



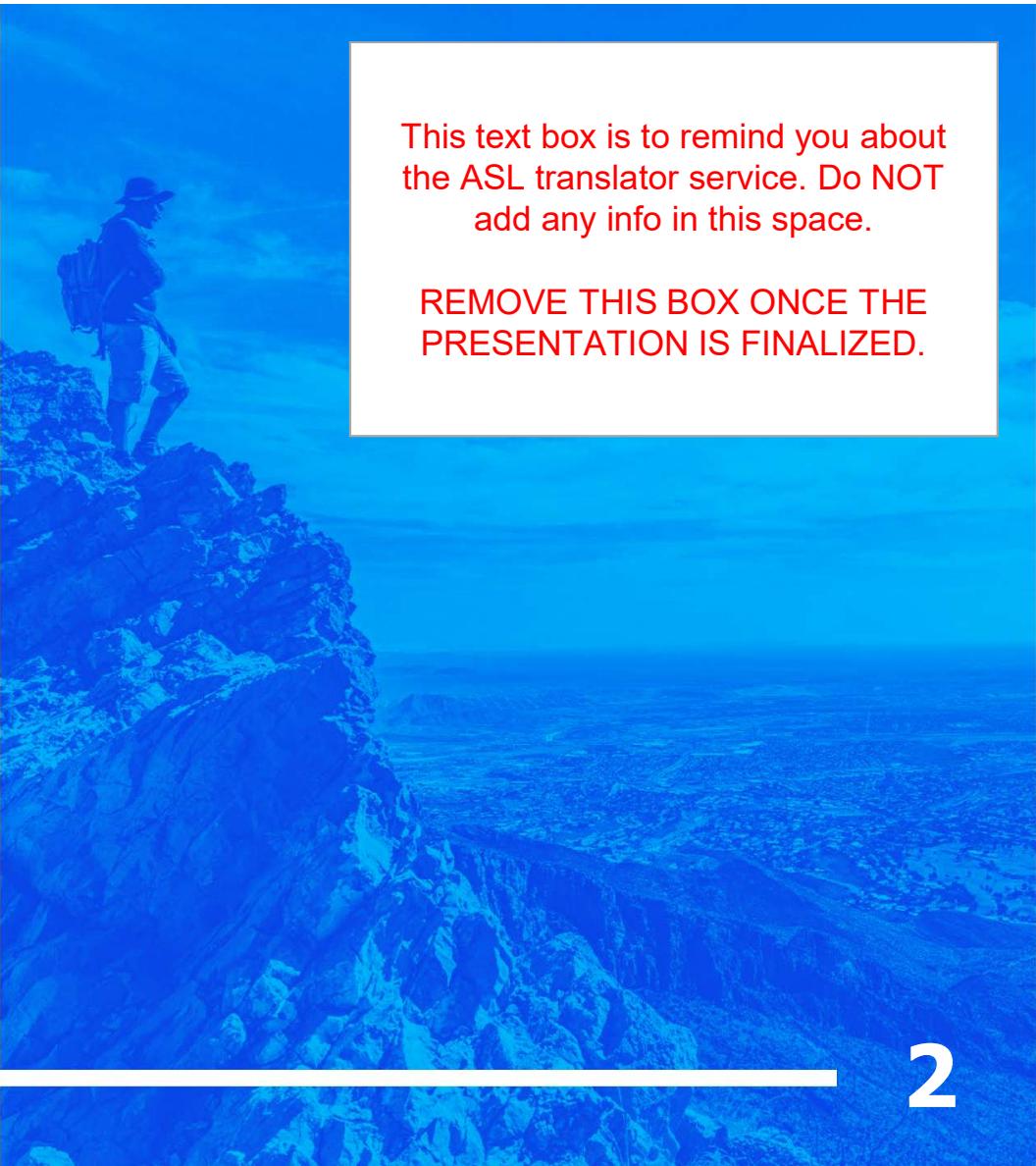
From Fiscal Pressure to Strategic Choice

Revenue Limitations & Opportunities

January 20, 2026

Agenda

- Major Revenue Constraints
 - Structural Revenue Imbalance
 - Property Tax / Property Values
 - Sales Tax Limitations
- Fund Balance Risks
- Fees and Cost Recovery Gaps
- ARPA – expiring funding
- Potential Budget Impacts
- Why This Matters Now
- Identified Opportunities



Purpose of the Presentation

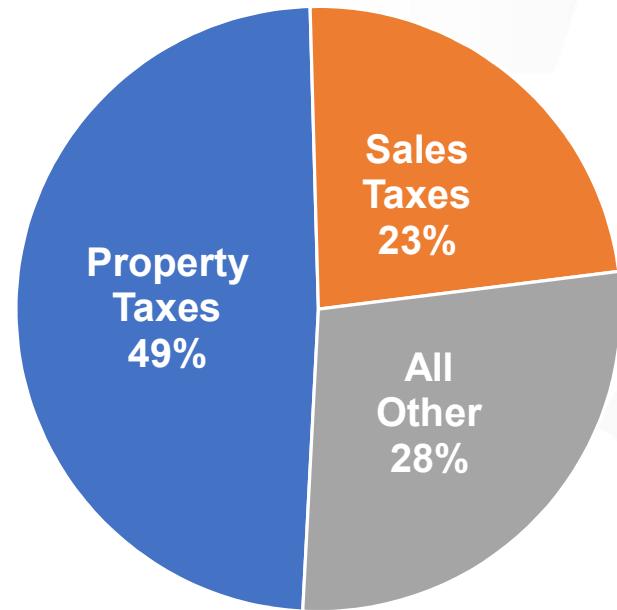
- Upcoming Strategic Planning Session and FY 2027 Budget Development
- Legally Constrained Revenue Growth
 - Property valuations and Sales tax growth have normalized
 - State-imposed caps limit local discretion, with potential for more restrictions in the future
- ARPA funds (temporary Federal funding) expire in 2026
- Public safety is largest cost driver, plus new collective bargaining agreements for both police and fire over the next two years

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FY 2026 General Fund Revenue Distribution

- With 49% **Property Tax** is City of El Paso General Fund **primary revenue**
- 72% of General Fund revenue is in **Property and Sales Tax**
- Other revenues encompass **less than one third or 28%** - growth is flat or declining for the last three years



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Structural Revenue Imbalance

- Revenue is being **outpaced by expenditures**, i.e., existing revenues do not properly fund expected services
- Revenue **growth is limited and slowing**
- Some revenues (**ARPA**) are **expiring**
- Texas cities **rely heavily on property taxes** to fund local services
 - Further limitations would lead to reduced local revenue, then reduced City services

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Structural Imbalance Pressures

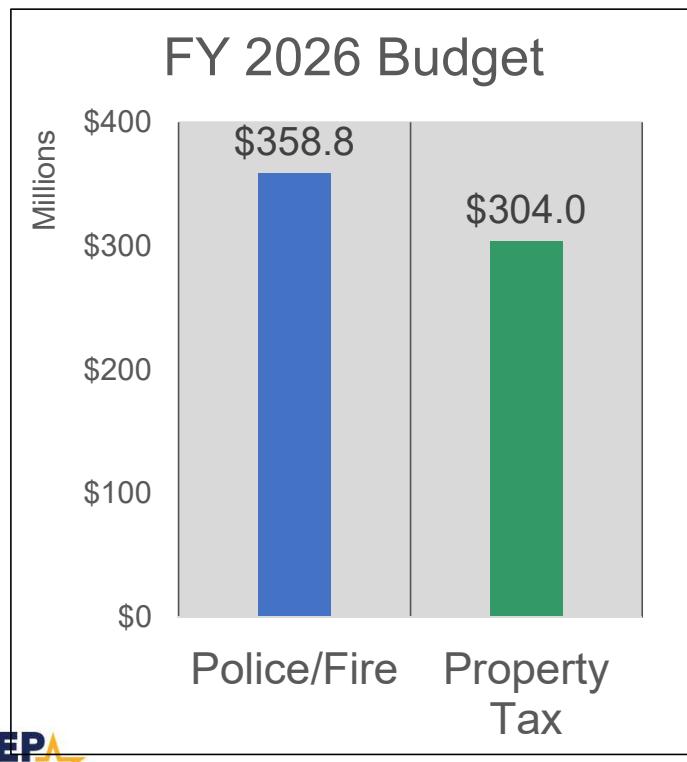
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- Structural imbalance has existed for many years and will continue without action
 - Bond programs have intensified problem (more rec. centers, museums, parks, sports fields, public safety facilities)
 - Historical deferment on services (street maintenance, public safety staffing, compensation, facilities, vehicles, equipment)
 - Subsidizing services – cost recovery

General Fund

Largest Expense vs. Primary Revenue



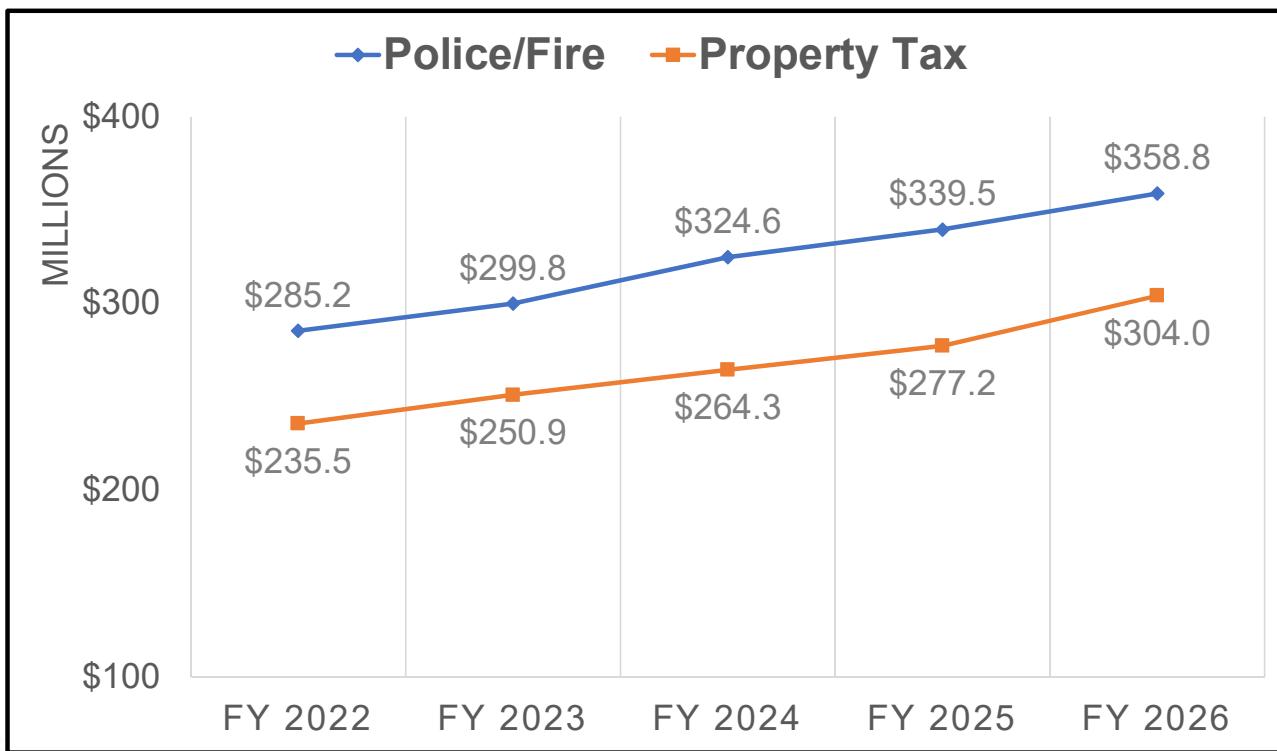
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- Public Safety is primary service (approx. 57% of the total budget) and **exceeds property tax revenue by \$54 million**
- Increased investments have included **more officers, firefighters, 911 Communicators, vehicle and equipment replacement, and facility renovations**
- Public safety costs are: **labor-driven, multi-year contractual obligations, and cumulative**

General Fund

Largest Expense vs. Primary Revenue



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Police and Fire –
avg. annual growth over
the last five years is
\$17.3 million, or 5.7%

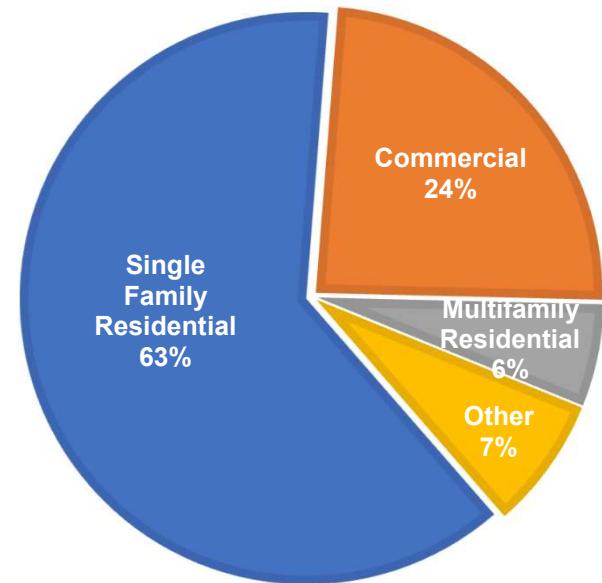
Heavy Reliance on Property Taxes

- Tax base is **mostly residential**
- Commercial properties = **only 24%** of total base
- **3.5% state cap** without voter approval
- Valuation growth **has slowed back** to historical norms
- Ongoing **exemptions reduce taxable value** (over 65, disabled, disabled veterans, business personal property)
- Potential **future legislative changes** further restricting growth

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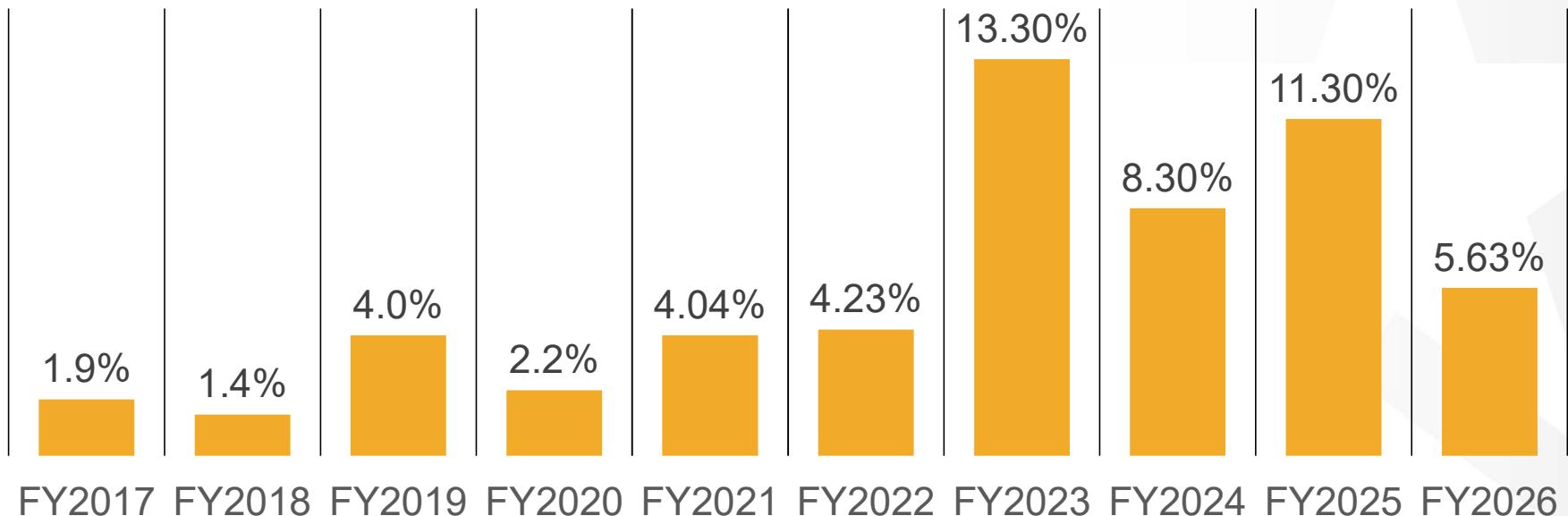
PROPERTY TAX DISTRIBUTION



Property Tax Valuations

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Sales Tax Limitations

- **Second-largest** General Fund revenue
- Historically, **only \$3.5–\$5.0M increase in new revenue annually**
- **Highly volatile** and economy-dependent
- The City **does not charge sales tax (1%) on residential use of electricity and gas**, unlike most Texas cities
 - The City opted out of collection on August 29, 1978 (Ordinance No.6308)
 - Approx. \$4 million a year are not being collected by the City

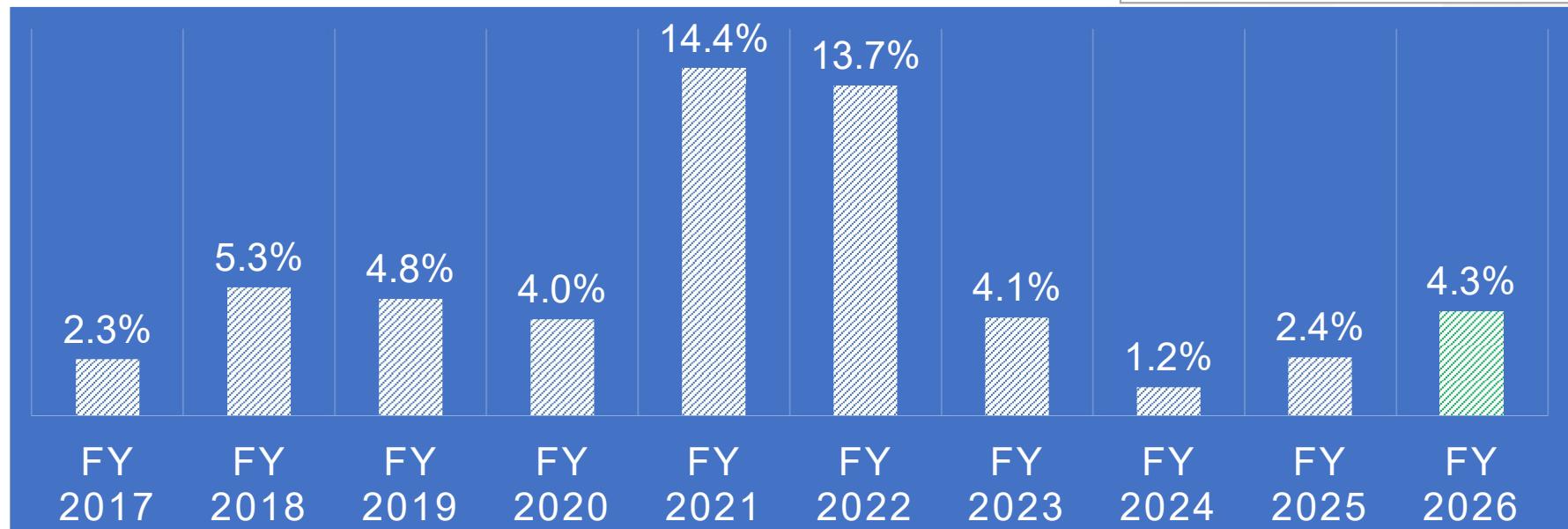
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Sales Taxes – Historical Growth

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Fund Balance Risks

- Use of fund balance (one-time dollars) to support ongoing costs / balance the budget is **not best practice**
- Decrease in unrestricted fund balance in FY 2025
- Continued decline could trigger **bond rating concerns**

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Fees and Cost Recovery Gaps

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- No embedded review process to adjust fees in order to recover costs linked to providing services
- Consultant currently estimating full costs (Parks, Planning & Inspections)
- Presentation and recommendation will come to Council when study is complete
 - Recommendation will include defining cost recovery targets

Expiring ARPA Approaching

- \$154.3M received in 2021
- Funding **expires December 2026**
- ARPA was not intended to be a permanent solution for structural imbalance
- City strived to avoid creating major ongoing obligations, however, some programs will be impacted
- ARPA update will be presented next Council meeting

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ARPA Response Examples

One-time

- **Public Health** – Facility Relocation, MCA Clinic
- **Fire** – Self-contained Breathing Apparatus (SCBA) Replacement
- **Parks and Rec** - Sports Court Reconstruction & Resurfacing
- **IT** - P25 Radio Comm. Infrastructure, Free Broadband, El Paso Computes

Ongoing

- **Community Response** – Addressing homelessness and Family Stability, El Paso Helps, Early Childhood Care
- **Economic Response** – Small business support, Buy El Paso, Business One Stop Shop (BOSS), Innovation Factory
- **Police** – City Watch Expansion, Body Worn Cameras, Crisis Intervention Team

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In Summary:

Three Converging Forces

1. Legally constrained revenue growth and potential for further restrictions in the future
2. Largely inflexible expenditure growth – public safety and workforce
3. Expiration of temporary funding (ARPA) for several City programs

This combination creates a policy crossroads, not a short-term budget challenge.

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In Summary:

- **This is not a revenue problem — it is a structural imbalance issue.**
- The City's current revenue sources are not able **to support the level, complexity, and cost of services** residents expect, particularly in public safety, infrastructure, and other services.
- **Without action, the gap will widen, forcing reactive decisions** instead of intentional policy choices.
- Decisions postponed today become forced decisions tomorrow

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Upcoming Strategic Planning Session

Collaborative Discussion Points:

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- What are the expectations of the programs/services currently provided?
- What revenue structure supports those expectations?
- What costs are we willing to subsidize — and which must be recovered?
- What trade-offs are we willing to make (ex. program/service modifications)?

Identified Opportunities

- *Policy Levers*

- **Fee cost-recovery strategy**, i.e., cost-recovery
 - *Which services should be subsidized, and by how much?*
- **User-Based Revenues**
 - *Should service users contribute proportionally to system costs?*
 - Transportation User Fee
 - Short-term rentals - Hotel Occupancy Tax
 - Utility-related sales tax parity with other Texas cities
- **Asset & Growth Strategy**
 - *Are City assets and growth patterns supporting long-term sustainability?*
 - Project Finance Zone
- **Program Based Budgeting Implementation / Measuring Programs Performance**
 - *What are the trade-offs we are willing to make (ex. program/service modifications)?*

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MISSION



Deliver exceptional services to support a high quality of life and place for our community.

VISION



Develop a vibrant regional economy, safe and beautiful neighborhoods and exceptional recreational, cultural and educational opportunities powered by a high performing government.



VALUES

Integrity, Respect, Excellence, Accountability, People