

BUDGET MESSAGE
FY 2010-2011
September 3, 2010

Dear Mayor and Council members,

In accordance with the Texas Local Government Code and with Part I, Article VIII, Sec. 8.04 of the Kyle Municipal Code, the proposed *Annual Operating Budget* for the City of Kyle, Hays County, Texas, for the Fiscal Year of October 1, 2010 through September 30, 2011, is hereby presented for your consideration. The proposed budget presents, in financial terms, the proposed plan for accomplishment of the delivery of municipal services during the forthcoming fiscal year.

PROPOSED FINANCIAL POLICIES

The City of Kyle has adopted a Fiscal Management Policy which governs the budget process. This year's budget production process has tried to adhere as closely to that policy as possible considering the lack of personnel, and the absence of not only the City Manager but also the Finance Director during the entirety of this budget process. In addition to the Fiscal Management Policy (which is included in its entirety after this budget message) the City of Kyle is in the process of adopting a Debt Management Policy which should be finalized by the first of the FY10-11 budget year. This policy will govern the issuance of future debt instruments, provide a formula for calculating maximum outstanding debt and serve generally the same way for future debt as the Fiscal Management Policy does for the budget process. Lastly, a new Purchase Order Policy has been proposed by staff and adopted by council. This policy will result in additional financial controls and accountability in spending. This Purchase Order Policy requires all purchases over \$500 to first have an issued Purchase Order issued by the finance department once funds are verified in the approved budget for such purchases. While this policy deals only with purchases over \$500, individual departments are adopting their own financial controls for items that cost under \$500.

IMPORTANT FEATURES

The proposed budget, from an overall fiscal perspective, is more accurate than any previous submittal, and is also more flexible than the FY 09-10 submittal. In the current economic environment, maintaining services at an existing tax rate is an accomplishment in and of itself, much less decreasing the overall tax rate. In a time when the budgetary debate in many communities still continues to center on which services will be cut back, and by how much, we are able to maintain the same base level of services by adding resources in key operational areas to improve service delivery to our citizens. This budget cycle started with each department reviewing what their current levels of expenditures were in each functional area, then we considered what we could reasonably expect to change year to year. In the past the budget was presented as a zero-base budget, but that is not an appropriate name for this process as a zero-base budget cuts every expenditure to zero, and then starts from scratch. This budget is, however, a balanced spending plan, wherein all proposed operating expenditures are supported totally by revenues generated through operations or fund transfers during the 2010-11 fiscal year. The budget also includes a comprehensive analysis of all existing programs, operations, and services.

The budget development process began in April with the initial development of the *2011-2015 Five-Year Capital Program (5YRCIP)* and included input from both Council and staff. Council participated in a first ever CIP prioritization exercise led by the Interim City Manager where individual capital items were placed on note cards and council then prioritized each and every proposed purchase. Council then

determined how much money would be spent on capital items this year, thereby establishing which items would be included in this year's budget, and which items would be scheduled for future years. While the primary goal of the proposed budget is to effectively maintain and/or improve existing service levels, this would not be possible without adding resources in key areas and services in order to meet ever-growing demand.

The grand total for all appropriations included in the proposed *FY10-11 Annual Budget* is **\$54,639,742** with the Combined Operating Budget being **\$22,161,316** or 41% 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 Combined Operating Budget is delineated into four primary operating funds:

- **General Fund** – (\$10,640,451) revenues and expenditures related to the provision of primary/traditional municipal services whose main financial support comes from property and sales taxes
- **Community Development Fund** – (\$944,272-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.
- **Recreation Fund** – (\$652,148) revenues/expenditures relating to parks and recreation services including summer camps, fairs, holiday and/or community events, classes/lessons, etc.
- **Utility Fund** – (\$9,924,445-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 of the duties and volume of work generated by each department as well as the first inclusion of a Management By Objectives policy which will result in additional transparency and accountability.

MAJOR CHANGES (FINANCIAL POLICIES, EXPENDITURES, REVENUES, REASONS)

Budget Highlights and Issues

The City of Kyle has just completed another very successful year that has seen continued overall prosperity within our community. While most cities and our nation in general have faced a variety of economic challenges over the past twelve months, the City of Kyle has maintained a growing and financially stable operation. We have continued to efficiently address the demand for increased services by making the most of available resources.

Last year we noted that prudent and effective budgeting, and fiscal discipline by the staff, combined with steady economic growth provided by new commercial developments, enabled the City to sustain a strong financial performance in FY2009-10. In spite of this success, and no different than last year, the City is faced with unique issues especially around balancing affordability issues with the service needs and goals of our city.

As we look forward to the 2010-11 fiscal year, continuing expansion of debt obligations combined with general economic conditions will create new budgeting challenges unlike any faced by the City in its

history. In addition, the continuation of constantly expanding programs will not be financially sustainable within the existing tax structure, as demands for enhanced, expanded, and even new services continue in our growing community.

The City Council has agreed to consider some tax relief for tax payers, albeit temporary. The reappropriation of \$2,000,000 from the 2008 Series CO will result in a decrease in the 2010 Series CO issue which will pay for the new City Library, and will also grant temporary relief from up to \$425,000 a year for four years in debt payments. That results in about a 3.2 cent decrease to the tax rate for this year and the three years ensuing.

Expected transfers from the Utility Fund in support of the General Fund are reaching an all time high, and council has acknowledged that this practice is not fully disclosing the cost of doing business and is holding the property tax rate lower than it should actually be. Likewise, continued transfers out of the Utility Fund at the current rate are not sustainable and jeopardize the long term viability of the Utility Fund. For this reason, the City Council decided to apply all budget savings that could be identified this year against the Utility Fund transfer and maximize the O&M rate as much as possible.

A substantial increase in the city's O&M tax rate for FY2010-11 is inevitable. However, with the temporary debt relief, overall taxes will be falling from \$.4240 to \$.4154. This is a substantial accomplishment because required payments for existing debt obligations for next year alone project a 20% increase in the debt portion of the property tax rate. While there are also other items affecting the total increased O&M tax rate recommended with this budget, those increases are focused on addressing Council priorities.

As evidence of the proposed budget's focus on overall cost containment and the goal of a manageable tax rate, the City Manager has made significant across-the-board cuts in the budget requests of the various departments for the *FY2010-11 Annual Budget*. Although the City has been able to accommodate most departmental requests for funding in recent years, the financial constraints anticipated for next year will not allow this practice to continue. As an example, the grand total for all funding requests for General Fund departments and operations for *FY10-11* was **\$12,608,571**. The final expenditures proposed for the *FY2010-11 Annual Budget* sets the General Fund at **\$10,640,451** – an 15.6% cut that affected virtually every department.

It is important to note that the proposed *FY2010-11 Annual Budget* is focused on maintaining existing service levels – and no *reduction* of city services are included or anticipated as part of this funding plan. While the budget does make accommodation for additional staff which are necessary to just maintain current service levels in a growing city, next year's budget does not anticipate significant service level increases.

Our primary goal will be to steadily maintain operations and services for the next year while overall economic and "affordability" environment improves.

Council Priorities

As part of the budget's early formulation, the City Council set its City Council Budget Policy Statement in early March of 2010. The budget statement was given to staff to help the staff understand and identify desired policy goals and parameters by council for the *FY10-11 Annual Budget*. The budget statement by the Mayor and City Council distinguishing the following overall budget priorities:

- the M&O Rate should remain as close to last year's rate as possible while providing necessary increases to maintain the same level of service;
- hiring of police officers should continue but at half the level requested, i.e. four new officers;
- we should continue to make a priority the improvement of our water and wastewater infrastructure and sewer systems;
- we should work to improve waterline pressure across the city;
- we should continue plans to build a new library and issue debt to finance the construction early in the next fiscal year;
- the finance department should continue to look for any opportunities to refinance our debt;
- we should provide training to departments that deal directly with the public to help provide a higher level of customer service to residents at no cost;
- we should continue and possibly increase funding and support for the economic development department;
- each department should list their immediate objectives for the next fiscal year at the beginning of their section of the budget as suggested in the current fiscal management policy document.

Ad Valorem Tax Rate

Easily the most significant issue faced by city officials in the development of the *FY10-11 Annual Budget* is establishing a reasonable and effective property tax rate. While this decision is typically a major concern each year for most cities, various issues will come together over the next several years that will make this decision particularly challenging for the City of Kyle.

The ad valorem tax rate is the property tax rate that the City of Kyle sets and collects in order to fund city operations, and to raise the appropriate amount of debt service to make payments on borrowed funds. These two components of the ad valorem tax rate are called the Operations and Management portion (O&M) for the part that pays for city operations, and the Interest and Sinking Fund (Debt) portion associated with debt service. The proposed budget was set at a combined tax rate of \$.4539, however the recommended budget tax rate will only be **\$.4154** a significant decrease which is entirely attributed to the City Council deciding to offer short term debt relief to the tax payers of the City of Kyle by making payments toward the debt portion of the tax rate. This debt relief, while very timely, is temporary in nature, so even with this temporary reprieve the debt portion of the tax rate will need to increase in subsequent years, albeit to something less than it would have been over the next four years without the four year debt relief program adopted by council.

Maintenance and Operations Tax Rate - Given the issues with the overall tax rate, the goal for this budget proposal in keeping with the direction of the City Council Budget Policy Statement was to keep the Maintenance and Operation (M&O) portion of the Ad Valorem rate as low as reasonably possible. As such, a very lean Operating Budget has been proposed that will nonetheless necessitate an increase in the M&O portion of a little over **three and one-third cents (\$.033073)** over the FY09-10 rate – providing necessary funding for this year's budget and continued overall stability of the M&O tax rate. This increase would bring the M&O portion of the Ad Valorem Tax Rate for FY10-11 to **\$.216073/\$100** valuation, but as you will soon see the greatest component of this increase is tied to Emergency Services. While the M&O portion of the tax rate is increasing this year due to minor increases in expenses and a desire to offset utility fund transfers, overall the combined tax rate is going down.

The City's assessed valuation has increased since last year and there were some small annexations, which combined will create some additional new revenue. However, that increase will still not be sufficient to meet budgetary needs. The desire to decrease the Utility Fund transfer to the General Fund, and the natural evolutionary growth of our operation itself creates the need for the increased revenue provided by this slight increase. There are, however, three main issues addressed within the proposed *FY10-11 Annual Budget* that financially represent the primary need for this particular tax increase:

- EMS Upgrades – The City of Kyle contracts with San Marcos Hays County Emergency Management Service, a private ambulatory service not affiliated with the City of San Marcos or Hays County as its name might imply. Without consent of the City Council, the SMHC EMS board decided to incur additional costs to add a second ambulance to Kyle and then expected the City Council to pay for the difference of its cost and what it is projected to earn in revenue. While the council recognizes the benefit of having a second ambulance in a town of our size, the fact that the costs were incurred and then the City was expected to pay up did not sit well with most of the Council members. All the same, this line item is increasing by \$125,000 almost one cent or approximately \$0.0094
- Community Development and Recreation Program Supplement – For the years during the growth boom in Kyle, the Community Development Fund which houses the Building Department, Economic Development and Planning Departments, was able to pay for itself and book additional retained earnings. It is not reasonable to expect the Community Development Department to pay for itself long term. The slowdown in building permits, accompanied by expenditures exceeding \$300,000 associated with defending the City of Kyle's authority to zone in a lawsuit brought by the Home Builders Association, the Community Development Fund will require support from the General Fund to balance its expenditures of \$419,336 or approximately \$0.0318 of the O&M rate. Most cities do not split their Building and Planning Departments from the General Fund and place them in a separate Enterprise fund, so this shortage is somewhat of a misleading indicator.

In FY2008-09, the staff created the Recreation Fund, providing an opportunity to monitor the true costs of various recreation programs and its direct impact on the tax rate. The current-year budget as approved by Council included the General Fund supplementing the Recreation Fund by over \$360,000. It is the staff's estimate that for FY10-11, only a modest change will be required to keep all programs operating efficiently. This year's projections only calls for \$354,633 from the General Fund, or approximately \$0.0269 of the tax rate which is actually down from last year.

- Civil Service – One of the largest changes in this year's budget is tied to costs associated with the voters of the City of Kyle electing to enact Civil Service for its Police Officers. The City of Kyle staff began voluntary Meet and Confer negotiations, that although had stalled for a moment in time, were then shepherded by the Interim City Manager and brought to a point of resolution to where the City Council could determine whether or not to enact the agreement. The Contract was negotiated by both parties, dealing with concerns or interests that both parties wanted to see resolved. The result of the negotiations and of civil service in particular are significant increases in pay for police officers. It is expected that new pay increases tied directly to Civil Service or to the items in the Meet and Confer agreement will cost the taxpayers upwards of \$200,000 this next year or \$0.015 on the tax rate.

In summary, if you add the major changes to this year's O&M rate of the EMS expenses and costs associated with Civil Service, you come up with a combined increase of \$0.0244 which is nearly two-thirds of the proposed O&M increase. This means that the true increase to the General Fund is minimal.

Debt Tax Rate – As discussed above while the Maintenance and Operation (M&O) portion of the Ad Valorem rate pays for the costs to run the city, the Debt Tax Rate collected is used to make debt payments incurred by the city.

Staff concludes that the *FY10-11 Annual Budget* as proposed will require a Debt Rate for the City of Kyle for of **\$199326/\$100**. This includes all of the city's current outstanding debt issuances and payments. As mentioned previously, the City Council has decided to appropriate \$425,000 for the next four years to lower the overall debt rate that must be collected in order to grant some temporary tax rate relief to its citizens. While this temporary debt relief will run out in three more years, in the mean time this dedicated payment will subsidize the tax collections required to make the debt payments. Moreover, next year will see an increase in the debt rate regardless due in part to the funding for the new Kyle Library.

DEBT POSITION

There is a lot of discussion about the City's debt, and on occasion this has been mislabeled as a deficit. Cities in Texas are not legally allowed to run deficits (spending more money than they can cover in taxes, fees or reserves), and borrowing funds for large purchases is not the same thing as a deficit, it is debt. Cities borrow funds for much the same reasons that regular people do – there are high priced items that are either needed or wanted, and rather than have tax rates at excessive levels to be able to pay cash for these items, or rather than maintaining a falsely high tax rate over time in order to build up massive amounts of savings to use for cash purchases, most cities chose to issue debt in some form or another in order to cover these costs. Not unlike a tax payer might do to buy a home or a new car. Also, it is important and economical to use debt wisely, as it allows projects that might otherwise have taken decades to save for to be implemented now. This is a timing issue, as those tax payers who are making the debt payments are also the same ones who get to enjoy the benefits of whatever that debt issue is paying for.

Typically debt issues are long term (20 years or more) Certificates of Obligation (CO's) or General Obligation (GO's). While CO's are always funded by tax collections, GO's can be funded through tax levies, revenues tied to certain projects, or several other streams of income. The main difference between a CO and a GO is that Certificates of Obligation allow councils to issue debt, following certain protocols, that do not necessarily require a vote of the voters, while most GO's do. CO's are how most of the City of Kyle's debt is structured. There have been those that have critiqued the previous councils who encumbered the debt for not sending these issues to the voters for approval. Understand that there is a reason that city's use CO's and there is a reason that voters elect council members to represent them. Council's decide when something changes from a necessity for doing business to rising to the level of needing voter approval, and will send such items to the voters when they think it prudent. A perfect example of this was the discussions related to the Recreation Center, where the council decided that when we did decide to go forward, it would be by a vote of the voters of Kyle who would decide as a whole if they wanted the center or not. While this hasn't gone to voters this previous year, and likely will not this upcoming year, this is a great example of the Council using its discretion wisely.

This brings us to our current debt position. As has been discussed with the Council on many occasions, the City has been aggressively committed to addressing its capital improvement needs in recent years; and has funded the majority of these major projects through the issuance of various debt instruments. The capital improvement projects and programs provided by this funding have in many cases been a first for our community, addressing a wide range of needs for the City that will have a lasting effect on the quality of life for Kyle citizens. Following is a listing of just a few of the major projects funded through the issuance of debt:

- Downtown Streetscape
- Kyle Parkway (1626) Ph I
- Kyle Parkway Extension Ph II (Seton/Lowes)
- Kyle Crossing Overpass (CR210)
- Center Street Overpass (FM150)
- Kohler's Crossing
- RR150 Realignment (exp. 2010)
- I35 Improvements/Access roads
- Original Town Sewer Improvements
- Kyle City Hall
- Kyle Municipal Pool
- City Fire Station #2
- Historic Kyle City Hall
- Kyle Community Library (exp. 2010)
- Public Works Building
- Automated Water Meters
- IT Upgrades
- Necessary Maintenance Equipment

Funding of all of these projects and more has resulted in the City borrowing slightly more than **\$70 Million** in outstanding debt across all funds, with the anticipation of another \$4.5 million this FY in the General Fund to pay for the New Municipal Library and associated costs. This will bring the over total of outstanding debt to approximately \$75 million. This is not uncommon for fast growing cities that must invest heavily in infrastructure in a relatively short period of time. I am aware of a community to our north that is quite similar to us in many ways that has twice this amount of outstanding debt.

Total Property Tax - (Debt) Obligations						GG	
	CO 2000	CO 2002	CO 2007	CO 2008	Tax Notes 2009	GO Ref 2009	Total
2010	26,235	374,788	679,200	1,291,805*	555,155	17,420	2,944,602
2011	-	372,920	777,800	1,218,245*	558,393	41,547	2,968,904
2012	-	375,780	777,000	1,211,980*	558,944	42,587	2,966,292
2013	-	373,080	780,600	1,213,592*	562,292	41,960	2,971,525
2014	-	374,868	778,400	1,263,605	567,050	42,801	3,026,724
2015	-	375,820	780,600	1,254,198	566,540	43,263	3,020,421
2016	-	371,265	777,000	1,264,911	561,075	43,494	3,017,745
2017	-	371,015	778,000	1,262,381	-	43,659	2,455,055
2018	-	375,095	777,800	1,257,892	-	43,758	2,454,545
2019	-	373,270	781,800	1,256,871	-	43,791	2,455,732
2020	-	375,730	779,800	1,257,688	-	43,758	2,456,976
2021	-	372,230	777,000	1,379,184	-	-	2,528,414
2022	-	373,125	778,400	1,375,317	-	-	2,526,842
2023	-	373,013	778,800	1,377,409	-	-	2,529,221
2024	-	371,863	778,200	1,380,939	-	-	2,531,001
2025	-	-	781,600	1,680,280	-	-	2,461,880
2026	-	-	778,800	1,680,892	-	-	2,459,692
2027	-	-	780,000	1,678,444	-	-	2,458,444
2028	-	-	-	1,338,293	-	-	1,338,293
2029	-	-	-	1,064,866	-	-	1,064,866
2030	-	-	-	1,061,662	-	-	1,061,662
2031	-	-	-	1,064,876	-	-	1,064,876
2032	-	-	-	1,061,876	-	-	1,061,876
2033	-	-	-	1,062,692	-	-	1,062,692
2034	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-
Total	26,235	5,603,860	13,920,800	30,959,900	3,929,449	448,038	54,888,281

*-Decrease by \$425,000/yr per debt relief program

GO Ref 2009	SIB II	Total
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2010	408,966	-	408,966
2011	703,688	-	703,688
2012	848,988	-	848,988
2013	991,288	-	991,288
2014	1,127,538	1,044,397	2,171,935
2015	1,258,088	1,044,397	2,302,485
2016	1,379,388	1,044,397	2,423,785
2017	1,445,488	1,044,397	2,489,885
2018	1,453,488	1,044,397	2,497,885
2019	1,454,588	1,044,397	2,498,985
2020	1,453,888	1,044,397	2,498,285
2021	1,456,288	1,044,397	2,500,685
2022	1,456,688	1,044,397	2,501,085
2023	1,455,088	1,044,397	2,499,485
2024	1,456,388	1,044,397	2,500,785
2025	1,459,484	1,044,397	2,503,881
2026	-	1,044,397	1,044,397
2027	-	1,044,397	1,044,397
2028	-	1,044,397	1,044,397
2029	-	1,044,397	1,044,397
2030	-	1,044,398	1,044,398
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
2037	-	-	-
2038	-	-	-
2039	-	-	-
2040	-	-	-
Total	19,809,332	17,754,755	37,564,087

CO 2000	CO 2003	CO 2008	Tax Notes 2009	GO Ref 2009	Total
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53,265	311,768	290,901	289,646	35,368	980,948
-	306,832	274,336	291,335	84,353	956,857
-	311,712	272,926	291,623	86,464	962,725
-	311,040	273,289	293,370	85,191	962,890
-	-	284,551	295,852	86,899	667,302
-	-	282,433	295,586	87,837	665,856
-	-	284,845	292,735	88,306	665,886
-	-	284,275	-	88,641	372,916
-	-	283,265	-	88,842	372,107
-	-	283,035	-	88,909	371,944
-	-	283,219	-	88,842	372,061
-	-	310,578	-	-	310,578
-	-	309,708	-	-	309,708
-	-	310,179	-	-	310,179
-	-	310,974	-	-	310,974
-	-	378,382	-	-	378,382
-	-	378,520	-	-	378,520
-	-	377,969	-	-	377,969
-	-	301,370	-	-	301,370
-	-	239,797	-	-	239,797
-	-	239,076	-	-	239,076
-	-	239,799	-	-	239,799
-	-	239,124	-	-	239,124
-	-	239,308	-	-	239,308
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
53,265	1,241,352	6,971,857	2,050,147	909,652	11,226,273

**Tax
Notes
2009**

[illegible]

Total Debt Service Obligations by Year

	CO 2000	CO 2002	CO 2003	CO 2007	CO 2008	Tax Notes 2009	GO Ref 2009	SIB II *	Total
2010	79,500	374,788	311,768	679,200	1,582,706*	880,919	461,754	-	4,370,634
2011	-	372,920	306,832	777,800	1,492,581*	886,056	829,588	-	4,665,778
2012	-	375,780	311,712	777,000	1,484,906*	886,931	978,039	-	4,814,369
2013	-	373,080	311,040	780,600	1,486,881*	892,244	1,118,439	-	4,962,284
2014	-	374,868	-	778,400	1,548,156	899,794	1,257,238	1,044,397	5,902,853
2015	-	375,820	-	780,600	1,536,631	898,984	1,389,188	1,044,397	6,025,621
2016	-	371,265	-	777,000	1,549,756	890,313	1,511,188	1,044,397	6,143,919
2017	-	371,015	-	778,000	1,546,656	-	1,577,788	1,044,397	5,317,857
2018	-	375,095	-	777,800	1,541,156	-	1,586,088	1,044,397	5,324,537
2019	-	373,270	-	781,800	1,539,906	-	1,587,288	1,044,397	5,326,662
2020	-	375,730	-	779,800	1,540,906	-	1,586,488	1,044,397	5,327,322
2021	-	372,230	-	777,000	1,689,763	-	1,456,288	1,044,397	5,339,678
2022	-	373,125	-	778,400	1,685,025	-	1,456,688	1,044,397	5,337,635
2023	-	373,013	-	778,800	1,687,588	-	1,455,088	1,044,397	5,338,885
2024	-	371,863	-	778,200	1,691,913	-	1,456,388	1,044,397	5,342,760
2025	-	-	-	781,600	2,058,663	-	1,459,484	1,044,397	5,344,144
2026	-	-	-	778,800	2,059,413	-	-	1,044,397	3,882,610
2027	-	-	-	780,000	2,056,413	-	-	1,044,397	3,880,810
2028	-	-	-	-	1,639,663	-	-	1,044,397	2,684,060
2029	-	-	-	-	1,304,663	-	-	1,044,397	2,349,060
2030	-	-	-	-	1,300,738	-	-	1,044,398	2,345,135
2031	-	-	-	-	1,304,675	-	-	-	1,304,675
2032	-	-	-	-	1,301,000	-	-	-	1,301,000
2033	-	-	-	-	1,302,000	-	-	-	1,302,000
2034	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-
Total	79,500	5,603,860	1,241,352	13,920,800	37,931,756	6,235,240	21,167,022	17,754,755	103,934,286

*-Decrease by \$425,000/yr per debt relief program

Obviously, this debt has created a financial obligation of the City's part that will begin to significantly manifest itself during the next several years regardless of any actions taken by council, the city manager or staff. The biggest increase in debt payments will occur in four (*FY13-14*) and five years (*FY14-15*) from this current year as the debt relief council is instituting comes to an end, and payments begin on State Infrastructure Bank loans that have been taken out to pay for interstate improvements. Long past are the days where cities could expect the State to pay for the improvements to State roads. Most of the infrastructure costs that Kyle is floating in long term debt are directly related to improvements to State roadways. Next budget year will see a significant increase in the debt rate of approximately \$0.03 tied to the 2010 Series CO that will pay for the New Kyle Public Library.

	<u>GENERAL</u> <u>FUND</u>	<u>Recreation</u>	<u>Comp</u> <u>Planning</u>	<u>TOTAL M&O</u>	<u>TOTAL DEBT</u>	<u>TOTAL</u> <u>TAX</u>
TAX RATE	\$0.157373	\$0.031800	\$0.026900	\$0.216073	\$0.199326	\$0.4154

Staffing

The proposed *FY10-11 Annual Budget* includes funding for an all-time high of up to **two hundred and two (202)** total authorized positions: one hundred and forty (145) full time positions, five (5) regular part time positions, five (5) full time seasonal, and forty-seven (47) part time seasonal. This appears to be a huge increase year over year, however in previous years, the correct number of employees were not accounted for. The actual net increase year over year is ten new positions.

The *FY10-11 Annual Budget* as proposed includes staffing upgrades with the net addition of a total of **ten (10.5) new positions** (one position included at only half-year funding,) over currently approved staffing levels – providing opportunities for the overall enhancement of city services.

General Fund (10.5 new positions)

- One (1) *Accounting Technician* position - Finance
- Two (2) *Patrol Officer* positions and one (0.5) *Sergeant* position - Kyle Police Department
- One (1) *PT Deputy Court Clerk* position – Municipal Court
- One (1) *IT Technician* position – IT department but for Police.
- Two (2) *ECS Lead* position – Police Department
- One (1) *HR Assistant* – Human Resources
- One (1) *Grant Administrator* – Administration
- One (1) *Library Clerk* - Library



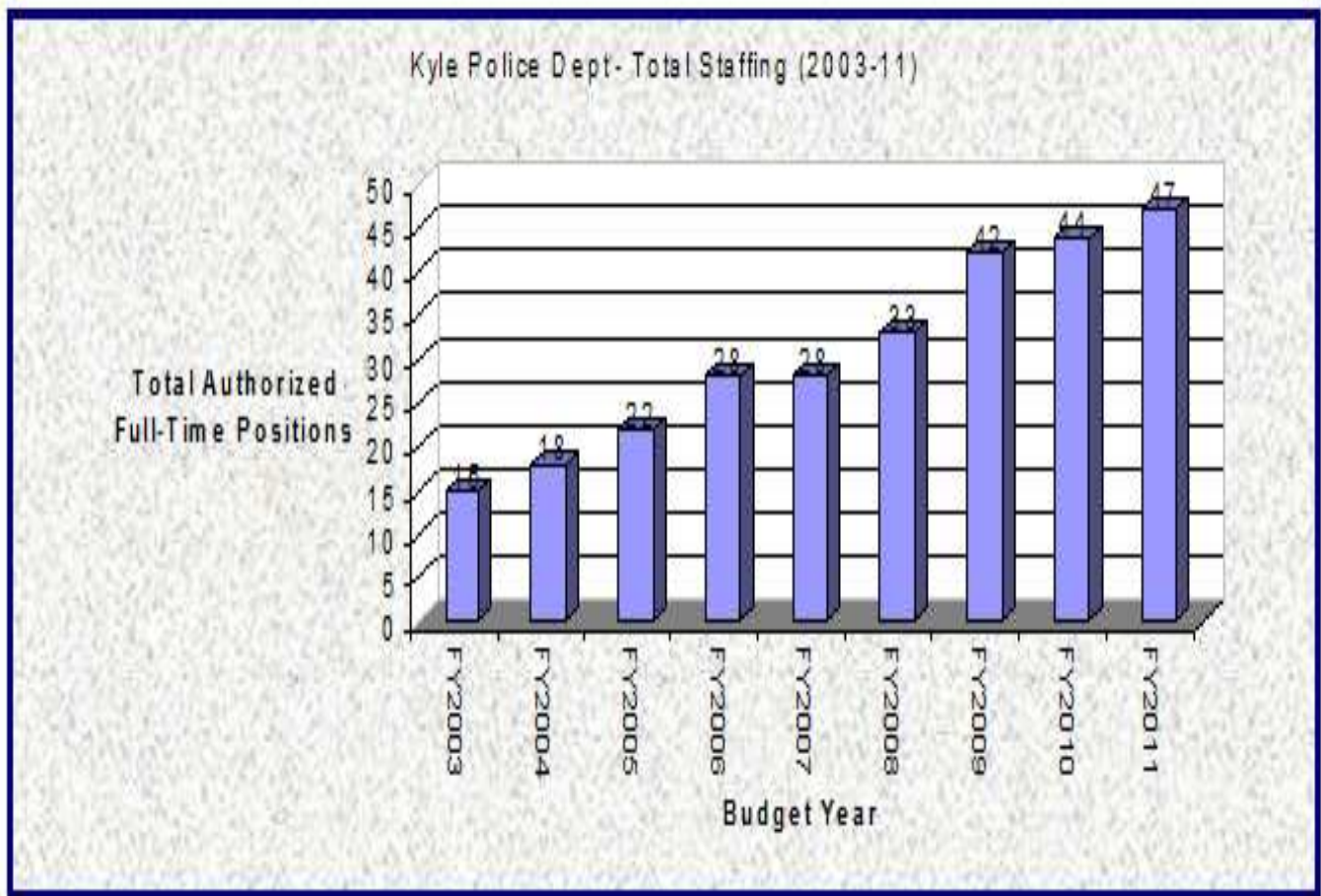
Kyle Police Department

This budget year has been themed toward support of the Police Department and its operations, including IT needs, dispatch and municipal court. For FY10-11, the Chief of Police has proposed substantial increases in both personnel and overall appropriations for the Kyle Police Department to continue to address existing issues; and to position the KPD to respond to the anticipated demand for enhanced police services in the future –as desired by the Council. Accordingly, the KPD requested, along with other increased funding, seven (7) new *Patrol Officer* positions, one (1) new *Sergeant* position, and two (2) new *ECS Lead* positions - for a total of ten (10) new full-time positions in FY10-11.

Although this funding request is reasonable and consistent with the expressed desire to grow and evolve the KPD to an operation that can provide the level of police services appropriate for our city, balancing this request with the financial constraints anticipated for next year and the needs of all other city departments makes its impossible to approve. As such, the *FY10-11 Budget* as proposed for the KPD includes funding for **two (2)** new *Patrol Officer* and **one (1)** new *Sergeant* Position for half the year, and **two (2)** *ECS Lead* positions. It also includes significant pay increases for dispatchers overall to make the position more competitive and decrease the turnover in the division which has stressed those that remain.

It is important to note that at present, KPD still has four (4) vacant *Patrol Officer* positions that should be filled within the next six months.

With these additions, total staffing for the Kyle Police Department will reach all all-time high of **forty-seven (47) full-time positions** in FY10-11.



The proposed *FY10-11 Annual Budget* includes an overall funding increase of **13%** for the Kyle Police Department (**\$3.5M** up from \$3.1M projected through the end of the current year). Increased support for the KPD in FY10-11 also represents over half of all new positions proposed for the General. 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 a balanced and financially responsible manner.

Compensation

Cost of Living Adjustments for All full-Time Employees – Despite thoughts that the USD Consumer Price Index has not increased in the past year, USD Price Index projections show an expected increase in the cost of goods of 1-2% for the upcoming year. The proposed budget includes an across the board, Cost of Living Increase of **0.50%** for most non-civil service full-time city employees and permanent part-time employees as well as the opportunity for up to **1.00%** merit increases for most non-civil service full time employees. Given the recent volatility of the national economy 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. Such an adjustment will also provide the City an opportunity to further advance the overall competitiveness of its salaries in the marketplace.

Retiree Health

The City of Kyle adopted a plan for retiree health benefits in 2009 that effectively splits the employee base into three distinct groups – those employees with more than 5 years of continuous service as of 4-1-2009, those with less than 5 years continuous service as of 4-1-2009, and those hired after 4-1-2009.

For those employees with more than 5 years of continuous service as of 4-1-2009 who retire from the City of Kyle with twenty-five (25) years or more of continuous service, the city will provide for 100% of the cost of covering an active employee towards the retirees continued health coverage with TML for as long as the retiree in this class needs it or wants it. The difference between the regular employee coverage and any additional cost associated with a retiree will be borne by the retiree.

For those employees with less than five (5) years continuous service as of 4-1-2009 who retire from the City of Kyle with twenty-five (25) years or more of continuous service, the city will provide a payment of \$306.17 per month toward the cost of health coverage of the employees choosing for as long as the retiree in this class needs it or wants it. \$306.17 is the base payment of \$300 per month adjusted for CPI inflation of 2.059% from April 2009 – March 2010.

For those employees who were hired after 4-1-2009 the City will not provide any retiree medical benefits for this class of employees.

It is important to note that this policy may change from year to year, however for any employee that retires under a policy, that policy remains effective for that employee regardless of subsequent changes to the retiree health policy or ordinances.

Retiree Groups		<i>The same Medical Plans offered to Active Employees</i>	% Paid or	\$ Amount Paid	<i>The Medical Plan Adopted for employees and their dependents</i>	% Paid by Employer or	\$ Amount Paid by Employer
Currently Retired + those with > 5 yrs service	Group 1	X	100%		X	0%	
Current employees with <5 years of service	Group 2	X		\$300/mo.*			
Employees hired after 4-1-2009.	Group 3			\$00/mo.			

* Beginning in 2010, the flat dollar amount for Group #2 employees will be increased annually each October 1st based on the change in CPI from the immediately preceding 12 month period April through March.

Council Priorities - Recap

In review, the staff was guided in the development of the proposed FY10-11 Annual Budget by the *City Council Budget Policy Statement*. These priorities are programmed to be specifically addressed as follows over the next twelve months:

- the M&O Rate should remain as close to last year's rate as possible while providing necessary increases to maintain the same level of service;
 - ✓ M&O Rate is only increasing to cover necessary costs and very modest improvements to city staffing levels in order to be able to maintain service levels.
- hiring of police officers should continue but at half the level requested, i.e. four new officers;
 - ✓ Only (2) new Patrol Officers are included in the proposed budget
- we should continue to make a priority the improvement of our water and wastewater infrastructure and sewer systems;
 - ✓ Improvements to the water and waste water systems are included in the way of capital improvement projects planned for the year.
- we should work to improve waterline pressure across the city;
 - ✓ Many of the improvements being made will aid in this issue, but not abate it entirely.
- we should continue plans to build a new library and issue debt to finance the construction early in the next fiscal year;
 - ✓ Debt will be issued in Oct 2010, with first payments due Feb 2012
- the finance department should continue to look for any opportunities to refinance our debt;
 - ✓ There will be an opportunity to refinance SIB II, but right now it appears our portfolio is maximizing low returns.
- we should provide training to departments that deal directly with the public to help provide a higher level of customer service to residents at no cost;
 - ✓ While there are no cost plans in each department, there are also training dollars planned for customer service training.
- we should continue and possibly increase funding and support for the economic development department;
 - ✓ the ED Department has increased funding for travel, training, and advertising.
- each department should list their immediate objectives for the next fiscal year at the beginning of their section of the budget as suggested in the current fiscal management policy document.
 - ✓ The Interim City Manager instituted the first Management By Objectives (MBO) program for the City of Kyle which will result not only in the publishing of yearly objectives in the annual budget as requested, but also the regular reporting of achievement of those goals.

The 2010-11 year should once again prove to be an exciting year for the City of Kyle and its leaders, providing unique opportunities for overall enhancement of our city to the benefit of our residents and taxpayers. Certainly, the development of the FY2010-11 Annual Budget presents significant challenges as we balance needs with costs. However, the coming year will also

witness the continued 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 continue to fill and change the face of Kyle forever. Quality of life will also continue to improve and evolve in our all residential areas, including the Original Town area of Kyle.

In a City full of firsts, this has been a challenging budget development process but in keeping with the "first" spirit included the first ever review of line item expenditures by council, the first ever CIP interactive workshop, the first ever MBO, the first ever detailed budget preparation and additional transparency and accountability.

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

Sincerely,

James R. Earp, CPM
Interim City Manager