



BUDGET TRANSMITTAL

TO: Mayor and City Council Members

FROM: Lanny S. Lambert, City Manager

DATE: July 31, 2014

SUBJECT: Proposed Budget for Fiscal Year 2014-15

I am respectfully submitting for your review and consideration the City's Proposed Budget for Fiscal Year 2014-15 in compliance with the requirements of the City Charter.

The City's Proposed Budget for Fiscal Year 2014-15 is developed based on the discussions, goals, and direction provided by the City Council during its retreat on July 12, 2014. The following goals and objectives are the guiding principles in the development of the City's Proposed Budget for Fiscal Year 2014-15:

1. Enhanced programs and service delivery to Kyle homeowners, residents, and businesses
2. No increase in property tax rate
3. No increase in water and wastewater service rates
4. No increase in other fees and charges for City services
5. Priority based investments for public safety and quality of life services including police, water and wastewater systems, streets, parks, library, economic development, and infrastructure maintenance
6. Investment in the City's workforce
7. Drawdown of General Fund balance to cover cost of enhanced programs and services

The Proposed Budget for Fiscal Year 2014-15 is a complete financial plan for all City Funds, programs, services, operations, and activities for the period covering October 1, 2014 through September 30, 2015.

The Proposed Budget for Fiscal Year 2014-15 totals \$53.8 million for all City funds, provides funding for new programs and services to enhance public safety and quality of life services, adds 13.5 new positions for a total of 178 full-time equivalent positions, and no increases in the City's property tax rates, water/wastewater service rates, and other fees and charges for various City services.

OVERALL PROPOSED BUDGET HIGHLIGHTS

Overall highlights of the Proposed Budget for Fiscal Year 2014-15 are as follows:

- Police
 - ✓ 3 new Police Officer positions and all support costs added for \$232,600
 - ✓ 2 new Administrative Support positions added for \$104,700
 - ✓ 1 Animal Control Officer position converted from part-time to full-time for \$116,900
 - ✓ 5 new police pursuit vehicles added for \$422,500
 - ✓ Funding provided for Meet and Confer Agreement provisions with the Kyle Police Association.
- Parks & Recreation
 - ✓ Waterleaf Park Improvements for \$150,000
 - ✓ Steeplechase Park Improvements for \$150,000
 - ✓ Gregg-Clarke Park Improvements for \$100,000
 - ✓ Lake Kyle Park Improvements for \$50,000
 - ✓ City Square Park Improvements for \$50,000
- Public Works
 - ✓ 3-person Street Maintenance Crew added for \$141,571
 - ✓ \$400,000 increase for the slurry-seal street maintenance program for a total budget of \$500,000
 - ✓ \$300,000 added for Old Town Kyle water and wastewater improvements
 - ✓ \$200,000 increase for the water tank rehabilitation program for a total budget of \$650,000
 - ✓ \$50,000 added for City Beautification Program
- Library
 - ✓ 2 new Library Assistant positions added for \$86,100
 - ✓ 2 Library Assistant positions converted from part-time to full-time positions for \$52,700
 - ✓ \$80,000 increase for library collections and computers for a total budget of \$108,240
- Economic Development
 - ✓ \$65,000 added for the update of the City's Strategic Plan for Economic Development Program
 - ✓ \$50,000 added for the City's Downtown Revitalization Grants Program
- Municipal Court
 - ✓ \$10,000 added for Wi-Fi improvements for court proceedings
 - ✓ \$48,500 added for computer hardware and software upgrades

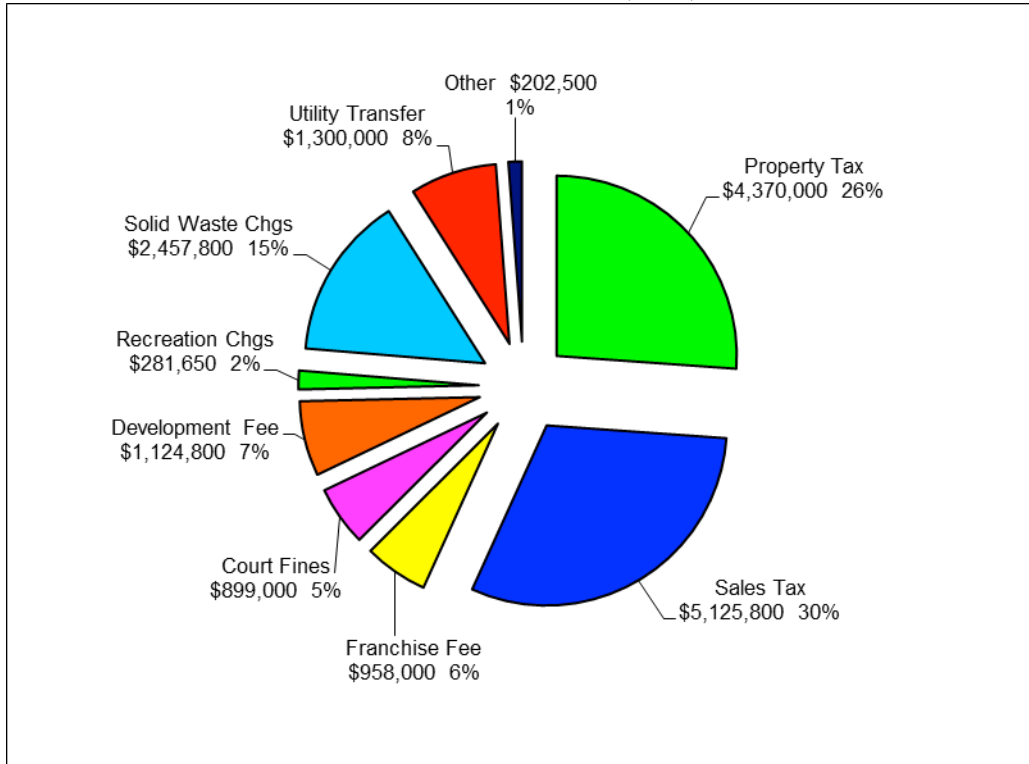
- Engineering
 - ✓ \$5,410,000 for engineering design plans for the construction of all five roadways; Bunton Creek Road, Lehman Road, North Burleson Street, Marketplace Avenue, and Goforth Road
 - ✓ \$5,100,000 for Southside wastewater improvements
 - ✓ \$650,000 for water tank rehabilitations
 - ✓ \$300,000 for water and wastewater models
 - ✓ \$300,000 for Old Town Kyle water and wastewater improvements
 - ✓ \$1,300,000 for Elliott Branch wastewater improvements
 - ✓ \$1,300,000 for Bunton Creek wastewater improvements
 - ✓ \$20,000 for completing sidewalk design for RM 150 west
 - ✓ \$300,000 for Yarrington water line upgrade
- Planning & Zoning
 - ✓ \$15,000 added for IT staff coverage to record and broadcast all Planning & Zoning Commission meetings
- Fire & EMS
 - ✓ \$32,000 included for Fire Department
 - ✓ \$251,000 included for EMS (contract expires in September 2014)

GENERAL FUND HIGHLIGHTS

General Fund Revenue

Revenue and transfers-in from all sources for the General Fund for Fiscal Year 2014-15 totals \$16,719,550. This is an increase of \$2,157,976 or 14.8 percent from the current approved budget. Below is a chart showing projected sources of funds totaling \$16,719,550 for the City's General Fund for Fiscal Year 2014-15:

Sources of Funds: \$16,719,550



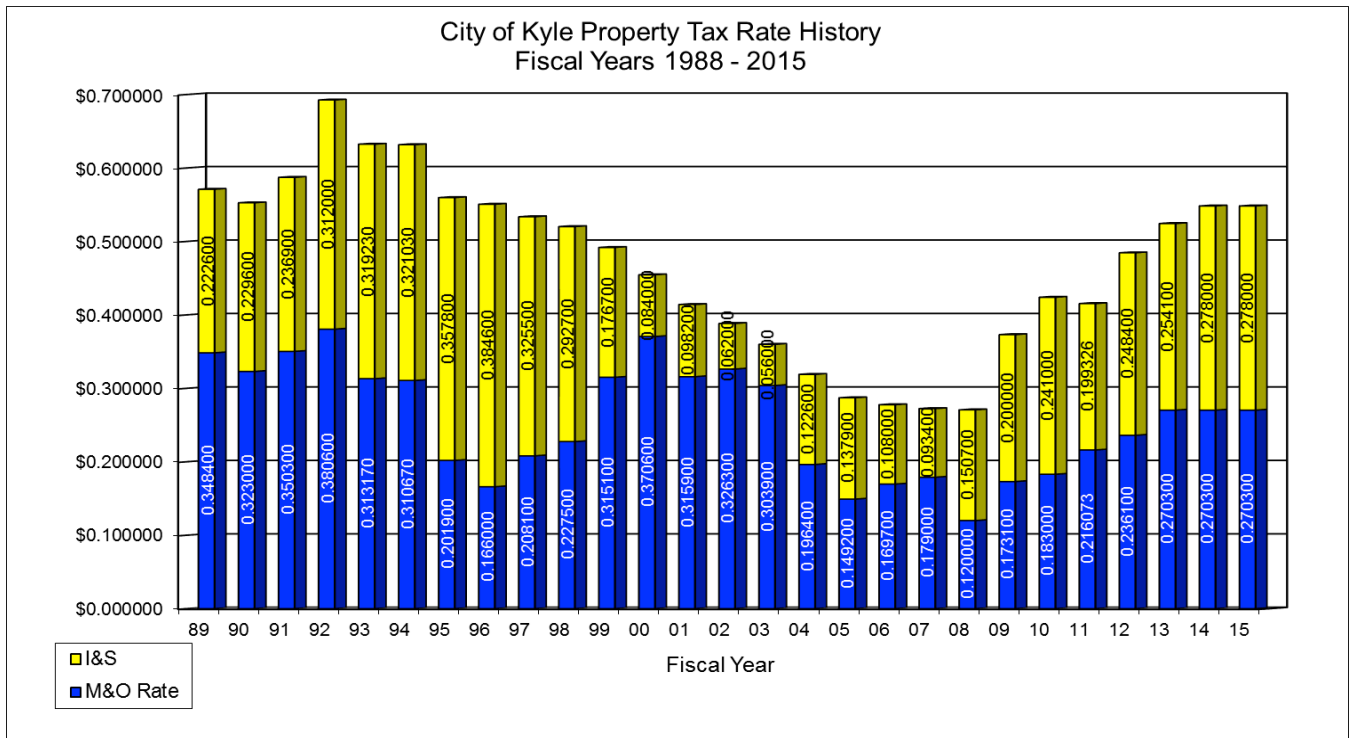
Property Tax Rate

No change is being proposed to the total property tax rate of \$0.5483 per \$100 of assessed taxable valuation. The Proposed Budget for Fiscal Year 2014-15 maintains the City's property tax rate for 2014 at the same level as 2013 of \$0.5483 per \$100 of assessed taxable valuation.

Based on the certified property tax roll, the Hays County Tax Collector-Assessor has calculated the 2014 Effective and Rollback Property Tax Rates (per \$100 of assessed taxable valuation) for the City of Kyle as follows:

- Effective Tax Rate: \$0.5230
- Rollback Tax Rate: \$0.5667

Below is a graph showing property tax rate history and tax rate reductions from 1988 through the current fiscal year.



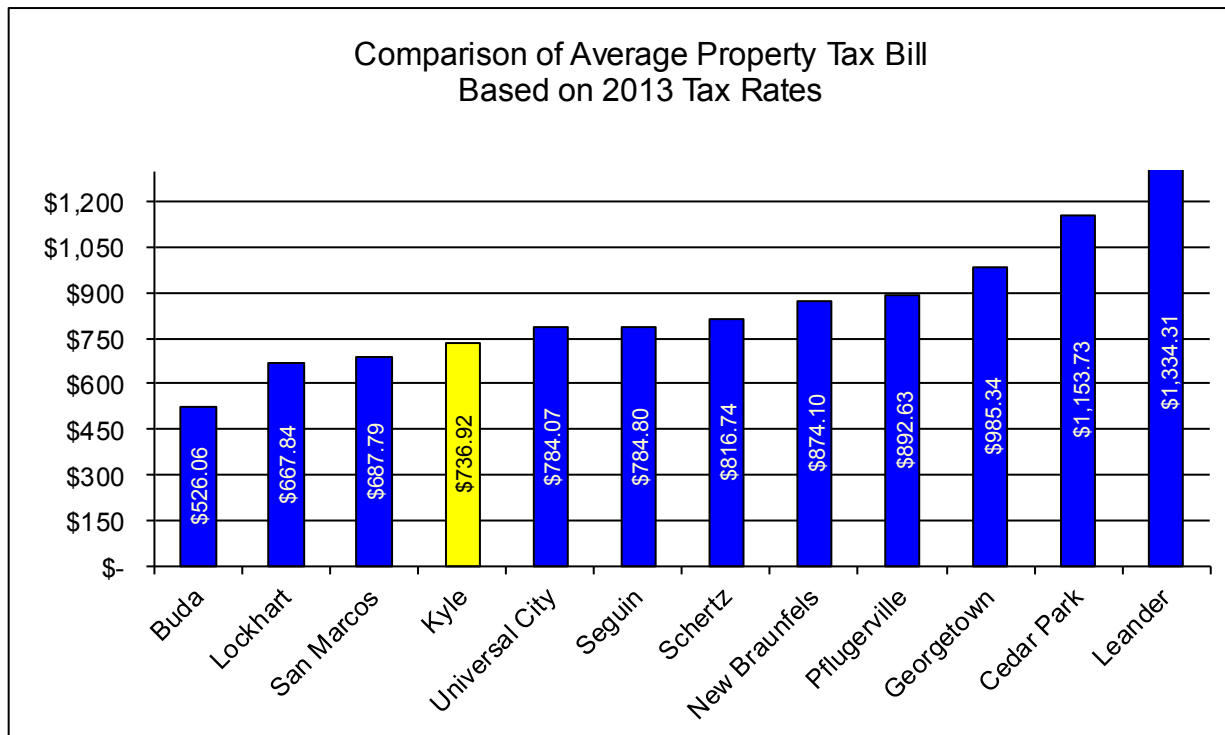
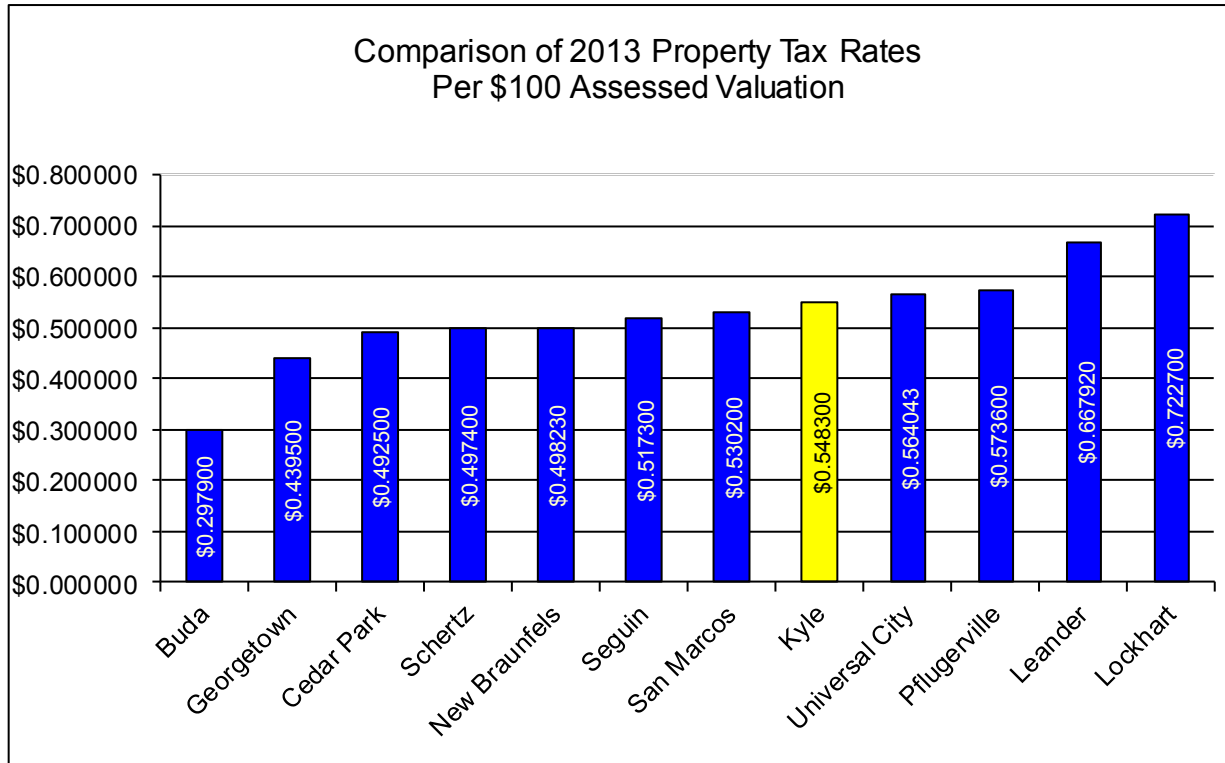
Property Tax Revenue

The certified property valuation for 2014 totaled \$1,675,128,104 for all properties within the City of Kyle including \$58,936,188 from new improvements and \$3,315,176 from newly annexed properties. The total net change in 2014 certified valuation for properties within the City of Kyle including the Tax Increment Reinvestment Zone (TIRZ) is \$141,061,896 or 9.2 percent increase as compared to the 2013 certified property valuation.

The Maintenance & Operations (M&O) component of property tax revenue is projected at \$4,320,000 for Fiscal Year 2014-15. This is \$375,100 or 9.5 percent increase from the current approved budget. This component of the tax rate is to remain unchanged at \$0.2703 per \$100 of assessed taxable valuation.

The Interest & Sinking (I&S) component of the property tax revenue is projected at \$4,443,900 for Fiscal Year 2014-15. This is \$386,600 or 9.5 percent increase from the current approved budget. This component of the tax rate is to remain unchanged at \$0.2780 per \$100 of assessed taxable valuation.

Below are two comparative graphs of current property tax rates and average property tax bills of selected cities:

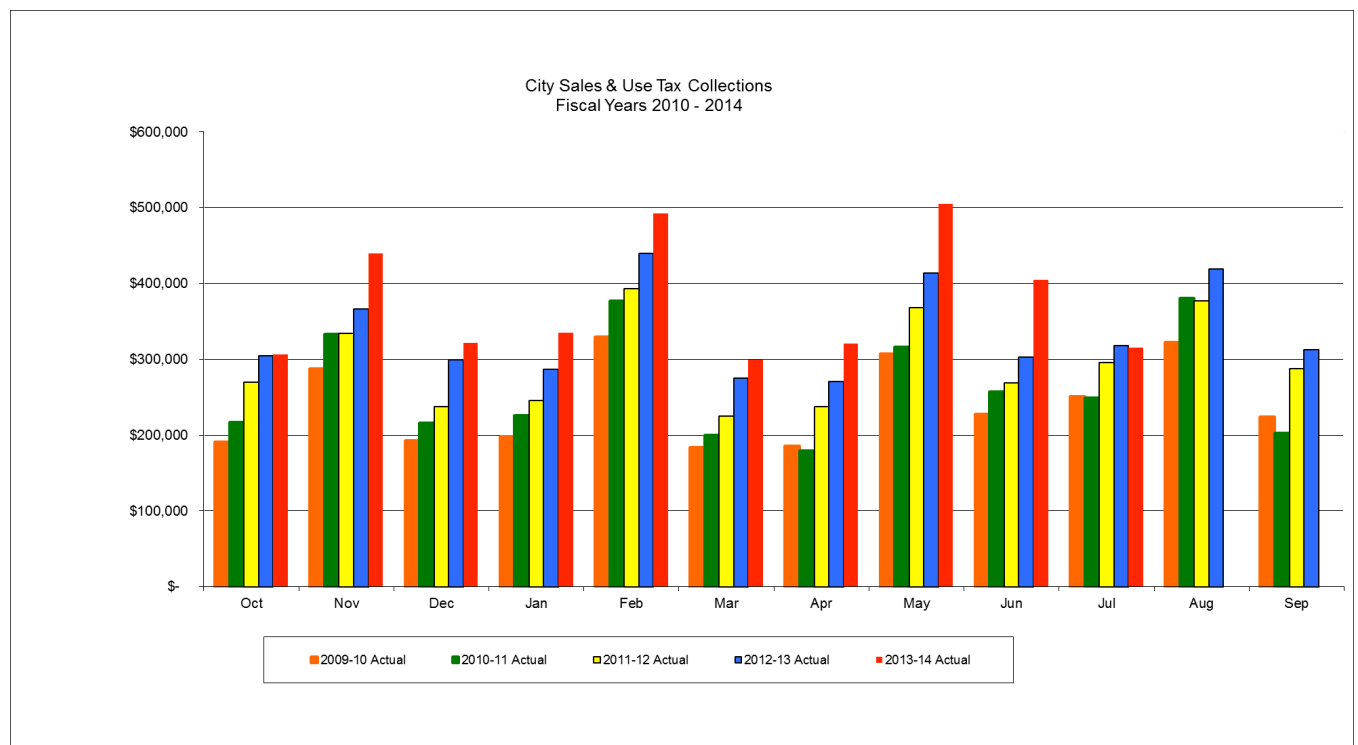


Sales Tax Revenue

Sales tax revenue for Fiscal Year 2014-15 is projected at \$5,125,800, an increase of \$810,700 or 18.8 percent from the 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 confidently optimistic that as additional businesses locate their operations in our community, the moderate growth trend will continue into next year.

For Fiscal Year 2014-15, we have assumed an 8.5 percent increase in total sales tax revenue collections over the actual collections in the current fiscal year. A graph showing the City's recent 5-year trend of sales tax receipts is presented on the next page:



Solid Waste Service Revenue

For Fiscal Year 2014-15, solid waste service revenue (a pass-thru revenue) is projected at \$2,457,800, an increase of \$183,300 or 8.1 percent over approved budget for the current fiscal year. Based on the terms of the City's contract with Texas Disposal Systems, rates for solid waste services is to increase by 4.83 percent effective April 1, 2015.

Development Revenue

This includes development review fees and inspection permit fees. For Fiscal Year 2014-15 development revenue is projected at \$1,124,800, an increase of \$502,600 or 81.8 percent over approved budget for the current fiscal year.

Recreation Program Revenue

Recreation program revenue for Fiscal Year 2014-15 is projected at \$281,650, an increase of \$3,950 or 1.4 percent over approved budget for the current fiscal year.

Other Revenue

This revenue source includes franchise fees, court fines, library fees, license fees, other taxes and interest income. Other revenue is projected for Fiscal Year 2014-15 to total \$2,041,250, an increase of \$267,800 or 15.1 percent compared to the current approved budget.

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 investor-owned utility.

The amount of transfer from the Water and Wastewater Utility Fund to the City's General Fund remains the same for Fiscal Year 2014-15 at \$1,300,000 as is in the current approved budget. We have reduced the General Fund transfer by approximately \$432,348 or 25.0 percent over a 3-year period from \$1,732,348 in Fiscal Year 2010-11 to \$1,300,000 in Fiscal Year 2013-14.

The proposed amount for the General Fund transfer is at 10.0 percent of gross revenue of the Water and Wastewater Utility. As we have briefed City Council in prior year budget meetings, our plan over the past 3-year has been to reduce the amount of the annual transfer to the General Fund to eventually equal 10 percent of gross revenue of the Utility. We have reached our planned target level and will continue to maintain the General fund transfer rate at 10 percent of gross revenue of the Water and Wastewater Utility.

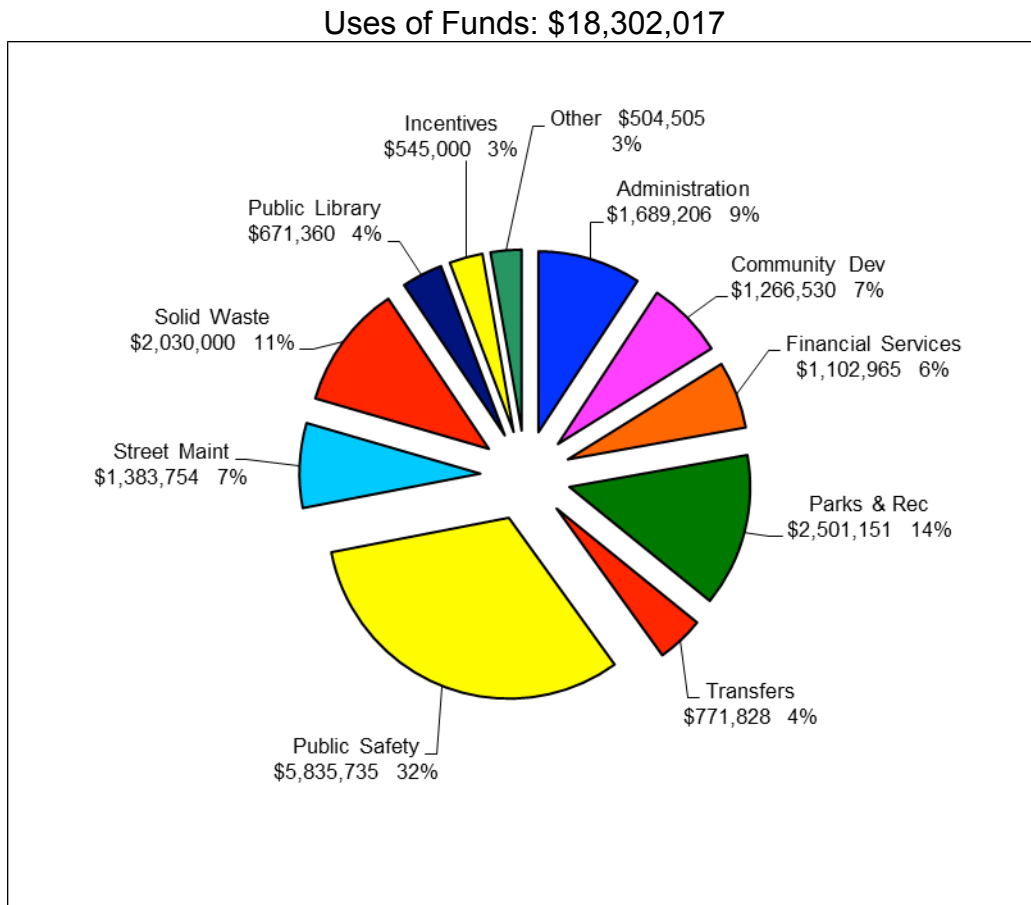
General Fund Requirements

The Proposed Budget for Fiscal Year 2014-15 for the City's General Fund is developed based on the discussions, goals, and direction provided by the City Council during its retreat on July 12, 2014.

The Fiscal Year 2014-15 Proposed Budget for the General Fund totals \$18,302,017, an increase of \$3,408,655 or 22.9 percent from the current approved budget and includes funding for:

- New programs and services to enhance public safety and quality of life
- Park improvements
- Street maintenance
- Police vehicles, equipment and machinery for Public Works
- Adds 13.5 new positions for police, library, public works and finance

A detailed listing and associated cost is provided in the budget highlight section on page 2 of this transmittal memorandum. Below is a chart showing the uses of General Fund revenue for maintenance and operations of the City of Kyle municipal services:



Significant changes in the Proposed Budget for Fiscal Year 2014-15 for the General Fund are as follows:

- \$500,000 provided for implementation of a year-round street maintenance.
- \$450,000 for five new police pursuit vehicles and one animal control vehicle.
- \$545,000 included for City's obligations for 380 agreements. This is an increase of \$25,000 or 4.8 percent from the \$520,000 approved in the current budget.
- \$250,922 for Emergency Medical Services is included. This is at the same level of funding as in the current fiscal year's approved budget. The City's 3-year contract for the provision of emergency medical services will expire on September 30, 2014.
- \$1,396,795 for TIRZ debt service is included in the debt levy calculations. This is net of \$374,600 anticipated from the Hays County as contribution toward debt service.
- \$32,330 for the Kyle Fire Department. This includes \$5,000 in cash contribution and another \$28,330 for liability insurance coverage for vehicles and buildings.
- \$202,489 for overtime compensation, an increase of \$22,500 or 12.5 percent as compared to \$179,989 approved in the current budget. Almost 60 percent of the overtime pay or \$119,500 is for the Police Department.
- \$130,363 for CPI and market wage adjustment is included in the proposed budget for positions funded from the General Fund. This adjustment includes two cost components; a 2.7 percent cost of living adjustment and a 0.8 market adjustment for all employees.

General Fund Balance

The City Charter requires that a reserve balance be maintained at a level equal to 25 percent of annual operating budget. In addition, the City's Debt Management Policy, as adopted by an Ordinance, 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 2014-15 draws down the General Fund Balance by \$1,582,467 from an estimated beginning balance of \$7,570,488 to \$5,988,021 by fiscal year-end at September 30, 2015.

The primary reason for the reduction in General Fund balance is to provide funding for the \$3,408,655 or 22.9 percent increase in General fund expenditures resulting from the addition of new programs and services to enhance public safety and quality of life for the citizens of Kyle. These program and service enhancements include park improvements, street maintenance, police vehicles, equipment and machinery for Public

Works, and the addition of 13.5 new positions for police, public library, public works, and financial services departments.

The projected ending General Fund Balance of \$5,988,021 is equal to 32.7 percent of the proposed budget for the City's General Fund. The projected ending balance in the Emergency Reserve Fund totals \$1,250,000 or equivalent to approximately 34 days of General Fund expenditures.

I would like to inform as well as caution the City Council that when recurring type expenditure requirements such as for salaries and recurring support costs of new positions are funded from a one-time draw down of fund balance, it creates a potential funding risk in the subsequent fiscal years requiring possible rate increases and or cost reductions.

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 2014-15 includes a transfer in the amount of \$500,000 from the General Fund balance to the Emergency Reserve Fund. This is an increase of \$100,000 or 25 percent as compared to \$400,000 approved in the current budget for transfer to the Emergency Reserve Fund. This will be the third consecutive year for the transfer to the Emergency Reserve Fund.

If the proposed transfer is authorized by the City Council, it is estimated that by the end of next fiscal year, the City would have accumulated \$1,250,000 in the Emergency Reserve Fund or equivalent to approximately 34 days of operating requirements of the City's General Fund in the prior fiscal year.

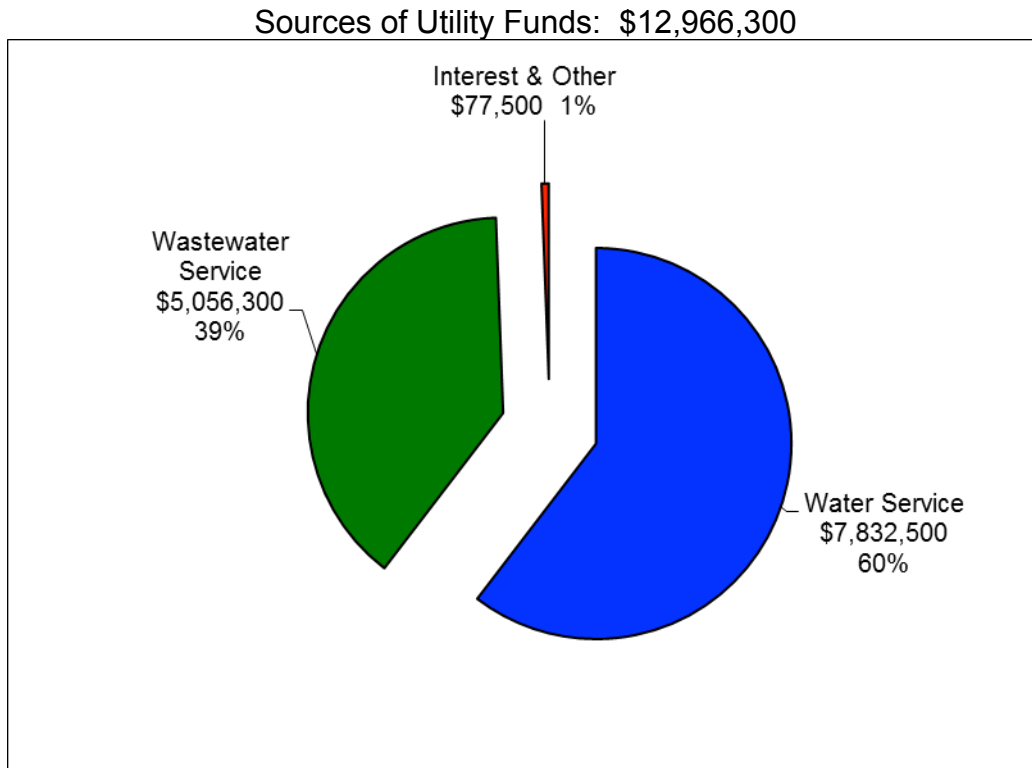
WATER AND WASTEWATER UTILITY FUND HIGHLIGHTS

Utility Revenue

The Proposed Budget for Fiscal Year 2014-15 includes no changes in the City's water and wastewater service rates for all utility customers both inside and outside City limits.

The Proposed Budget for the Water and Wastewater Utility Fund totals \$12,966,300 for service revenue, other charges, and transfers-in. This is a net increase of \$872,923 or 7.2 percent from the current approved budget.

Below is a graph showing projected sources of funds totaling \$12,966,300 for the City's Water and Wastewater Utility Fund for Fiscal Year 2014-15:



Expenditures & Other Requirements

The planned expenditures for operations and maintenance and transfers-out totals \$12,797,823 for Fiscal Year 2014-15. Total proposed expenditures and other requirements increased by \$1,121,526 or 9.6 percent from the current approved budget.

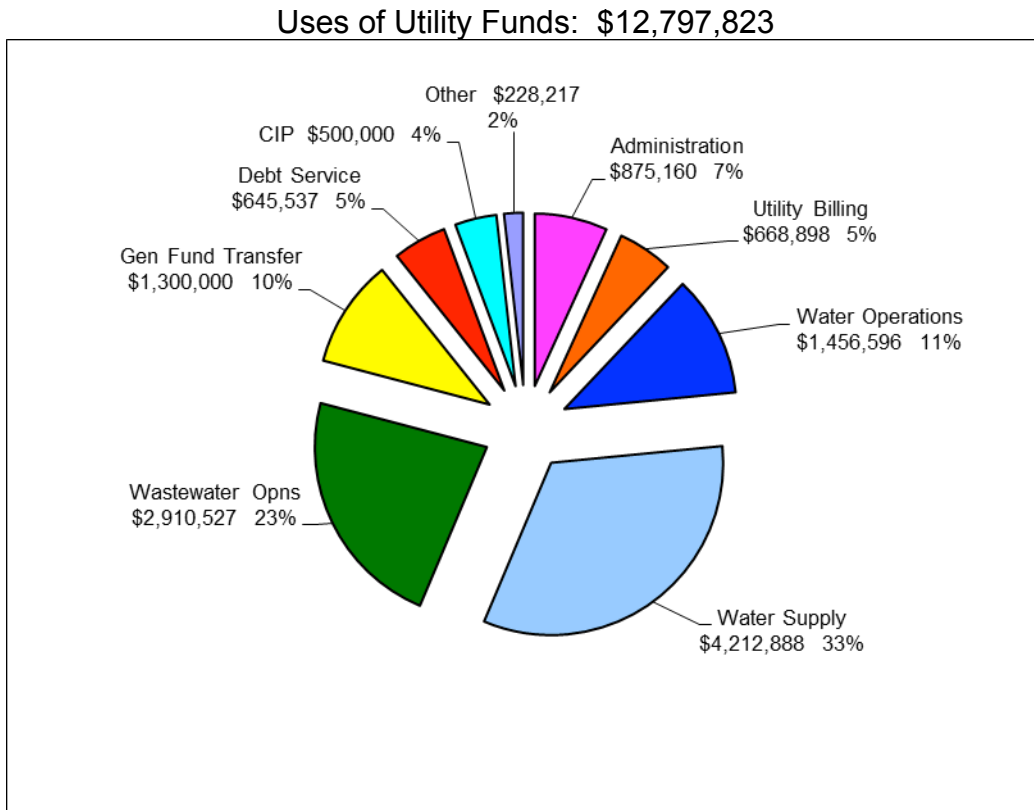
The projected cost increases are primarily in the following functions:

- CIP water tank rehabilitation and Old Town Kyle improvements - \$500,000
- Water Supply - \$166,000
- Water operations - \$163,500
- Wastewater Operations - \$242,600

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.

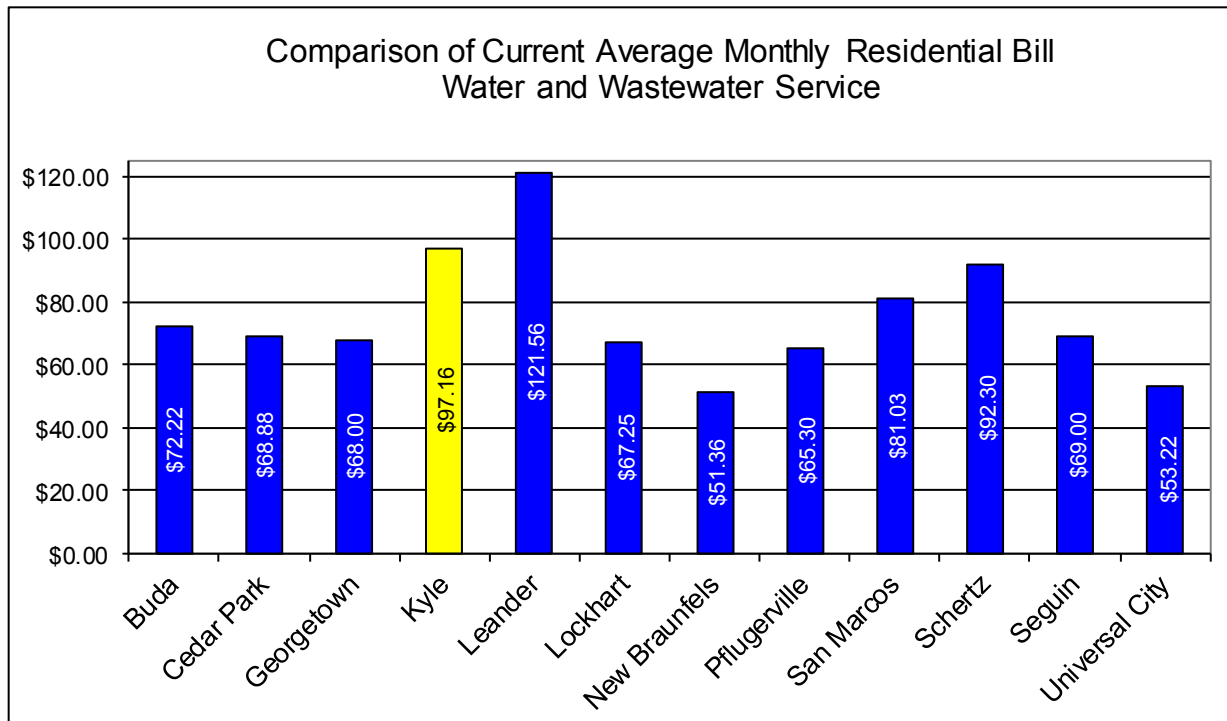
Below is a graph showing projected uses of funds totaling \$12,797,823 for the City's Water and Wastewater Utility Fund for Fiscal Year 2014-15:



Proposed Water and Wastewater Rates

No changes in the City's water and wastewater service rates for utility customers both inside and outside City limits is being proposed in the City's Budget for Fiscal Year 2014-15.

A comparison of monthly average residential bill for 6,000 gallons of water usage and 5,000 gallons for wastewater service based on current approved rates is provided below:



Significant Changes Affecting Water and Wastewater Rates

The Proposed Budget for Fiscal Year 2014-15 for the Water and Wastewater Utility Fund increased overall by \$1,121,526 or 9.6 percent to \$12,797,823 as compared to \$11,676,297 in the current approved budget. Significant changes include the following:

- \$166,233 increase for water supply
- \$163,495 increase for water operations
- \$242,629 for wastewater operations
- \$87,723 increase in other utility operations
- \$52,651 for CPI and market wage adjustment is included in the proposed budget for positions funded from the Water and Wastewater Utility Fund. This adjustment includes two cost components; a 2.7 percent cost of living adjustment and a 0.8 market adjustment for all employees.
- \$1,300,000 included for transfer to the General Fund. The transfer amount equals 10 percent of the gross revenue of the City's Water and Wastewater Utility and is maintained at the same level as in the current fiscal year.
- Funding is not included for the acquisition of the existing wastewater plant or for the addition of the next phase of wastewater treatment plant capacity.

DOWNTOWN REVITALIZATION GRANTS

A total of \$50,000 in new funding is provided for the City's Downtown Revitalization Grants program in the Proposed Budget for Fiscal Year 2014-15. This will be in addition to the \$50,000 that City Council is considering approving as a budget amendment on August 5, 2014 for the current fiscal year.

With input from the Economic Development Committee and the City Council, the guidelines and criteria for the selection of projects under the Downtown Revitalization Grant program will need to be updated by the Economic Development Department staff.

GRANT FUNDED EMPLOYEE POSITIONS

The Proposed Budget for Fiscal Year 2014-15 includes two full time positions in the Police Department to be partially funded from grants. Based on the feedback that the City has received to date from the grantor agencies, the assumption used in the development of the proposed budget is that the City will receive funding next fiscal year to continue partially funding these two positions in the Police Department.

However, it is important to note that should funding for both these grants are not made available to the City next fiscal year, both of these full-time positions, which are currently filled, would have to be eliminated or an alternate source of revenue would have to be identified to provide continued funding.

The Proposed Budget for Fiscal Year 2014-15 includes two (2) grant funded positions and the City's funding contribution for each in the Police Department are as follows:

1. Mental Health Officer: City's contribution = \$27,679 or 40%
2. Victims Services Coordinator: City's contribution = \$22,600 or 42%

CAPITAL IMPROVEMENTS PROGRAM (CIP)

The Proposed Budget for Fiscal Year 2014-15 includes funding for only selected capital projects and a detailed listing is provided in the Proposed Budget document. The following capital projects totaling \$15,245,000 are funded in the Proposed Budget:

1. Engineering & Easement for Five Roads	\$ 5,141,000
2. Water Tank Rehabilitation	650,000
3. Old Town Kyle Water/Wastewater Imps.	300,000
4. Southside Wastewater Collection System:	5,100,000
5. Bunton Creek Wastewater Imp.	1,300,000
6. Elliot Branch Wastewater Improvements	1,300,000
7. Sidewalk Design (RM 150 West)	20,000
8. Park Improvements	500,000
9. Water and Wastewater Models	300,000
10. Train Depot Rehabilitation	334,000
11. Yarrington Water Line Upgrade:	300,000
Total:	<u>\$15,245,000</u>

CAPITAL OUTLAY (NON CIP)

The Proposed Budget for Fiscal Year 2014-15 includes \$637,670 for non-CIP capital items and the breakdown by department is provided below. A complete list of vehicle and equipment proposed for purchase is provided in the budget document.

1. Police Department	\$ 450,000
2. Public Works – Water/Wastewater	<u>187,670</u>
Total:	<u>\$ 637,670</u>

REAPPROPRIATION FOR SELECTED ENCUMBRANCES

The Proposed Budget for Fiscal Year 2014-15 includes departmental requests to roll forward unspent appropriations totaling \$4,016,050 primarily for CIP related contracts currently underway. This will provide continued funding for outstanding contractual commitments of the City.

A complete listing of all contracts with a description of the associated projects and amounts planned to be rolled forward to Fiscal Year 2014-15 is provided in the budget document.

DEBT SERVICE REQUIREMENTS

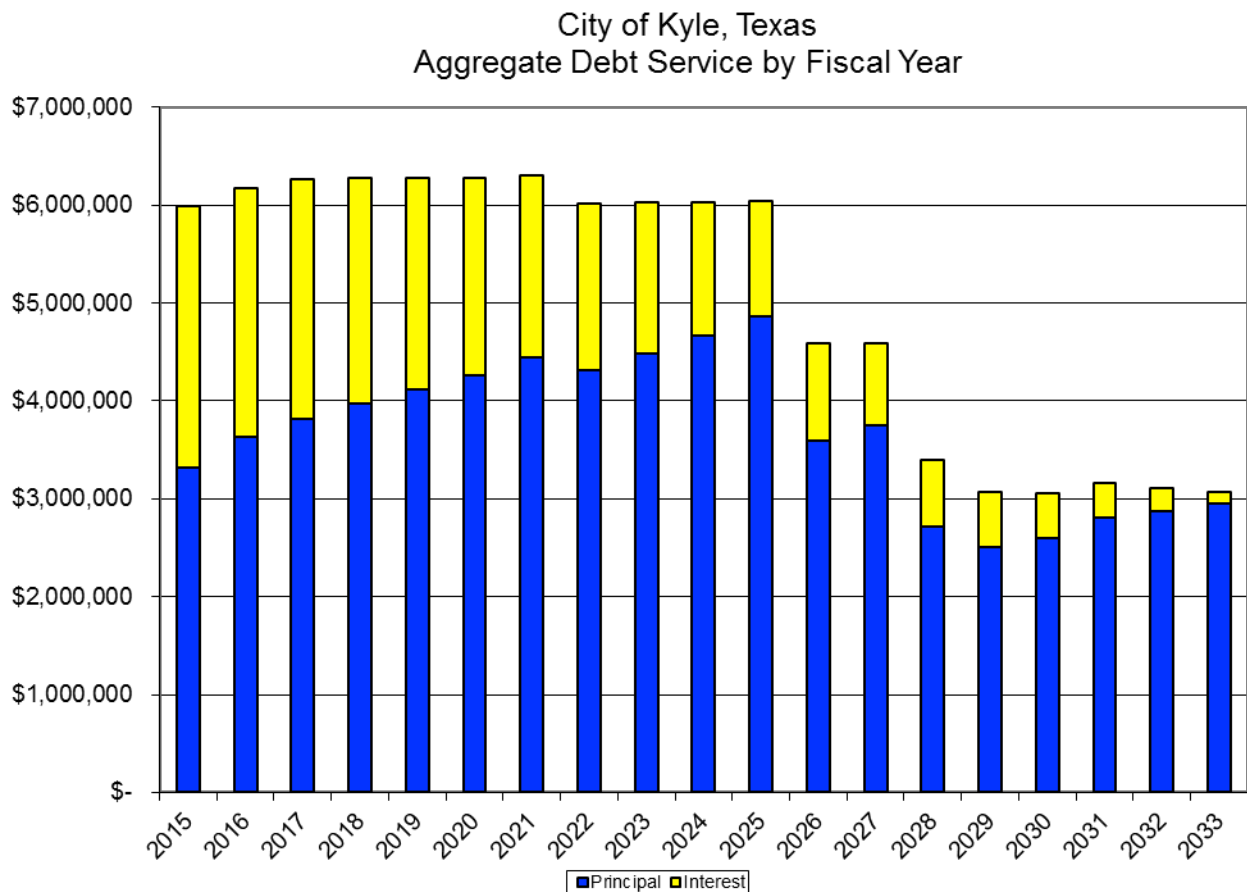
As of October 1, 2014, beginning of Fiscal Year 2014-15, approximately \$69.69 million in total debt (principal only) will be outstanding. In addition, interest costs will total approximately \$26.01 million on the principal amount outstanding as of October 1, 2014.

Debt service payments due during Fiscal Year 2014-15 on the total debt that will be outstanding is estimated to total \$5,994,046 (principal and interest), a net increase of

\$351,103 or 6.2 percent from \$5,642,943 approved in the current year budget. Included in the total debt service amount of \$5,994,046 is the City's share of TIRZ debt service payments totaling \$1,396,795 due next year.

It is important to note that the Proposed Budget for Fiscal Year 2014-15 does not include the application of \$425,000 from the 2008 Certificates of Obligation funds toward debt service payments next year. As part of the City's Debt Management Plan, the last of the four planned annual debt service offset payments totaling \$1.70 million or \$425,000 per year authorized by the City Council ended in the current Fiscal Year 2013-14.

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 2014-15 budget document.



Total amount of debt outstanding as of October 1, 2014 and the estimated debt service payments (principal and interest) due in Fiscal Year 2014-15 for the respective City Funds are as follows:

<u>Total Debt</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General Fund:	\$40,023,098	\$16,161,250	\$56,184,348
Utility Fund:	4,851,413	2,115,729	6,967,142
TIRZ Fund:	24,744,559	7,749,296	32,493,855
Hotel Occupancy Tax Fund:	70,930	2,431	73,361
Total Debt Outstanding:	<u>\$70,460,000</u>	<u>\$28,155,756</u>	<u>\$98,615,756</u>

<u>2015 Debt Service Payments</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General Fund:	\$1,949,769	\$1,590,495	\$3,540,264
Utility Fund:	438,281	207,252	645,533
TIRZ Fund:	896,895	874,496	1,771,391
Hotel Occupancy Tax Fund:	35,055	1,803	36,858
Total Debt Service:	<u>\$3,320,000</u>	<u>\$2,674,046</u>	<u>\$5,994,048</u>

PROPOSED BUDGET FOR ALL OTHER CITY FUNDS

With the exception of the City's General Fund and the Water and Wastewater Utility Fund, the remaining thirty-three (33) Funds are shown individually but categorized as All Other Funds in the budget document.

The Proposed Budget for Fiscal Year 2014-15 includes 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 and transfers-out for all Other City Funds total \$21,101,793 for Fiscal Year 2014-15. Adoption of the Proposed Budget for Fiscal Year 2014-15 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 2014-15 Budget document:

1. Emergency Reserve Fund (112)
2. Road Improvement Fund (115)
3. Transportation Fund (127)
4. Police Forfeiture Fund (131)
5. Police Special Revenue Fund (132)
6. Court Special Revenue Fund (133)
7. Hotel Occupancy Fund (135)
8. Economic Development Fund (136)
9. Library Building Fund (138)
10. Debt Service Fund (151)
11. TIRZ Debt Service Fund (152)
12. Park Development Fund (172)
13. 2007 Certificates of Obligation Fund (182)
14. 2008 Certificates Obligation Fund (184)
15. 2009 Tax Notes Fund (185)
16. 2010 Certificates Obligations Fund (187)
17. 2013 General Obligation Fund (188)
18. 2014 Tax Notes Fund (190)
19. Water CIP Fund (331)
20. Water Impact Fee Fund (332)
21. Wastewater CIP Fund (341)
22. Wastewater Impact Fee Fund (342)
23. Grant Fund (410)
24. Water Reuse Feasibility Fund (411)
25. Train Depot Renovation Donation Fund (412)
26. Mental Services Grant Fund (413)
27. Victims Health Services Fund (414)
28. Hazard Mitigation Grant Fund (415)
29. Library Mobile Grant Fund (416)
30. Public Educational & Government Fund (450)
31. Structural Demolition Fund (610)
32. OPEB Liability Fund (810)
33. General Fixed Assets Fund (910)

BUDGET SUMMARY

In closing, I want to emphasize that the Proposed Budget for Fiscal Year 2014-15 provides funding for enhanced programs and service delivery to Kyle homeowners, residents, and businesses based on the discussions, goals, and direction provided by the City Council during its retreat on July 12, 2014.

While the Proposed Budget for Fiscal Year 2014-15 does not include any increase in property tax rate, water and wastewater service rates, or increase in other fees and charges for various City services, the City Council priority based investments for public

safety and quality of life services including police, water and wastewater systems, streets, parks, library, economic development, and infrastructure maintenance incorporated in the proposed budget is made possible by drawing down \$1,582,467 from the fund balance in the City's General Fund.

As I discussed in the General Fund Balance section of this memorandum, I want to underscore my caution to the City Council that when recurring type expenditure requirements such as for salaries and recurring support costs of new positions are funded from a one-time fund balance draw down, it creates a potential funding risk in the subsequent fiscal years which may require rate increases and or cost reductions. I plan to discuss this funding challenge in greater detail with you during the budget deliberations.

I want to thank the Mayor and City Council for their discussions, goals, and direction provided over the past few months and especially during the City Council retreat held on July 12, 2014. I also want to thank all City employees for their continued commitment and dedicated service to our community.

I am looking forward to the City Council Budget Workshops and Public Hearings scheduled throughout the month of August and early September to review, discuss, and for the adoption of the City's Budget for Fiscal Year 2014-15.

Respectfully submitted,

Lanny S. Lambert
City Manager

Attachments

cc: James R. Earp, CPM, Assistant City Manager
Ken Johnson, City Attorney
Jerry Hendrix, Chief of Staff
Perwez A. Moheet, CPA, Director of Finance
Amelia Sanchez, City Clerk
All Department Directors