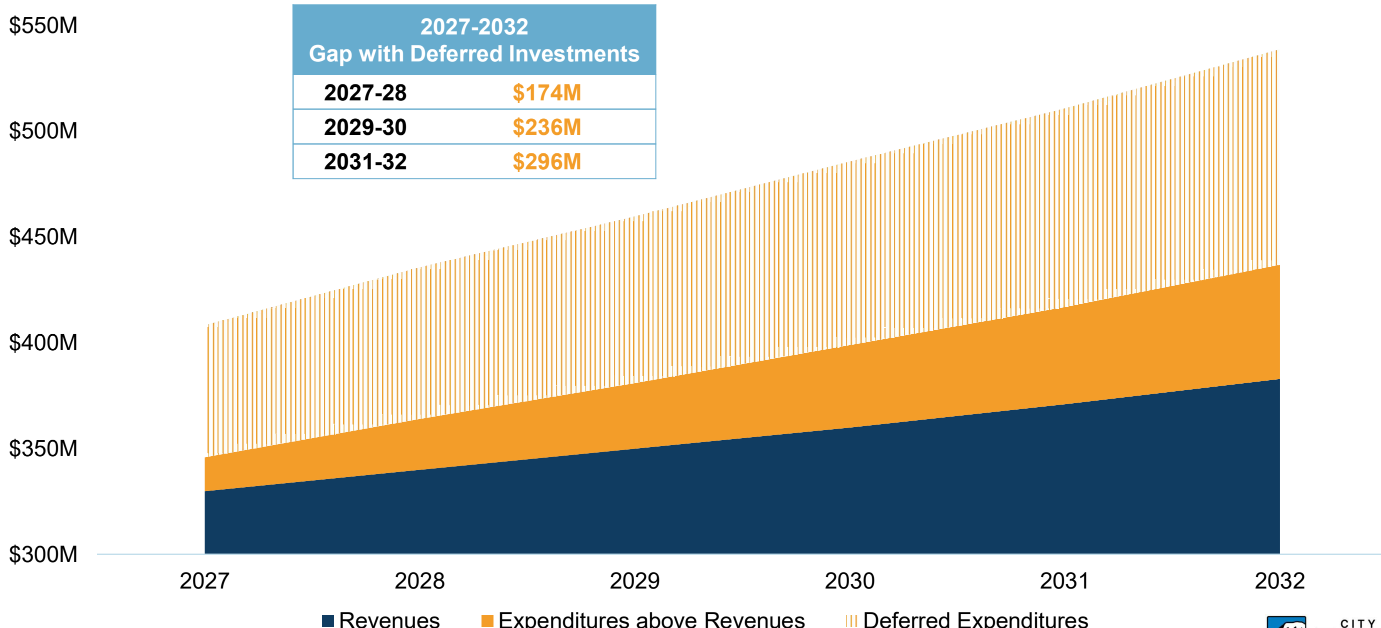
$190M
in deferred
facility
repair & replacements

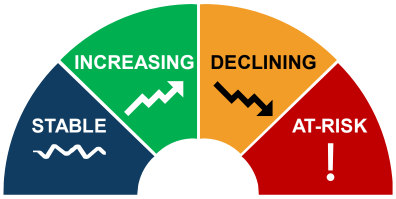
Over $500M
in deferred
facility
upgrades & improvements

Over $20M
in deferred or pending
equipment
replacements

General Fund Forecast with Deferred Items

2027-2032 Gap with Deferred Investments	
2027-28	$174M
2029-30	$236M
2031-32	$296M





Outlook

Special Revenue Funds

Street Maintenance and Capital

AT-RISK !

- Expiration of Streets Initiative revenues in 2025
- Connect Tacoma: Safe Streets and Sidewalks levy on ballot in August

Sales Tax

STABLE

City has 1/10th of 1% for:

- Mental Health and Substance Use Disorder (2012)
- Transportation Benefit District (2015)
- Tacoma Creates (2018)
- Affordable Housing (2021)
- Criminal Justice and Public Safety (2026)

Emergency Medical Services

STABLE / DECLINING

- Levy lid lift in place through 2029
- Insurance billing and Medicaid supplemental payments vulnerable to federal & state healthcare changes

Real Estate Excise Tax

STABLE

- Stable real estate market, yet most of the collections is currently committed
- New house bill expanding uses of REET

Outlook

Enterprise Funds

Permitting

DECLINING

- Slow down in both residential and commercial permitting activity
- Broader economic trends show higher interest rates and inflation which impact developers

Parking

STABLE

- Continuing to see recovery after COVID; collections delays impact revenue availability
- Deferred maintenance & system upgrade investments needed

Environmental Services

STABLE

- New revenue: System Development Charges
- Risks on horizon related to new permits and new regulations

Venues and Events

AT-RISK !

- Deferred capital investments for Dome, Convention Center, Cheney & Theaters requiring significant near-term spending
- Increased regional competition continues to pressure Tacoma Dome revenues
- Convention Center is performing well with large events and driving economic impact

10-Year Review of Actions

2027-2028 CITY OF TACOMA
BIENNIAL OPERATING & CAPITAL BUDGET

Solving the General Fund Gap

Last 10 Years

One-Time	Ongoing
Non-recurring revenues	Redirecting revenues
Use of excess fund balance	New or increased fees and charges
Holding vacancies, e.g. hiring freeze	Position reductions or redirections
Wage increase deferrals or freezes	Shift costs or service delivery to external contracts or other funds (i.e. Enterprise)
Deferred or eliminated capital investments	

10-Year Review

New, Ongoing Revenues

General Fund Revenues — *$18.3M Annually (2025-2026 dollars)*

2017-2018	2021-2022	2023-2024	2025-2026
$100K Animal License Fees	**$0.5M** Basic Life Support Transport	**$10.4M** Business License Fees	**$2.3M** Utility Tax Exemptions Removed
$1M Fire Inspection & EMS Transport Fees Increased			**$280K** International Investment Exemption Removed, Short-Term Rental License Fees, and False Alarm Fees
$3M Business License Fees			

Other Funds: New Sources and Restructures — *$43.7M Annually (2025-2026 dollars)*

2017-2018	2021-2022	2023-2024	2025-2026
$7M Tacoma Creates	**$7M** Affordable Housing Sales Tax	**$9M** EMS Levy Lid Lift	**$1.5M** REET for Streets Initiative
$XM SAFER Funds	**$2M** Cable Franchise Fees Moved to General Fund	**$1.5M** REET for Streets Initiative	**$0.5M** Event Excise Tax
		$5.8M Tidy Up Excise Tax	**$7M** Tacoma Creates Renewed
			$7M Public Safety and Criminal Justice Sales Tax

10-Year Review

Expense Reductions & Additions

One-Time

+ $9.0M
Fire engines & ladders

+ $2.5M
Police hiring incentive

+ $1.0-4.0M Annually
Fire and Police overtime

+ $3.0-8.0M Annually
Sheltering services

Ongoing, annually

+ $2.0M
Sheltering & Encampment services

+$2.1M, then reduced
Fire Rovers for overtime coverage

+ $6.0M
Alternative Response Programs

- HEAL (Homeless Engagement and Alternatives Liaisons)
- HOPE (Holistic Outreach Promoting Engagement)
- CSOs (Community Service Officers)

2027-2028 Budget Calendar