

Getting Your District Ready for 2026 Minimum Wage Increases

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Somehow, we've made it to the end of 2025! For school districts, while the calendar year end is not as hectic as the fiscal year end, there are still important tasks that need to be considered heading into 2026, such as preparing for minimum wage increases.

Effective January 1, 2026 – What's Changing?

- Arizona State Minimum Wage: Increases by \$0.45 to \$15.15/hour.
- The City of Flagstaff: Increases by \$0.50 to \$18.35/hour.
- The City of Tucson: Increases by \$0.45 to \$15.45/hour.

During the 2016 general election, Arizona voters approved Prop 206, which was meant to increase the minimum wage each year from \$8.05/hour to \$12/hour by 1/1/2020. After that, the wage will be increased based on inflationary factors or the Consumer Price Index (CPI). In Flagstaff, voters approved an even higher wage through Prop 414, which stood on the same principals as Prop 206. For 2026 and onward, the wage will be determined by the CPI or need to be \$2.00 above the State minimum wage, whichever was higher. During the 2021 general election, Tucson voters approved Prop 206, joining Flagstaff in raising the city's minimum wage above the state's. Similarly, from 2026 and onward, the wage will be determined by the CPI.

When the CPI increases, minimum wage is increased by a corresponding percentage. Although a CPI decrease will rarely mean a minimum wage decrease. CPI is somewhat an abstract concept in which a set of goods and services and their prices are monitored over time, creating an index reflecting the cost of living. When the set of goods and services sees a price hike, the minimum wage is meant to reflect the "real" value as well.

Minimum wage increases have the purpose of helping protect purchasing power. However, one of the opposing arguments to minimum wage increases is the occurrence of compression. Compression is when the pay gap between high and low-wage workers narrows. High-wage employees often begin to demand higher wages as well, which may lead to retention problems as skills and experience lose bargaining power in compensation packages. Minimum wage increases also have the tendency to spur overall price increases that outpace internal pay adjustments, somewhat negating the purpose of the increase in the first place.

To make sure your district is in compliance with state and city propositions, your payroll and HR departments should:

- Review which employees' wages will need to be increased starting 1/1/2026.
 - To avoid payroll hiccups, districts can consider increasing the wage a pay period early if 1/1/2026 falls somewhere in the middle of a pay period.
 - A quick way to review employees' current rate of pay within School ERP Pro is to go to:
 - Payroll > Employees > Employee Positions and Pay
 - Apply Selection
 - Filter the "Vacancy Status" column to exclude vacant positions
 - Sort the "Rate" column by ascending order
 - Review for any non-exempt employees earning a wage lower than the new wages noted above.
- Make sure to get the pay increases board-approved before payout and have the employees affected sign updated hourly addenda agreements.
- Re-evaluate budgets based on updated salaries and ADM numbers.
 - For a quick review, try taking your last budget and inputting new ADM students counts from your most recent BSA-55, found at <https://schoolfinancereports.azed.gov/>
 - You may also want to update any numbers from your most recent BUDG25 and LEA YTD Summary Files for CSF and IIF
 - See if you have any more budget capacity on budget pages 7, 8, 1, 3, or 4

January 1 will be here in a blink of an eye, and we don't want to hold up the payroll processing for the pay period including January 1, so start reviewing the rates of pay today!