

July 21, 2009

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

**Re: FY2009-10 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, 2009 through September 30, 2010, 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 2009-10 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 *2009-10 Five-Year Capital Program (5YRCIP)* and includes input from both Council and staff. While the primary goal of the proposed budget is to effectively maintain and/or improve exiting service levels, the staff continues to be focused on increasing services in order to meet ever-growing demand.

The grand total for all appropriations included in the proposed *FY09-10 Annual Budget* is ~~\$36,908,847~~ **\$36,018,083** (see 9/16/09 memorandum), with the Operating Budget being **\$17,419,125** or 47% 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 primary operating funds:

- **General Fund** – (\$9.0M) revenues and expenditures related to the provision of primary/traditional municipal services whose main financial support comes from property and sales taxes
- **Recreation Fund** – (\$.65M) revenues/expenditures relating to parks and recreation services including summer camps, fairs, holiday and/or community events, classes/lessons, etc.
- **Community Development Fund** – (\$.85M-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** – (\$6.9M-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.

## **FY2009-10 ANNUAL BUDGET**

### **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.

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 FY2008-09. In spite of this success, and while many exciting projects continue and more are on our horizon, the City is faced with unique issues as we attempt to properly balance affordability issues with the service needs and goals of our city.

As we look forward to the 2009-10 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.

A substantial increase in the city's property tax rate for FY2009-10 is inevitable. Required payments for existing debt obligations for next year alone project a 50% increase in the debt portion of the property tax rate. While there are also other items affecting the total increased tax rate recommended with this budget, those increases are focused on addressing other Council priorities and are kept to an absolute minimum

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 *FY2009-10 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 FY09-10 was **\$10,930,807**. The final expenditures proposed for the *FY2009-10 Annual Budget* sets the General Fund at **~~\$9,040,930~~ \$8,945,930** (see 9/16/09 memorandum)— an **18%** cut that affected virtually every department.

It is important to note that the proposed *FY2009-10 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. Unlike each of the past seven years, however, next year's budget does not anticipate significant staffing or service level increases.

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

Following is a more detailed discussion of the main issues or topics formulating the overall basis for the proposed *FY09-10 Annual Budget*:

## Council Priorities

As part of the budget's early formulation, the staff engaged the City Council through the *FY09-10 Budget Development Policy Initiative* to provide an opportunity for Councilmembers to be more involved in the initial planning for the budget proposal. The *Policy Initiative* was an assessment survey given to each Councilmember to (a) help the staff understand and identify desired policy goals and parameters for FY09-10 Annual Budget and (b) elicit direct feedback from each Councilmember on nearly every current city service or program.

The survey asked each Councilmember to provide a brief individual assessment of services and programs by asking three basic questions:

- (a) *Do you think the program or service "Meets Public Expectations"?*
- (b) *To what degree do you consider the program is "Essential"?*
- (c) *Are you willing to support increased "Funding", including higher fees or taxes, to support the program or service?*

The resulting information received from a majority of the City Council provided effective assistance to the staff in identifying priorities for the FY09-10 Annual Budget. Specifically, it was the consensus of the Council that there are currently **seven (7)** city service areas or programs that are of top priority for upgrade as (a) they are not currently meeting community needs, (b) they are essential services, and (c) there is a willingness to support increased fee/taxes to improve such services:

- Sewer/Wastewater Services
- Police Patrol
- Emergency Medical Services (EMS)
- Library Services
- Building-Permitting
- Drainage – Flood Control
- Information Technology Services

Accordingly, the staff accepted this policy input from the Council and utilized it in prioritizing the proposed expenditures and focus of the proposed *FY09-10 Annual Budget*. In spite of the limited resources for next year, each one of the above-named service areas has been specifically addressed in the budget proposal.

Overall, the *FY09-10 Budget Development Policy Initiative* resulted in the City Council distinguishing the following overall budget priorities:

### **FY2009-10**

### **Budget Development Policy Initiative**

#### **FY2009-10 BUDGET – POLICY PRIORITIES**

- |  |                                     |
|--|-------------------------------------|
| ✓ <b>Transportation</b>                    | ✓ <b>Sewer/Wastewater Services*</b> |
| ✓ <b>Library Services*</b>                 | ✓ <b>Building-Permitting*</b>       |
| ✓ <b>Information Technology Services*</b>  | ✓ <b>Drainage–Flood Control*</b>    |
| ✓ <b>Police Patrol* and Investigations</b> | ✓ <b>Recycling</b>                  |
| ✓ <b>Code Enforcement</b>                  | ✓ <b>Human Resources</b>            |
| ✓ <b>Communications</b>                    | ✓ <b>Engineering</b>                |
| ✓ <b>EMS*</b>                              | ✓ <b>Aquatics Programs</b>          |

## Ad Valorem Tax Rate

Easily the most significant issue faced by city officials in the development of the *FY09-10 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 two years that will make this decision particularly challenging for the City of Kyle.

As the property tax rolls for next year have not yet been certified, the staff is unable to provide specific data on the proposed FY09-10 Ad Valorem (property) Tax Rate at this time. We can, however, provide an informed opinion as to a variety of issues affecting the tax rate; and what will be required to fund the *FY09-10 Annual Budget* as proposed (see 9/16/09 memorandum – *adopted budget includes certified tax rate*).

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 been historic in nature, 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::

Capital Projects and Programs Funded with Debt Portion of Tax Rate (2002-09)	
<b>Mobility Improvements</b>	<b>City Facilities</b>
✓ Downtown Streetscape	✓ Kyle City Hall
✓ Kyle Parkway/FM1626 (HEB, Target, Kohl's)	✓ Kyle Municipal Pool
✓ Kyle Parkway Phase 2 (Seton Hospital, Lowe's)	✓ City Fire Station No. 2
✓ HCR210 IH-35 Overpass	✓ Historic Kyle City Hall
✓ IH-35 Road Improvements	✓ Kyle Community Library*
✓ Kohler's Crossing	✓ Public Works Building
✓ FM150 Realignment	✓ Historic Train Depot
✓ Kyle Crossing (Dry Hole Rd.)	.....
.....	✓ Maintenance Equipment
✓ Original Town Sewer Upgrades/Road Improvements	✓ Automated Water Meters
	✓ Information Technology Upgrades

Funding of all of these projects and more has resulted in the City borrowing slightly more than **\$73M** since the 1999-00 fiscal year.

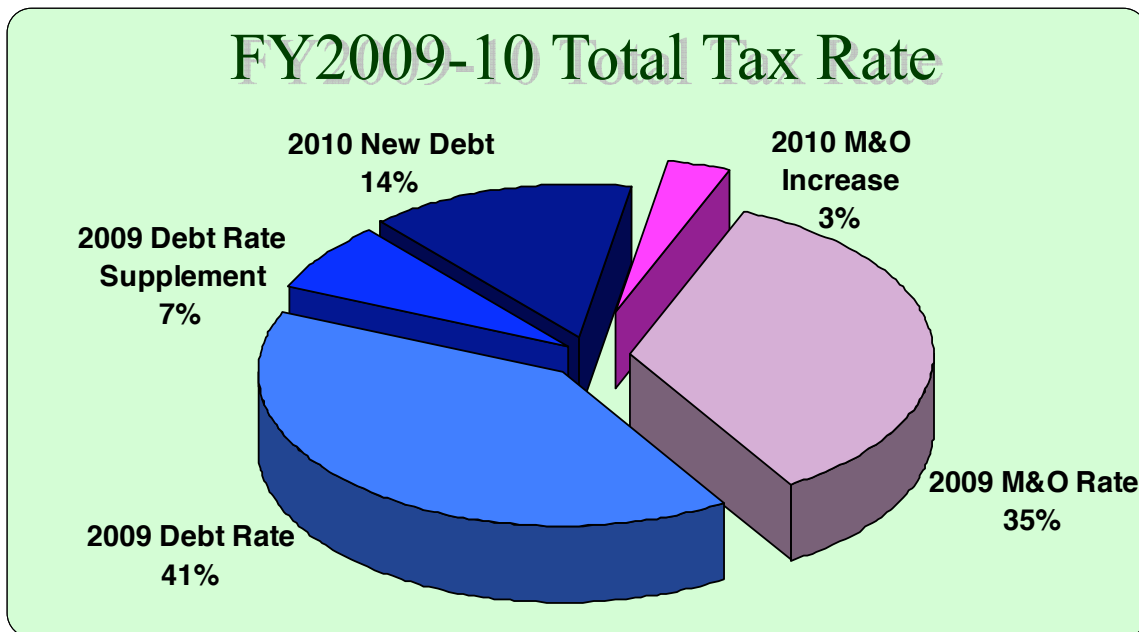
Obviously, this debt has created a financial obligation of the City's part that will begin to significantly manifest itself during the next two years (and beyond). In FY2009-10, it will be necessary to increase the Interest & Sinking (Debt) portion of the tax rate by over **\$.10** (from \$.2000 to \$.3060) to meet debt obligations scheduled for the next year.

Although there are multiple issues affecting this particular situation, the main portion of this mandatory increase for FY09-10 can be attributed to the following items:

- New Debt - Annual debt payments for the 2009 *Limited Tax Notes* of \$5.6M issued by the City will begin next year and is projected to add an additional **\$.04** on to next year's tax rate.

- No Cash Supplement - In an effort to keep the last two year's property tax rates as low as possible and to capitalize on the availability of reserve funds, the Council decided to "buy-down" each year's tax rate by utilizing cash reserve funds. This same funding, however, will not be available for FY09-10. Within the current year budget, for example, a one-time expenditure of \$712,000 in cash reserves was utilized to reduce the debt tax rate that typically would have necessitated an increase of nearly **\$.06** on the rate for FY09-10. As such, this disparity will have to be addressed within the FY09-10 tax rate (*see 9/16/09 memo – refunding SIB2 Loan allowed for tax rate reduction*).
- General increases in scheduled debt service payments (although these increases will be offset by the fact that the City will be making its final payment on the 1989 Revenue Bonds this year).

**Maintenance and Operations Tax Rate** - Given the issues with the overall tax rate, another goal for this budget proposal 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 a small increase in the M&O portion of a little over **one and one-half cents (\$.0169)** over the FY2008-09 rate – providing necessary funding for this year's budget and continued overall stability of the M&O tax rate. This slight increase would bring the M&O portion of the Ad Valorem Tax Rate for FY09-10 to **\$.1900/\$100** valuation.



Although the City's assessed valuation has increased since last year, which will create some additional new revenue, that increase will still not be sufficient to meet budgetary needs. 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 *FY09-10 Annual Budget* that financially represent the primary need for this particular tax increase:

- EMS Upgrades – One of the specific priorities identified by the City Council is increased and/or upgraded Emergency Medical Services (EMS). There have been various discussions in recent years as to the desire to enhance, upgrade, and/or expand these services to better serve our growing community. The Council's stated desire to upgrade these services included a willingness to increase fees or taxes to support such services. ~~As such, the expenditures for Emergency Medical Services within the proposed FY09-10 Annual Budget have been nearly doubled (\$135,000 increase or approximately \$.01 on the tax rate) to allow for growth and enhancement of these services~~ (*see 9/16/09 memorandum – proposed funding eliminated from adopted budget*).

- Community Development Supplement – For the first time in the last seven years, the Community Development Fund will require a portion of the city’s property tax revenue to maintain a balanced operating budget next year. Historically, this fund – which provides all funding for the Building Inspection, Planning, and Economic Development departments – has been managed as an enterprise fund; with fees for services generating sufficient revenue to cover all fund expenditures. In fact, during our recent years of highest growth and development, the Community Development Fund experienced years of significant operating surplus. Over the last two years, however, declining building activity and increased expenditures has created year-end operating deficits. In those years, the Fund had retained sufficient surplus to absorb such deficits. In FY09-10, however, such reserve funds are not available and it does not appear reasonable to anticipate revenues sufficient to cover all fund expenditures. As such, the proposed budget includes devoting a portion of the increased property tax rate (a little over **\$.02** generating approximately \$300,000) to partially support the Community Development Fund in FY09-10.
- Recreation Programs – Last year, 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 \$290,000. It is the staff’s estimate that for FY09-10, it will be necessary to increase this support by over \$68,000 (a **\$.005** or ½-cent tax rate increase for next year) in order to maintain all existing recreation service levels and programs. This will bring total supplemental funding of the Recreation Fund to nearly \$360,000 next year; which translates to a little less than **\$.03** on the tax rate.

In summation, the analysis and conclusions drawn from the wide range of issues discussed herein have resulted in the staff’s conclusion that the *FY09-10 Annual Budget* as proposed will require a total Ad Valorem (property) Tax Rate for the City of Kyle for 2009 of (approximately) **\$.4960/\$100** (\$.1900 M&O/\$.3060 Debt), an increase of slightly more than \$.12 over the current rate (The final rate will be determined after property tax rolls for 2009 are certified by the tax assessor).

	GENERAL FUND <u>Existing</u>	GENERAL FUND <u>New</u>	RE- CREATION <u>FUND</u>	COMP PLANNING <u>FUND</u>	TOTAL M&O TAX	TOTAL DEBT TAX	TOTAL TAX
<i>Tax Rate</i>	\$ 0.1223	\$ 0.0169	\$ 0.0274	\$ 0.0233	\$ 0.1900	\$ 0.3060	\$ 0.4960
<i>Tax</i>							
<i>Dollars</i>	\$ 1,602,885	\$ 221,431	\$ 359,355	\$ 305,794	\$ 2,489,465	\$ 3,972,000	\$ 6,461,465

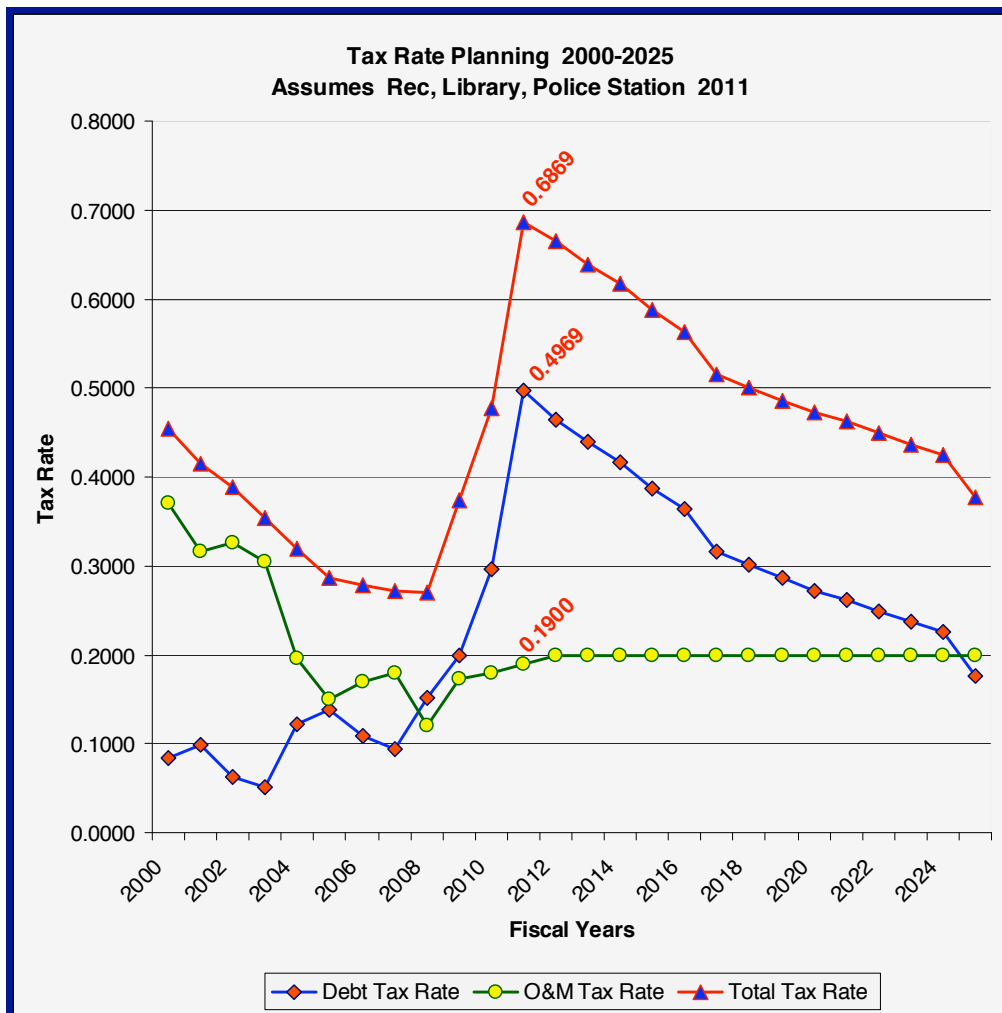
See 9/16/09 memorandum – *Final adopted Total Tax Rate is \$.4240/per \$100 valuation*  
*Adopted M&O Rate - \$.1830*  
*Adopted Debt Rate - \$.2410*



### Ad Valorem Tax Rate – FY10-11

As we focus on effective tax rate planning, it is important to also consider other issues anticipated for the near future that will have an impact on the property tax rate for our next fiscal year and beyond:

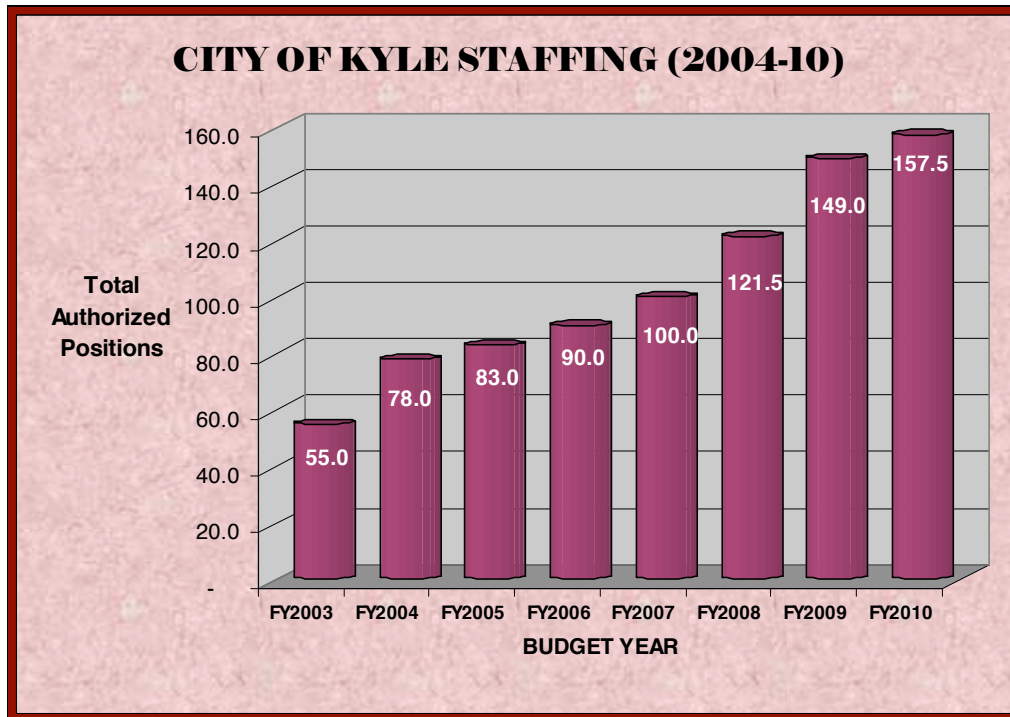
- The City has committed to a partnership with Hays County and TxDOT to provide funding support for the reconstruction of the Kyle Crossing/IH-35 highway overpass and other upgrades to the IH-35 corridor within the city. This project will result in the City adding **\$14M** in debt which will require annual re-payments beginning in FY10-11. Said payments will likely require an increase of *additional \$0.06* on the debt portion of the FY10-11 tax rate.
- The City Council has also given all indications that it is committed to funding the construction of a new city library next year, which will also require debt funding. Based on current plans, initial re-payment of such debt will likely begin in FY10-11 and is estimated to require an increase of *additional \$0.03* on the debt portion of the city's tax rate at that time.
- There are other major capital projects that the Council has also discussed for the near future that will also require debt funding – a Recreation Center and new Police Station. Together, these projects will create an additional significant impact on the tax rate, obviously necessitating an even greater increase in future years. Based on current plans and schedules, all of these projects together would require the City to incur nearly **\$25M** in *additional* debt.



With this tax rate for next year and considering all of the issues potentially affecting the debt portion of the tax rate and assuming moderate growth of the operations portion, it is the staff's opinion that funding of all such projects and programs within the next two years as planned could require the City of Kyle to have a total property tax rate of nearly **\$0.70** by the 2010-11 fiscal year.

## Staffing

The proposed *FY09-10 Annual Budget* includes funding for an all-time high of up to **one hundred fifty-seven and one-half (157.5) total authorized positions**: one hundred thirty three and one-half (133.5) full-time positions, five (5) part-time positions, and nineteen (19) seasonal positions.



The budget also includes (as it has in prior years) funding for various part-time seasonal personnel for the Summer Recreation Program (Camp Counselors that work approximately nine weeks during the summer). Although not considered “employees” as far as the staffing/budgeting process, they are individuals who are temporarily employed by the City. Typically, at the height of the summer when all city programs and services are fully operational, the City of Kyle can actually have as many as **one hundred seventy (170)** employees receiving payroll checks.

The *FY09-10 Annual Budget* as proposed includes staffing upgrades with the net addition of a total of **eight and one-half (8.5) new positions** (although three of those positions are included at only half-year funding) over currently approved staffing levels – providing opportunities for the overall enhancement of city services.

### ***General Fund (5.5 new positions)***

- One (1) *Senior Accountant* position - Finance
- One (1) *Patrol Officer* position and one (1) *Sergeant* position - Kyle Police Department
- One (1) *Equipment Operator* position - Parks & Recreation- Maintenance
- One-half (.5) *Foreman* position - Parks-Maintenance (conversion of existing PT position to FT)
- One (1) *Maintenance Technician* position – Public Works-Street CM (half-year funding)

### ***Enterprise Funds (3 new positions)***

- One (1) *Utility Clerk* position – Utility Billing
- Two (2) *Maintenance Technician* positions– Water-Operations (half-year funding)
- One (1) *Maintenance Technician* position –Wastewater-Operations (half-year funding)



As discussed previously, financial constraints greatly restricted our ability to develop a budget that would accommodate all departmental requests for additional funding – including requests for additional personnel. Collectively, Department Heads requested funding and additional authorization of new personnel totaling **twenty-three and one-half** full-time equivalent positions (**23.5 FTEs**) for next year. (as shown below). The *FY09-10 Annual Budget* as proposed, however, includes authorization for just **eight and one-half new positions** (and only half-year funding for three of those positions).

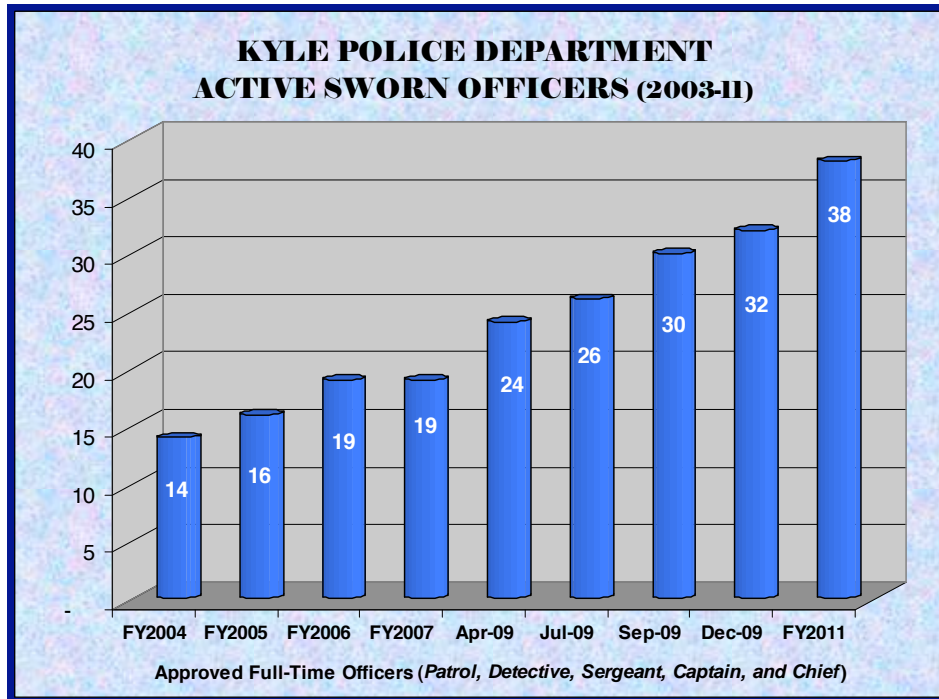
<u>DEPARTMENT</u>	<u>POSITION</u>	<u>REQUESTED</u>	<u>APPROVED</u>
Administration-Executive	Graphic Artist	1.0	0.0
Administration-Finance	Senior Accountant	1.0	1.0
Human Resources	AA/Generalist	1.0	0.0
Police - Operations	Patrol Sergeant	1.0	1.0
Police - Operations	Patrol Officer	4.0	1.0
Police - Operations	Neighborhood Svcs Officer	1.0	0.0
Police - Operations	Detective	1.0	0.0
Police - Communications	911 Dispatcher	1.0	0.0
Parks - Maintenance	Equipment Operator	1.0	1.0
Parks - Maintenance	Maintenance Technician	4.0	0.0
Parks - Maintenance	Maintenance Foreman	0.5	0.5
Facilities Maintenance	Maintenance Technician	1.0	0.0
Public Works-Street CM	Street Technician	2.0	1.0
Utility Billing	Utility Clerk	1.0	1.0
Water - Operating	Maintenance Technician	2.0	1.0
Wastewater - Operating	Maintenance Technician	1.0	1.0
		<b>23.5</b>	<b>8.5</b>
* 1/2-year funding			

### **Kyle Police Department**

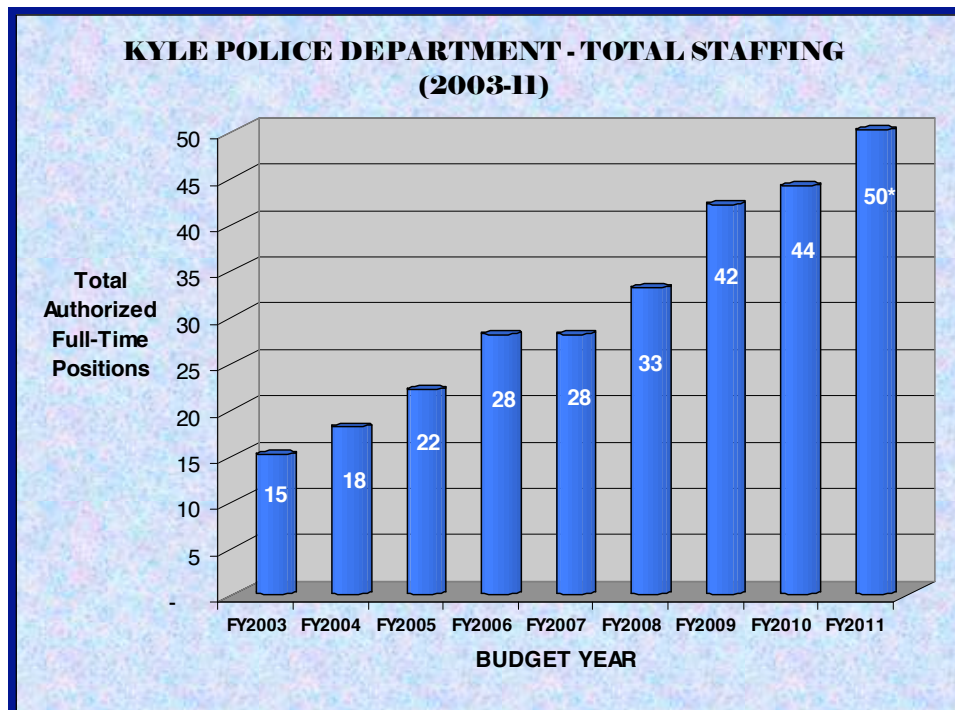
For FY09-10, the Chief of Police has proposed substantial increases in both personnel and overall appropriations for the Kyle Police Department to continue to address existing issues; and to position the KPD to respond to the anticipated demand for enhanced police services in the future –as desired by the Council. Accordingly, the KPD requested, along with other increased funding, four (4) new *Patrol Officer* positions, one (1) new *Neighborhood Services Officer* position, one (1) new *Sergeant* position, one (1) new *Detective* position, and one (1) new *911 Dispatcher* position - for a total of eight (8) new full-time positions in FY09-10.

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 *FY09-10 Budget* as proposed for the KPD includes funding for just **one (1)** new *Patrol Officer* and **one (1)** new *Sergeant* Position.

It is important to note that at present, KPD still has four (4) vacant *Patrol Officer* positions that should be filled within the next 60 days. Filling these vacancies, combined with the (6) new *Patrol Officer* positions and one (1) *Sergeant* position hired within the past year, and the new positions included in the *Budget* for FY09-10, KPD will have added a total of **thirteen (13) new sworn officers** “on the street” (from a total 19 to 32) – **a 40% increase in its force** - in a period of approximately 20 months. While not exactly what has been requested by the Chief, this is obviously a significant increase in personnel representing the largest manpower increase in the history of the Kyle Police Department.



With these additions, total staffing for the Kyle Police Department will reach all all-time high of **forty-four (44) full-time positions** in FY09-10. And, assuming desired growth next year where total staffing might reach as high as fifty FTEs, overall KPD staffing would more than triple over a seven-year period.



The proposed *FY09-10 Annual Budget* includes an overall funding increase of **18%** for the Kyle Police Department (**\$2.9M** up from \$2.5M projected through the end of the current year). Increased support for the KPD in FY09-10 also represents nearly half of all new positions proposed for the General Fund and \$445,501 or 84% 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 a balanced and financially responsible manner.

## Compensation

Cost of Living Adjustments for All full-Time Employees – Even though the USD Consumer Price Index has not increased in the past year, the proposed budget includes an across the board, Cost of Living Increase of **2%** for all full-time city 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.

## Council Priorities - Recap

In review, the staff was guided in the development of the proposed FY09-10 Annual Budget by the consensus policy input designating seven (7) city service areas or programs of highest priority as by the City Council through the *FY09-10 Budget Development Policy Initiative*.. These priorities are programmed to be specifically addressed as follows over the next twelve months:

- ✓ *Sewer/Wastewater Services* – Major capital improvement projects (\$3.6M)
- ✓ *Police Patrol* – Increased Police staffing and funding (18% increase in departmental budget)
- ✓ *Emergency Medical Services (EMS)* – 40% increase in funding
- ✓ *Library Services* – Site development to be completed; funding for new facility to be finalized
- ✓ *Building-Permitting*– Major IT system upgrade will enhance and simplify permitting process
- ✓ *Drainage – Flood Control* – New equipment & staffing will enhance maintenance/upgrades
- ✓ *Information Technology Services* – Major hardware/software acquisitions to be implemented

The 2009-10 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 FY2009-10 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 become a reality – and will 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.

*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. Mattis  
City Manager