

# CITY OF KYLE

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July 29, 2008

Mayor and City Council  
City of Kyle  
1000 West Center Street  
Kyle, Texas 78640

## Re: FY2008-09 Proposed Annual Budget Message

Dear Mayor and Councilmembers,

In accordance with the provisions of Article VIII, Sections 8.04 and 8.05 of the Kyle City Charter, the proposed *Annual Operating Budget* for the City of Kyle, Hays County, Texas, for the Fiscal Year of October 1, 2008 through September 30, 2009, is hereby presented for your consideration.

The proposed budget is a zero-based, balanced spending plan, wherein all proposed operating expenditures are supported totally by revenues generated through operations or fund transfers during the 2008-09 fiscal year. The budget also includes a comprehensive analysis of all existing programs, operations, and services. The budget development process began in May with the initial development of the *2008-09 Five-Year Capital Program (5YRCIP)* and includes input from all staff and departments. While the primary goal of the proposed budget is to effectively maintain and/or improve existing service levels, the staff continues to be focused on increasing services to meet our ever-growing demand.

The grand total for all appropriations included in the proposed *FY08-09 Annual Budget* is **\$33,271,555**, with the Operating Budget being **\$15,806,798** or 48% of that total.

The proposed budget includes full-year funding of all existing or previously authorized staff and operations; and a funding plan for most capital projects/expenditures planned for next year within the current *5YRCIP*. The budget is delineated into five basic funds:

- **General Fund** – (\$8.5M) revenues and expenditures related to the provision of primary/traditional municipal services whose main financial support comes from property and sales taxes
- **Recreation Fund** – (\$.63M) revenues/expenditures relating to parks and recreation services including summer camps, fairs, holiday and/or community events, classes/lessons, etc.
- **Community Development Fund** – (\$.97M-Enterprise Fund) revenues/expenditures relating to Building Inspection, Planning, and Economic Development services of the city. Costs for these services are wholly supported by fees or charges for same.
- **Utility Fund** – (\$5.6M-Water and Wastewater Enterprise Fund) all financial transactions relating to the provision of water and wastewater services through the city's systems. Costs for these services are wholly supported by water and wastewater fees for such services.

Departmental budgets are also segregated into two basic categories: (1) *Base Line*, providing expenditure/revenue projections associated with the continuation of existing services levels, which includes customary increases to maintain existing services; and (2) *Program Change*, projected expenditures/revenue associated with new or significantly expanded projects, programs, or services.

Preceding each department's budget is a brief description of the department, its general activities, and proposed staffing levels. Also shown are "Performance Indicators" - a sample of general statistical data providing a general overview the duties and volume of work generated by each department.



## FY2008-09 ANNUAL BUDGET

### Budget Highlights and Issues

The City of Kyle is faced with a variety of issues as we develop our financial plan for the coming twelve months. While many exciting projects continue and more are on our horizon, the City is faced with unique challenges unlike any we have faced in recent years as we attempt to properly balance affordability with the service needs and goals of our city.

Clearly, the City of Kyle has been very successful over the past few years in making the most of available resources. We have been able to continue to evolve and grow our services for each of the last six years while avoiding major fee increases – and actually reducing the city tax rate every year.

For example, General Fund staffing and overall funding more than **doubled** in the five-year period between 2003 and 2008 – yet during that same time period, our property tax rate was decreased every year. This accomplishment is not only testimony to the City's positive growth, but also to the appropriate and effective overall management of our operations and the available financial resources.

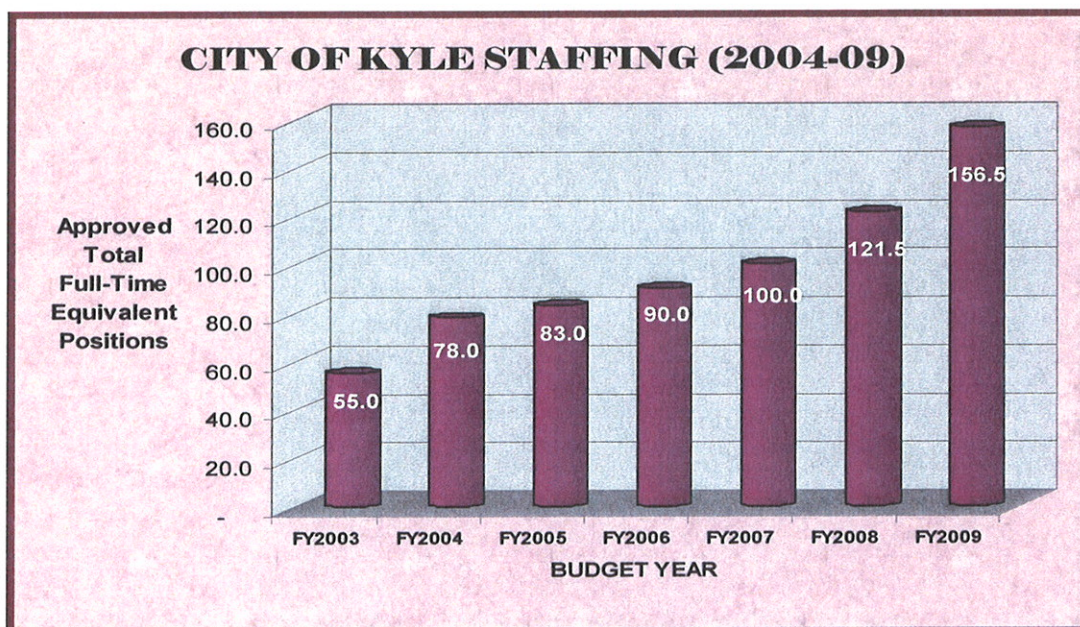
Our continued success in this manner, however, may not be sustainable within the existing tax structure, as demands for enhanced, expanded, and even new services continue in our growing community. In addition, as anticipated, debt service on funds utilized to construct roads and facilities in recent years will also adversely affect the FY08-09 property tax rate.

This year, creating a balanced and affordable budget proposal required cuts of nearly **\$1.0M** from the combined requests of the various city departments and what has been included in the proposed *Annual Budget* as presented. As you will see, the budget still includes significant upgrades in nearly all service areas and increased overall spending, but the projected revenue stream for next year – even with moderate fee/tax increases – could not support all funding requests for FY08-09.

Some of the main issues or topics addressed within the proposed *FY08-09 Annual Budget* are:

### Staffing

The proposed budget includes full-year funding for an all-time high of up to **one hundred fifty-six and one-half (156.5) full-time equivalent city employees**: one hundred twenty six and one-half (126.5) full-time positions, nine (9) part-time positions, and twenty-one (21) seasonal positions.

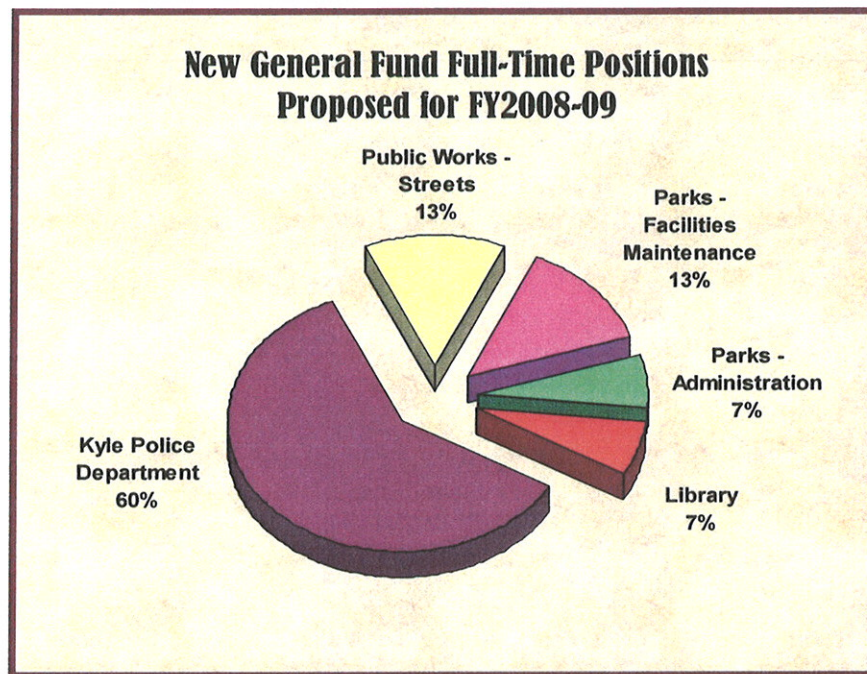




These numbers include a proposed staffing upgrade with the net addition of a total of **twenty-six (26) new full-time equivalent (FTE) positions** (and the budget-neutral conversion of nine intern positions) over current approved staffing levels – providing opportunities for a wide range of improved and enhanced city services.

**General Fund (15.35 new FTEs)**

- One (1) *Administrative Assistant* position - Parks & Recreation-Administration
- One (1) *Manager* and one (1) *Crew Leader* position - Parks & Recreation-Facility Maintenance
- One (1) *Assistant Librarian* position - Library
- Five (5) new *Patrol Officer* positions and one (1) *Sergeant* position - Kyle Police Department
- One (1) *Property Inventory Control* position - Kyle Police Department
- Two (2) new *Dispatcher* position - Kyle Police Department/Communications
- Partial funding (.35) for the *Public Works Director* position – Public Works-Streets
- One (1) *Street Superintendent* and one (1) *Equipment Operator* position – Public Works-Streets



**Enterprise Funds (10.65 new FTEs)**

- One (1) *Planning Technician* position and one (1) *GIS Technician* position - Planning
- One (1) *Administrative Assistant* position – Economic Development
- Partial funding (.65) for the *Public Works Director* position – Utilities-Administration
- Two (2) *Equipment Operator* positions – Utilities-Water/Wastewater Operations & Maintenance
- Five (5) *Utilities Technician I* positions – Utilities-Water/Wastewater Operations & Maintenance

It is important to note that these numbers also include full-year funding of up to **seven (7) FTEs** that have previously been authorized and funded, but that are currently vacant for various reasons:

- Five (5) *Patrol Officer* positions - Kyle Police Department.
- One (1) *Building Inspector* position – Building Inspection.
- One (1) *City Engineer* position - Planning.

Nine (9) seasonal intern positions have also been added to Parks & Recreation-Administration for FY08-09, representing a conversion of essentially existing positions that have previously been funded from other General Fund sources. This conversion will not create new net budgetary costs.



## Compensation

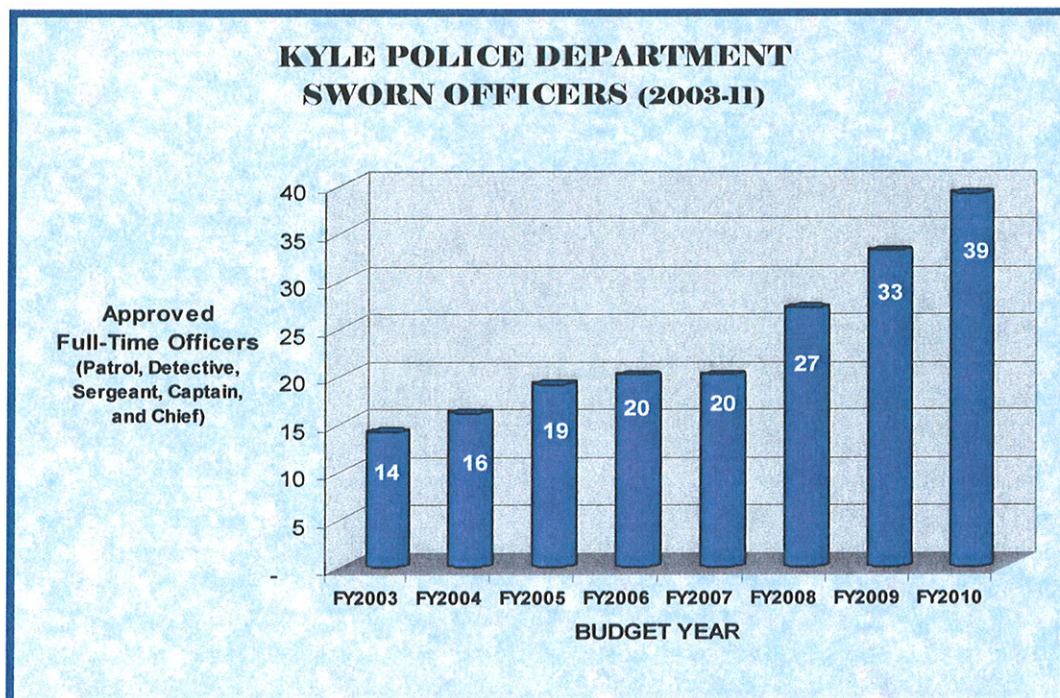
- **Cost of Living Adjustments for All full-Time Employees** – Given the volatility of the national economy over the past year and its impact on individual consumers, it is imperative that appropriate adjustments be made to existing compensation levels of all city employees to support them during these economically-challenging times. As such, the proposed budget includes an across the board, Cost of Living Increase of **4%** for all full-time city employees. This adjustment is based U.S. Department of Labor Consumer Price Index (CPI) increase of 4.14% for the past eight months.
- **Market Adjustments for Designated Positions** – The City implemented a program last year designed to address concerns related to the effectiveness and market competitiveness of compensation levels for all city employees. The *FY08-09 Budget* includes additional funding to support one-time adjustments to base salaries for positions as warranted based on an objective analysis of market compensation for comparable positions in comparable operations.

## Kyle Police Department

Appropriate staffing and overall financial support for the Kyle Police Department (KPD) and public safety services in general continues to be an important policy issue for our growing city. While the City has clearly demonstrated its commitment to the KPD through steadily increasing financial support over a number of years, achieving general agreement as to the appropriate and effective level of police staffing and services remains a challenge for the City.

For FY08-09, the Chief of Police has proposed substantial increases in both personnel and overall appropriations for the KPD to address both existing issues and to position the KPD to respond to the continued overall growth of the community as anticipated. As such, the KPD requested, among other increased funding, ten (10) new *Patrol Officer* positions and two (2) new *Sergeant* positions, in addition to other new personnel and increased funding, for next year.

In balancing this request with the needs of all other city departments, however, and measured against available resources, the *FY08-09 Budget* as proposed for the KPD includes funding for one-half of this particular request: **five (5) new Patrol Officer** positions and **one (1) new Sergeant** position.

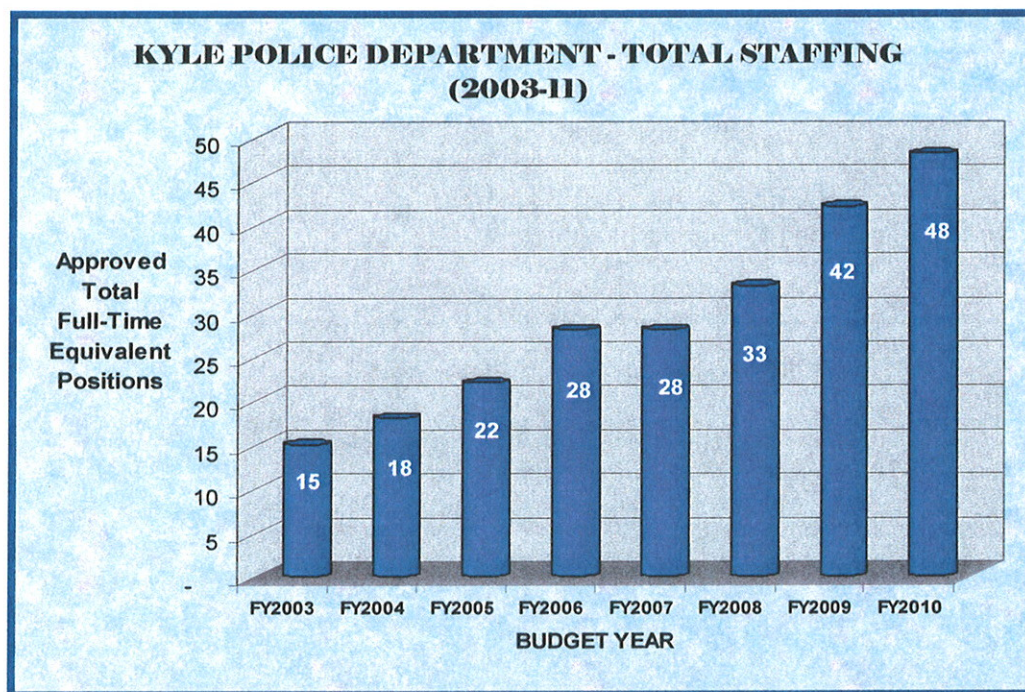




It is important to note that at present, KPD still has five (5) vacant *Patrol Officer* positions; so with the (5) new *Patrol Officer* positions and one (1) *Sergeant* position included within the *FY08-09 Budget*, KPD will be able to add a total of **eleven (11) new sworn officers** “on the street” (from a total 19 to 30) over the next few months – an increase in sworn manpower of nearly **60%**. While not exactly what was requested, this is obviously a significant increase in personnel representing the largest increase in personnel in any one year in the history of the Kyle Police Department.

At this point in time, it is also anticipated that the five *Patrol Officer* positions and one *Sergeant* that were requested but not included in this year’s budget, will be included in next year’s budget proposal, which would increase staffing to a **total of thirty-nine (39) full-time sworn officers** by the end of 2009 – more than **doubling** the number of KPD sworn officers in a 16-month period..

In addition to these upgrades in sworn personnel, the *FY08-09 Budget* proposal for the KPD also includes two new *Dispatcher* positions and a *Property Inventory Control* position to enhance overall police services. With these additions, total staffing for the KPD will reach all all-time high of **forty-two (42) full-time positions** in FY08-09. And, assuming similar growth next year where total staffing might reach as high as forty-eight FTEs, overall KPD staffing would **more than triple** over a seven-year period.



The proposed *FY08-09 Annual Budget* includes an overall funding increase of **36%** for the Kyle Police Department (\$3.1M up from \$2.3M projected through the end of the current year). Increased support for the KPD in FY08-09 also represents 60% of all new positions proposed for the General Fund and \$811,790 or 66% of all increased funding. This plan is consistent with the City’s commitment to continue to appropriately grow and enhance the KPD and public safety in our community – but to do so in balanced and financially responsible manner.



## Ad Valorem Tax Rate

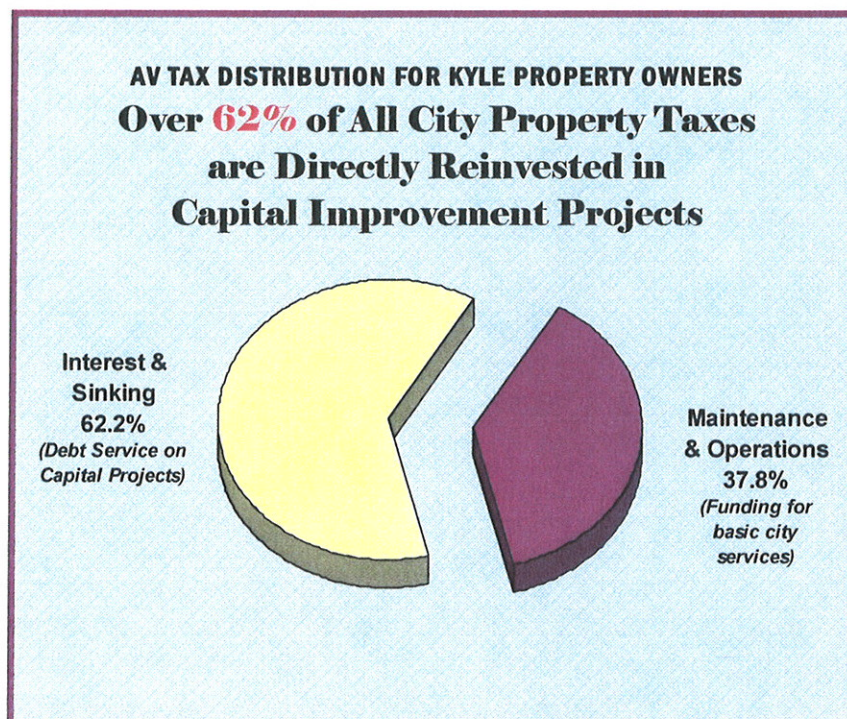
As the property tax rolls for next year have not yet been certified, the staff has not yet determined a final recommendation on the proposed FY08-09 Ad Valorem (property) Tax Rate at this time. We can, however, provide an informed opinion as to generally what the tax rate will likely need to be to fund the *FY08-09 Annual Budget* as proposed.

The *Budget* as proposed requires an overall revenue increase for current-year property tax revenue of approximately \$556,000. Still allowing for the continued growth of our tax base through new development, it would remain the staff's opinion that the Maintenance and Operation (M&O) portion of the Ad Valorem rate should increased by at least **three cents (\$.03)** over the 2007 rate – to provide both the necessary funding for this year's budget and general overall stability of the M&O tax rate. This would bring the M&O portion of the Ad Valorem Tax Rate for FY08-09 to **\$.1500/\$100 valuation**.

As planned and discussed previously, the Interest & Sinking (Debt) portion of the FY08-09 Tax Rate is positioned to increase by nearly **\$.09** (from \$.1507 to \$.2471) in response to required debt payments scheduled for the ensuing year. This increase is necessary to support the **\$60M** the city has borrowed in recent years to fund many of the major transportation and facility projects completed by the City, including but not limited to:

- |                                    |                                       |
|------------------------------------|---------------------------------------|
| ✓ Kyle Parkway (FM1626)            | ✓ FM150 Realignment                   |
| ✓ Downtown Kyle Streetscape        | ✓ IH-35 Road Improvements             |
| ✓ Kyle City Hall                   | ✓ Seton Hospital/Kyle Parkway Phase 2 |
| ✓ Kyle Municipal Pool              | ✓ Parkland Acquisition                |
| ✓ City of Kyle Fire Station No. 2  | ✓ Kyle Crossing (Dry Hole Rd.)        |
| ✓ Original Town Sewer Upgrades     | ✓ Economic Development Projects       |
| ✓ Kohler's Crossing Reconstruction | ✓ Original Town Road Improvements     |

Following a consistent pattern, the City of Kyle will continue in FY08-09 to demonstrate a commitment to invest property tax dollars directly back into the community and to keep dependency on tax dollars for operating costs to reasonable and managed level.

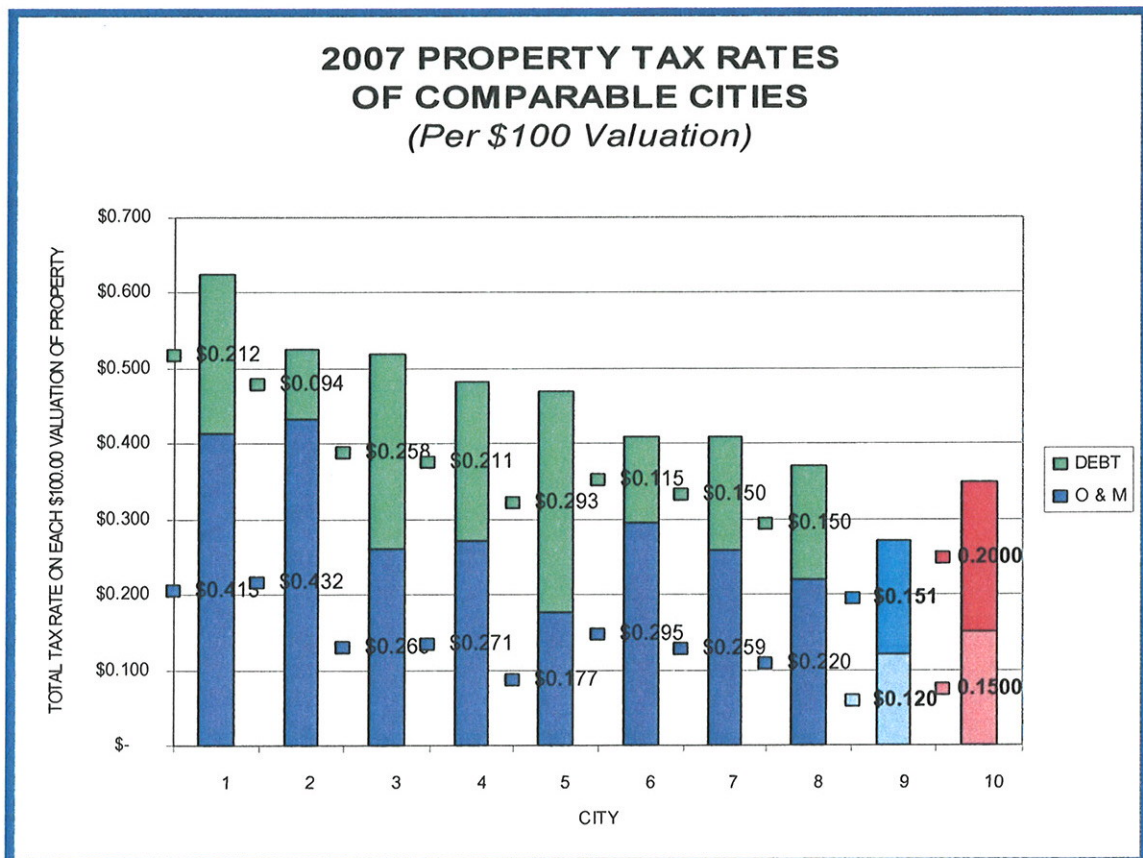




These calculations indicate that a property tax rate of approximately **\$.3971/\$100** would be required for FY08-09 – an increase of almost \$.12 on the 2007 rate. However, the staff has determined that interest earnings generated by currently unutilized debt proceeds are available and eligible for use to meet debt requirements; and given the other issues affecting the property tax rate for next year, the staff recommends that a portion of those funds be utilized to partially fund the debt requirements for next year, thereby reducing a portion of the increase required of the 2008 tax rate.

Therefore, the *FY08-09 Annual Budget* as proposed is predicated upon a total Ad Valorem (property) Tax Rate for the City of Kyle for 2008 of (approximately) **\$.3500/\$100** (\$.15 M&O/\$.20 Debt). The final rate will be determined after we receive the certified property tax rolls for 2008.

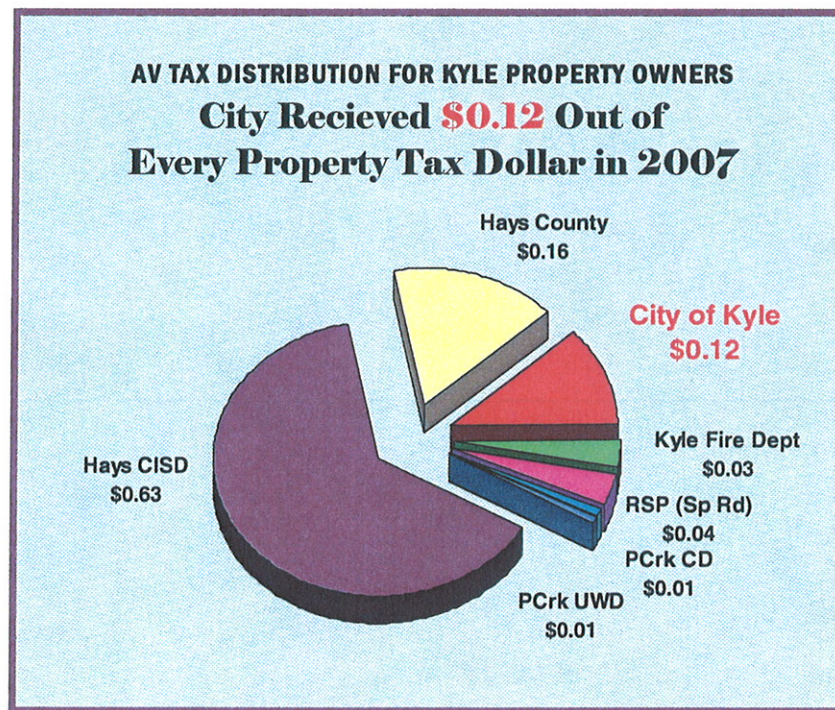
While this modified rate would still represent a significant increase over last year's rate (a little less than \$.08), the City of Kyle's Tax Rate will still be among the lowest in our area and certainly one of the lowest among comparable Central Texas cities.



CITY	TOTAL	M&O	DEBT
1. Pflugerville	\$0.624	\$0.413	\$0.212
2. Universal City	\$0.526	\$0.432	\$0.094
3. Cedar Park	\$0.518	\$0.260	\$0.258
4. Seguin	\$0.461	\$0.271	\$0.211
5. San Marcos	\$0.470	\$0.177	\$0.293
6. New Braunfels	\$0.410	\$0.295	\$0.115
7. Schertz	\$0.409	\$0.259	\$0.150
8. Georgetown	\$0.370	\$0.220	\$0.150
9. Kyle - 2007	\$0.271	\$0.120	\$0.151
10. Kyle - 2008 (proposed)	\$0.350	\$0.150	\$0.200



It is also important to note that although our residents have seen their total annual property tax bills continue to increase in recent years, the City of Kyle has worked to keep its tax rate low and only receives a small portion of property taxes paid - even though the City provides the *most* services for *all* residents in Kyle. Out of every property tax dollar paid by Kyle residents for the 2007 tax year, the City received only \$0.12 to fund all basic municipal services and programs:



Considering the major issues facing the City of Kyle and our desire to continue evolving our operation into a full-service city and regional market center, a property tax rate of \$.3500 is reasonable and warranted – and necessary for the financial stability of our growing community.

### **Solid Waste Franchise Fee**

Also included within the proposed *FY08-09 Budget* is a staff recommendation to create a new Solid Waste Franchise Fee that would be assessed against all solid waste (trash) service providers operating within the City. Authorized by state law and consistent with franchise fees assessed to other entities that utilize the city-owned street rights-of-way, this particular fee would also be designed to compensate the city for the significant impact that vehicles utilized by these service providers have on city streets and alleys. The recommended fee would be a **10%** assessment added to their current rates; and would apply to all customers within the city. It should be noted that (as is the case with nearly all utility companies), the law also allows the affected service providers to pass this new fee on to its customers. Within our current fee structure, such a fee pass-through is projected to result in a monthly increase of \$1.21 for residential customers; and is projected to average approximately \$17 additional costs per month for commercial customers. This fee, however, is projected to create in excess of \$120,000 per year in additional revenue to construct and improve new city streets.

### **Planning**

Overall planning efforts and services will continue to grow and expand in FY2008-09 with additional Planning Department personnel included within the proposed spending plan. In addition, the proposed *Budget* includes appropriate funding support for additional professional services to complete a new Comprehensive Plan for the City.



### Funding Employee Vacation/Sick Leave

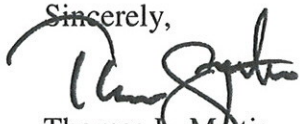
Through the 2007-08 Fiscal Year the City has accounted for sick leave and vacation on a “pay as you go” basis. That is, funds were budgeted for a full 26 pay periods for each employee and vacation and sick leave were simply charged the same as time worked. At the end of the fiscal year, remaining balances for salaries were zeroed out.

This does not wipe out the accrued liability however and during the audit, the auditors determine the amount of liability for accrued vacation and sick leave and make an adjustment for that amount on the City’s balance sheet as a liability. With the advent of Civil Service, it is no longer prudent to operate on a pay as you go basis. Each uniformed officer accrues 3 weeks of sick leave and 3 weeks of vacation time each year and is paid for that time at retirement or termination. Since the numbers get considerably bigger as the City grows, the FY2008-09 Budget segregates vacation/sick leave time from regular time worked. As sick leave or vacation is taken, it will be charged to these accounts. At the end of the year, any balances remaining will be placed in a special fund for pay out on termination or retirement. These funds will not cover the entire amount of the past accrued liability but will start building a reserve fund to offset this liability. This form of accounting has added approximately 3% to the cost of employee services when compared to the former method.

The 2008-09 year should once again provide a challenging year for the City of Kyle and its leaders, but it should also provide unique opportunities for the continued growth and enhancement of all city services for our residents and taxpayers. The coming year is anticipated to continue the historic transition of Kyle’s business community and commercial support base, as the major commercial centers in the Kyle Parkway area and the Seton Hospital Project will move forward with is scheduled commence construction – along with a wide range of development projects. Quality of life will also improve and evolve in our all residential areas, including the Original Town area of Kyle. *Our glass continues to be more than “half-full” – and it’s getting fuller all the time.*

On behalf of the city staff, I wish to thank the Mayor and City Council for their past support and this opportunity to serve the citizens of Kyle. We look forward to working with you during the coming year.

Sincerely,



Thomas L. Maltis  
City Manager