BUDGET TRANSMITTAL

TO: Mayor and City Council Members

FROM: Lanny S. Lambert, City Manager

DATE: August 1, 2012

SUBJECT: Proposed Budget for Fiscal Year 2012-13

In compliance with the requirements of the City Charter, I am respectfully submitting for your review and consideration the City’s Proposed Budget for Fiscal Year 2012-13.

The Proposed Budget for the City of Kyle was developed with the primary goal of maintaining the current service levels for all necessary City services. The following goals and objectives are the guiding principles for the development of the Proposed Budget:

- City Council’s Budget Policy Directives
- Provisions for the Delivery of All Basic Municipal Services
- Minimize Financial Impact on Kyle Homeowners, Residents, and Businesses
- Priority for Public Safety and Quality of Life Services
- Investment in the City’s Workforce
- Prevent Employee Layoffs
- Improve Financial Integrity of Operating Funds and Fund Balances
- Compliance with the Fund Balance Requirements for the General Fund
- Development of Reasonable and Documented Revenue Estimates
- Full Disclosure, Transparency, and Public Involvement in the Budget Process

The Proposed Budget for Fiscal Year 2012-13 is a complete financial plan for all City Funds, programs, services, operations, and activities for the period covering October 1, 2012 through September 30, 2013. The Proposed Budget for Fiscal Year 2012-13 totals $41.6 million, provides funding for the continuation of all basic municipal services as in the current year, and 156.5 full time equivalent positions.

The City’s Proposed Budget for Fiscal Year 2012-13 will require raising more revenue from property tax, water and wastewater rates, and other fees and charges than in the current approved budget to cover required operating expenditures, increase in debt service payments, improve fund balances, and to continue transitioning toward strengthening the City’s financial position over the long-term.
As I have briefed you, the City's annual financial plans or budgets over the years have created and compounded a structural imbalance where expenditures exceed the actual revenue stream and consequently, fund balances were drawn down to unacceptable levels.

A combination of past budgetary decisions and actions (prior to FY 2011-12) have resulted in this imbalance. For example, the City had consistently reduced property tax rates while adding long-term debt, increased annual debt service payments, increased annual operating and capital expenditures for the municipal government, did not adequately adjust water and wastewater service rates to cover recurring let alone increasing annual operating requirements of the Utility, and at the same time, the City was drawing down fund balances rather than building reserves.

This structural imbalance occurred over a number of fiscal years and therefore, will require multiple years to correct. These corrective measures will require making unprecedented and difficult decisions by the City Council, City management, and our community.

Below is a graph showing property tax rate reductions from 1988 through the current fiscal year.
OVERALL PROPOSED BUDGET HIGHLIGHTS

Overall highlights of the Proposed Budget for Fiscal Year 2012-13 are as follows:

- Continued delivery of all basic municipal services for public safety, municipal court, parks and recreation, library services, public works, street maintenance, solid waste services, water and wastewater services, planning and zoning, code enforcement, billing and collections, and economic development.
- Continued operation and maintenance of all City facilities.
- Relocation of Police headquarters and operations to the former bank building.
- Funding for EMS and Kyle Fire Department is included.
- No new positions are proposed for any City Department.
- No funding for non-CIP capital outlay such as trucks, heavy equipment, machinery, etc.
- No funding for Envision Kyle projects is included.
- Continuation of planned savings from an administrative policy implemented in the current year to delay filling all vacant positions by a minimum of 90 days.
- Funding for monthly increase of $31.86 for medical and $1.72 for dental insurance per full time employee.
- Funding for 0.70 percent increase in the contribution rate for the retirement system.
- Funding for all existing full time and permanent part-time authorized positions.
- Funding for a 3.50 percent cost of living adjustment is included for all full time and permanent part-time authorized positions effective with the first payroll on or after October 1, 2012.

GENERAL FUND HIGHLIGHTS

General Fund Revenue

Revenue and transfers-in from all sources for the General Fund for Fiscal Year 2012-13 totals $13,146,287. This is an increase of $661,124 or 5.30 percent from the current approved budget. The Community Development Fund and the Recreation Fund were both consolidated with the City’s primary General Fund in the current year's approved budget.

Below is a graph showing projected sources of funds totaling $13,146,287 for the City’s General Fund for Fiscal Year 2012-13:
Property Tax Revenue

The certified property valuation for 2012 totaled $1,460,041,460 for all properties within the City of Kyle including $53,410,666 for new property additions. This total includes all properties within the Tax Increment Reinvestment Zone (TIRZ). The total net change in certified valuation for 2012 for properties within the City of Kyle including TIRZ is $32,251,644 or 2.26 percent increase as compared to the 2011 certified property valuation.

The proposed budget includes a proposal to increase ad valorem tax rate by $0.0399 to $0.5244 per $100 of assessed taxable valuation as follows:

<table>
<thead>
<tr>
<th>Maintenance &amp; Operations</th>
<th>FY 2011-12</th>
<th>FY 2012-13</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest &amp; Sinking Fund</td>
<td>$0.2484</td>
<td>$0.2544</td>
<td>$0.0060</td>
</tr>
<tr>
<td>Total Tax Rate Per $100/AV</td>
<td>$0.4845</td>
<td>$0.5244</td>
<td>$0.0399</td>
</tr>
</tbody>
</table>

The proposed ad valorem tax rate increase of $0.0399 is estimated to raise an additional $471,259 to fund Maintenance & Operations and $83,409 for the debt service obligations due in Fiscal Year 2012-13 payable from the General Fund.
Below is a comparative graph of current property tax rates of selected cities:

Sales Tax Revenue

Sales tax revenue for Fiscal Year 2012-13 is projected at $3,678,855, an increase of $372,455 or 11.26 percent over approved budget for the current fiscal year.

The City has been experiencing a moderate growth in sales tax revenue over the last 12 months as compared to other cities. We are conservatively optimistic that as additional businesses locate their operations in our community, the moderate growth trend will continue into next year.

For Fiscal Year 2012-13, we assumed a 6.50 percent increase in total sales tax revenue collections over the actual collections in the current year.

Below is a graph showing a 4-year trend of sales tax receipts.
Solid Waste Service Revenue

Solid Waste Service revenue for Fiscal Year 2012-13 is projected at $2,034,683, an increase of $127,333 or 6.67 percent over approved budget for the current fiscal year.

Other Revenue

Other revenue includes franchise fees, fines, development fees and permits, charges for solid waste services, and interest income. Other revenue is projected for Fiscal Year 2012-13 to total $2,295,708, a decrease of $96,805 or 4.05 percent compared to the current approved budget.

The Proposed Budget for Fiscal Year 2012-13 includes the following projections for the major categories in Other Revenue:

- Franchise Fees: $829,574 $25,774 or 3.21% Increase
- Court Fines: $540,000 $11,345 or 2.06% Decrease
- Library Revenue: $45,500 $4,750 or 9.45% Decrease
- Development Fees: $525,334 $3,644 or 0.69% Decrease
- Recreation Fees & Charges: $276,550 $1,750 or 0.64% Increase
- Licenses: $1,950 $110 or 5.98% Increase
- Other Taxes: $11,000 $2,000 or 22.22% Increase
- Interest and Other: $65,800 $106,700 or 61.86% Decrease

General Fund Transfer

The General Fund receives an annual transfer of funds from the Water and Wastewater Utility Fund. This is a generally accepted and common business practice followed by most local governments that own, operate, and maintain a water, wastewater, natural gas, or electric utility system. The transfers are considered payments in lieu of property
tax or franchise fees commonly paid to municipal governments by a similar type of an investor-owned utilities.

The Proposed Budget includes $1,335,000 for transfer to the General Fund. This is a reduction of $300,000 or 18.35 percent from the $1,635,300 included in the current year's approved budget. If approved by City Council, we will have reduced the General Fund transfer by approximately $400,000 or 23.09 percent cumulatively in only two years since FY 2011-12.

The proposed amount for the General Fund transfer is at 12.39 percent of gross revenue of the Water and Wastewater utility. As I stated in my budget goals for the current fiscal year, it is our plan to reduce the amount of the annual transfer to the General Fund to eventually equal 10 percent of gross revenue of the Utility. Our goal was to transition toward the 10 percent transfer rate by implementing the reduction plan over a 5 to 7 year period but given the City Council's directives, we plan to reach the 10 percent goal much earlier.

**General Fund Requirements**

The Fiscal Year 2012-13 Proposed Budget for the General Fund totals $13,146,287, an increase of $661,124 or 5.30 percent from the current approved budget.

**Uses of Funds - $13,146,287**

- **Public Safety**: $4,512,482 (35%)
- **Parks & Rec**: $1,863,586 (14%)
- **Community Dev**: $1,673,879 (13%)
- **Solid Waste**: $1,737,879 (13%)
- **Street Maint**: $555,999 (4%)
- **Public Library**: $407,518 (3%)
- **Other**: $377,673 (3%)
- **Administration**: $1,362,871 (10%)
- **Financial Services**: $880,066 (7%)
- **Incentives**: $505,000 (4%)
- **Public Utilities**: $943,212 (7%)

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The proposed funding provides for the continued delivery of all basic municipal services for public safety, municipal court, parks and recreation, library services, public works, street maintenance, solid waste services, water and wastewater services, planning and zoning, code enforcement, billing and collections, and economic development.

Significant changes in the Proposed Budget for Fiscal Year 2012-13 for the General Fund are as follows:

- $87,581 for step increases for police officers is included.
- $505,000 included for City’s obligations for 380 agreements. This is an increase of $48,500 from the $456,500 approved in the current budget.
- $300,000 or 18.35 percent reduction in the amount of transfer to the General Fund. The proposed budget includes $1,335,000 for the General Fund Transfer as compared to the current approved budget amount of $1,635,000.
- $318,064 for Emergency Medical Services is included. This is an increase of $44,164 or 16.12 percent from $273,900 approved in the current budget.
- $709,465 for TIRZ debt service is included in the debt levy calculations. This is an increase of $104,492 or 17.29 percent from $604,973 approved in the current budget.
- $28,594 for the Kyle Fire Department. This includes $5,000 in cash contribution and another $23,594 for liability insurance coverage for vehicles and buildings.
- $156,826 for fuel costs, an increase of $26,696 or 20.50 percent compared to as $130,250 approved in the current budget.
- $191,604 for overtime compensation, an increase of $39,664 or 26.08 percent as compared to $152,100 approved in the current budget.
- $144,000 for legal services, an increase of $12,100 or 9.17 percent as compared to $131,900 approved in the current budget.
- $101,355 for training, an increase of $18,744 or 22.69 percent as compared to $82,611 approved in the current budget.
- $161,061 for cost of living adjustment is included in the proposed budget.
- $477,675 for retirement system (TMRS), an increase of $28,776 or 6.41 percent as compared to $448,899 approved in the current budget.
- $589,751 for health insurance or an increase of $46,207 or 8.5 percent as compared to $543,544 approved in the current budget.

General Fund Reserves

The City Charter requires that a reserve be maintained at least equal to 25 percent of annual operating budget. In addition, the recently adopted Debt Management Policy
requires that a minimum of 90 days equivalent of expenditures of the General Fund be set aside (reserved) in a separate Emergency Reserve Fund.

The Proposed Budget for Fiscal Year 2012-13 improves the ending Fund Balance for the General Fund projected at $3,383,058 or 25.95 percent of proposed operating expenditures. The proposed ending Fund Balance for the General Fund also ensures compliance with both requirements of the City Charter.

Emergency Reserve Fund

The City's Debt Management Ordinance No. 648 requires the establishment of a separate Emergency Reserve Fund that shall be maintained at a minimum of ninety (90) days equivalent of the prior year's operating expenditures for the General Fund.

This Ordinance further requires that "to the extent the City does not meet this stated policy minimum, the Council shall separately approve a plan at the time it approves its next required budget to achieve the required reserve amount within the shortest possible number of years (the ramp-up period). In no event will this ramp-up period exceed ten (10) years."

The Proposed Budget for Fiscal Year 2012-13 includes a transfer in the amount of $350,000 from the General Fund balance to the newly established Emergency Reserve Fund. This is the first year after the Debt Management Ordinance was adopted for the transfer to the Emergency Reserve Fund. This transfer reduces the Fund Balance in the City's General Fund and correspondingly, increases the Fund Balance in the Emergency Reserve Fund.

**UTILITY FUND HIGHLIGHTS**

Water and Wastewater Utility

The Proposed Budget includes implementation of the second year of a 3-year rate increase plan for water and wastewater services. Water rates are proposed to increase by 20 percent and wastewater rates by 20 percent on a system-wide basis for all utility customers both inside and outside-City limits.

The Fiscal Year 2012-13 Proposed Budget for the Utility Fund totals $10,772,161 for service revenue which is an increase of $1,705,511 or 18.81 percent from the current approved budget. The projected service revenue is inclusive of the 20 percent rate increase for both water and wastewater service rates.

Below is a graph showing projected sources of funds totaling $11,158,828 for the City's Water and Wastewater Utility Fund for Fiscal Year 2012-13:
The planned expenditures for operations and maintenance and transfers-out totals $11,302,205 for Fiscal Year 2012-13. Total proposed expenditures increased by $49,644 or 0.44 percent from the current approved budget.

It is important to note that total requirements for operations and maintenance for the Water and Wastewater Utility for Fiscal Year 2012-13 only are projected to exceed total estimated service revenue by $530,043 even with the proposed rate increase for utility systems.

The projected revenue and expenses, inclusive of 20 percent rate increase, for the combined Water and wastewater Utility Systems are as follows:

- Revenue: $10,772,161
- Expenses: $11,302,204
- Variance: $(530,043)

The proposed funding provides for the treatment, storage, and distribution of safe potable drinking water by the Water Utility including water supply for fire protection. Similarly, the proposed budget provides funding for the collection and treatment of wastewater by the Wastewater Utility while meeting all regulatory standards and requirements.
Below is a graph showing projected uses of funds totaling $11,302,204 for the City's Water and Wastewater Utility Fund for Fiscal Year 2012-13:

![Pie chart showing uses of funds]

### Proposed Water and Wastewater Rates

The annual amount of revenue generated from water and wastewater services based on current rates is inadequate to cover all expenditures required to maintain and operate the utility systems and to pay for the annual debt service obligations (principal and interest).

The Proposed Budget for Fiscal Year 2012-13 includes increasing water rates by 20 percent and wastewater rates by 20 percent on a system-wide basis. The proposed rate increase will be applied to minimum monthly charge and volumetric rates for all inside and outside City utility customers. The proposed increase to water and wastewater rates will be effective with the first monthly bills issued on or after October 1, 2012.

A 5-year analysis completed in July 2012, identifies the current level of funding gap between revenue and expenditures based on existing rates at $1.8 million for the Water Utility and $0.45 million for the Wastewater Utility.

It should be noted that the funding gap analysis is based on known and measurable changes in revenue requirements anticipated to be incurred only through Fiscal Year 2012-13. This analysis does not include identification of any funding gap that may arise
subsequent to Fiscal Year 2012-13 as a result of increases in annual operating and or debt service requirements. It is recommended that a funding gap analysis be completed each fiscal year and utility rates be set or adjusted accordingly. The 3-year system-wide water and wastewater rate increase plan proposed last year to improve the financial integrity of the Water and Wastewater Utility systems for City Council's consideration is as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water</th>
<th>Wastewater</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12:</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>2012-13:</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2013-14:</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

It is important to note that the 3-year rate plan for water and wastewater rate adjustments does not include any future cost increases. The 3-year rate plan is only intended as a catch-up provision for current system costs and resulting funding gap.

A comparison of monthly average residential bill for water and wastewater services is provided below:
Condition Assessment of Water Reservoirs

The Public Works Department recently completed a condition assessment of all its reservoirs for storing potable drinking water, both elevated and ground storage tanks. A full report is scheduled to be provided to the City Council along with a plan for corrective actions.

The Proposed Budget for Fiscal Year 2012-13 does not include any funding in the Capital Improvements Program (CIP) for the major repairs to the City’s potable drinking water storage reservoirs that will be necessary in the near future.

Significant Changes Affecting Water and Wastewater Rates

Significant changes in the Proposed Budget for Fiscal Year 2012-13 for the Utility Fund are as follows:

- $341,382 or 3.94 percent increase in total operations and maintenance expenses for the Utility which includes approximately $160,000 increase in water supply costs.
- $300,000 or 18.35 percent reduction in the amount of transfer to the General Fund. The proposed budget includes $1,335,000 for the General Fund Transfer as compared to the current approved budget amount of $1,635,000.
- $79,595 for fuel costs, an increase of $20,595 or 34.91 percent compared to as $59,000 approved in the current budget.
- $71,400 for overtime compensation, an increase of $19,900 or 38.64 percent as compared to $51,500 approved in the current budget.
- $60,003 for cost of living adjustment is included in the proposed budget.
- $140,280 for retirement system (TMRS), an increase of $15,934 or 12.81 percent as compared to $124,346 approved in the current budget.
- $171,053 for health insurance or an increase of $14,916 or 9.55 percent as compared to $156,137 approved in the current budget.
- Funding is not included for the next wastewater treatment plant capacity expansion.
CAPITAL IMPROVEMENTS PROGRAM (CIP)

The Proposed Budget for Fiscal Year 2012-13 includes funding for only selected capital projects and a detailed listing is provided in the Proposed Budget document. The following capital projects totaling $9,500,000 are funded in the Proposed Budget:

1. Southside Wastewater Collection System: $5,000,000
2. RM 150 Realignment TxDOT Project: $4,500,000
   Total: $9,500,000

As discussed in the Water and Wastewater Utility section of this budget transmittal, the Public Works Department recently completed a condition assessment of all its reservoirs for storing potable drinking water, both elevated and ground storage tanks. A full report is scheduled to be provided to the City Council along with a plan for corrective actions. The Proposed Budget for Fiscal Year 2012-13 does not include any funding in the Capital Improvements Program (CIP) for the major repairs that will be necessary in the near future.

CAPITAL OUTLAY (NON CIP)

The Proposed Budget for Fiscal Year 2012-13 does not include any new non-CIP capital outlay items for City departments such as for replacement or new dump trucks, police vehicles and motorcycles, pick up trucks, heavy equipment, machinery, etc.

REAPPROPRIATION FOR SELECTED ENCUMBRANCES

Requests to roll forward appropriation for the following selected encumbrances pertaining to outstanding contractual commitments of the City are included in the Proposed Budget. A complete listing of contracts with a description of the associated projects is provided in the Proposed Budget document.

1. General Fund (110): $ 8,987
2. 2007 CO Fund (182): 3,000
3. 2008 CO Fund (184): 45,770
4. 2009 Tax Notes (185): 99,524
5. Utility Fund (310): 6,480
6. Wastewater Impact Fee Fund (342): 76,780
7. Grant Fund (410): 34,224
8. Water Reuse fund (411): 15,504
   Total: $ 290,269
DEBT SERVICE REQUIREMENTS

As of October 1, 2012, beginning of Fiscal Year 2012-13, approximately $68.21 million in total debt (principal only) will be outstanding. Debt service payments due during Fiscal Year 2012-13 on outstanding debt of the City totals $5,259,406 (principal and interest), an increase of $190,146 or 3.75 percent from the current year.

As per City Council’s authorization, the Proposed Budget for Fiscal Year 2012-13 includes application of $425,000 from the 2008 Contractual Obligation funds toward debt service payments next year. This will be the third of four planned annual debt service offsets totaling $1.70 million or $425,000 per year as authorized by the City Council.

The graph below shows the City’s annual aggregate debt service payments for all outstanding debt by fiscal year. The aggregate annual payments include principal and interest due each February and August. Detailed debt service schedules for individual bond series are provided in the Fiscal Year 2012-13 Proposed Budget document.
Total amount of debt outstanding as of October 1, 2012 and debt service payments (principal and interest) due in Fiscal Year 2012-13 for the respective City Funds are as follows:

<table>
<thead>
<tr>
<th>Total Debt</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund:</td>
<td>$36,073,072</td>
<td>$15,796,754</td>
<td>$51,869,826</td>
</tr>
<tr>
<td>Utility Fund:</td>
<td>5,960,206</td>
<td>2,580,495</td>
<td>8,540,701</td>
</tr>
<tr>
<td>TIRZ Fund:</td>
<td>26,036,913</td>
<td>9,245,406</td>
<td>35,282,319</td>
</tr>
<tr>
<td>Hotel Occupancy Tax Fund:</td>
<td>137,760</td>
<td>9,075</td>
<td>146,835</td>
</tr>
<tr>
<td>Total Debt Outstanding:</td>
<td>$68,207,951</td>
<td>$27,631,730</td>
<td>$95,839,681</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2013 Debt Service Payments</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund:</td>
<td>$1,809,091</td>
<td>$1,444,327</td>
<td>$3,253,418</td>
</tr>
<tr>
<td>Utility Fund:</td>
<td>688,346</td>
<td>243,709</td>
<td>932,055</td>
</tr>
<tr>
<td>TIRZ Fund:</td>
<td>514,763</td>
<td>522,588</td>
<td>1,037,351</td>
</tr>
<tr>
<td>Hotel Occupancy Tax Fund:</td>
<td>32,800</td>
<td>3,782</td>
<td>36,582</td>
</tr>
<tr>
<td>Total Debt Service:</td>
<td>$3,045,000</td>
<td>$2,214,406</td>
<td>$5,259,406</td>
</tr>
</tbody>
</table>

PROPOSED BUDGET FOR ALL OTHER CITY FUNDS

The Proposed Budget for Fiscal Year 2012-13 includes requests for appropriations for revenue, expenditures, transfers, and estimated ending fund balances in the special revenue and other restricted City Funds listed below as Other City Funds.

Proposed expenditures for Other City Funds total $17,112,422 for Fiscal Year 2012-13. Adoption of the Proposed Budget for Fiscal Year 2012-13 by the City Council will include appropriation authorizations for revenue and expenditures accounted for in all Other City Funds.

A detailed Fund Summary showing beginning fund balance, revenue and other sources of funds, expenditures and other uses of funds, and estimated ending fund balance is provided for the following Other City Funds in the Proposed Fiscal Year 2012-13 Budget document:

1. Emergency Reserve Fund
2. Transportation Fund
3. Police Forfeiture Fund
4. Police Special Revenue Fund
5. Court Special Revenue Fund
6. Hotel Occupancy Fund
7. Economic Development Fund
8. Library Building Fund
9. Debt Service Fund
10. TIRZ Debt Service Fund
11. Park Development Fund
12. 2007 Contractual Obligation Fund
13. 2008 Contractual Obligation Fund
14. 2009 Tax Notes Fund
15. 2010 Contractual Obligations Fund
16. Water CIP Fund
17. Water Impact Fee Fund
18. Wastewater CIP Fund
19. Wastewater Impact Fee Fund
20. Grant Fund
21. Water Reuse Feasibility Fund
22. Train Depot Renovation Donation Fund
23. Public Educational & Government Fund
24. Structural Demolition Fund
25. OPEB Liability Fund

FUNDING FOR RM 150 REALIGNMENT PROJECT

Based on the Funding Plan reviewed and authorized by the City Council on February 21, 2012, the Proposed FY 2012-13 Budget includes $4,500,000 for the RM 150 Realignment Project. The Council authorized Funding Plan includes reprogramming bond and other developer funds to provide for the City’s share of the estimated cost for the RM 150 Realignment Project.

- $3,000,000 from available funds in the 2008 Contractual Obligation Bond Fund.
- $268,268 from the fund balance in RM 150 Lot Fee Account (Waterleaf Falls, Woodland Park, Post Oak, and Four Seasons)
- $656,471 from the 2008 Contractual Obligation Bond Fund. The funding is made available by reclassifying IT equipment costs to the 2009 Tax Notes Fund that was originally charged to the 2008 Contractual Obligations Bond Fund.
- $575,261 from the 2008 Contractual Obligation Bond Fund. The funding is made available by reclassifying HCPUA Operations & Maintenance costs to the Water and Wastewater Utility Fund that was originally charged to the 2008 Contractual Obligations Bond Fund.

FUNDING FOR DACY LANE PROJECT

The City's allocated share of the Dacy Lane roadway reconstruction project estimated to be approximately $1.4 million is not included in the Proposed Budget for FY 2012-13. The City had discussed with Hays County officials for a 5 to 7-year payment plan to
reimburse the County. A formal response as to the decision from the Hays County Commissioners Court has not been received by the City.

**FUNDING FOR ENVISION KYLE RECOMMENDED PROJECTS**

Funding is not included in the Proposed Budget for Fiscal Year 2012-12 for all operating and capital projects as identified and recommended by the citizens of Kyle in their second and final session held on May 19, 2012. Accordingly, the debt levy for the 2012 property tax rate does not include any debt service requirements for any of the Envision Kyle related bond funded capital projects.

It is anticipated that if the bond propositions are successful, an appropriate amount of debt levy will be included to cover the annual amount of debt service payments on the new bonds in the property tax rate (I&S portion) for FY 2013-14.

**BUDGET SUMMARY**

In closing, I want to emphasize that the Proposed Budget for Fiscal Year 2012-13 provides adequate funding to maintain current service levels for all basic municipal services in our community.

However, the City's Proposed Budget for Fiscal year 2012-13 does not include the following program initiatives and services that have been identified as critical needs by myself and my senior management team. This list of critical service items will have to be addressed in future years as economic conditions improve and our community's taxable base increases.

1. Street maintenance; slurry seal coating should be completed for most roads.
2. A repair and maintenance program for the City's potable drinking water storage reservoirs and other utility infrastructure.
3. Reconstruction and realignment of major roadways.
4. Replacement and or addition of police vehicles, maintenance vehicles, and heavy equipment for maintenance.
5. Wastewater treatment plant acquisition and capacity expansion.
7. Police department's long range space needs as well as for the overall City government.
8. Technology replacement and upgrades throughout City government.
9. Emergency operations and management.

10. Security operations and management for City facilities and infrastructure.

11. Market based adjustments for various job classifications.

12. Traffic signal installations at major roadway intersections.

I want to thank the Mayor and City Council Members and all City employees for their continued commitment and service to our community. I also want to express my appreciation to Andy Alejandro, Staff Accountant, in our Financial Services Department for all his hard work and extended work hours dedicated in the compilation of the budget document.

I am looking forward to the City Council Budget Workshops and Public Hearings scheduled throughout the month of August and early September 2012 to review, discuss, and for the adoption of the City’s Budget for Fiscal Year 2012-13.

Respectfully submitted,

Lanny S. Lambert
City Manager

Attachments

cc: James R. Earp, CPM, Assistant City Manager
    Jerry Hendrix, Director of Communications & Community Development
    Perwez A. Moheet, CPA, Director of Finance
    Amelia Sanchez, City Clerk
    All Department Directors