BUDGET TRANSMITTAL

TO: Mayor and City Council Members

FROM: Perwez A. Moheet, CPA, Interim City Manager

DATE: July 28, 2026

SUBJECT: Recommended Proposed Budget For Fiscal Year 2026-27

Pursuant to Article VIII, Section 8.05 of the City Charter, I am pleased to submit for your review and consideration the Interim City Manager's Recommended Proposed Budget for Fiscal Year 2026-27.

This proposed budget reflects the culmination of several months of financial analysis, departmental reviews, internal budget planning discussions, feedback from residents provided during Council meetings and in the budget survey, and from the City Council during the budget related special called Council meetings.

It is important to note that the Interim City Manager's Recommended Proposed Budget for Fiscal Year 2026-27 has been developed to address the City's current financial challenges while preserving essential municipal services, restoring financial stability, and positioning the City for long-term fiscal sustainability.

Guiding Principles For Budget Development

In the development of the proposed budget, staff utilized the following Guiding Principles to develop, formulate, prioritize, and structurally balance the recommended proposed budget:

1. Preserve and maintain core municipal services for our residents and businesses in Kyle.
2. Minimize monthly and annual financial impact of essential City services on our households and businesses in Kyle.
3. Full transparency for City Council, residents, employees, and all other stakeholders including auditors, bond holders, credit rating agency, and regulators.
4. Prioritize balancing service delivery expectations with available resources while preserving the City's long-term financial sustainability.

5. Ensure one-time revenues are not relied upon to support ongoing operations.
6. Develop a structurally balanced budget - planned recurring operating requirements must not exceed projected recurring revenues available.
7. Proposed budget must comply with all City Charter and City's financial policy requirements.
8. Plan to sustain economic downturn related financial implications for at least two consecutive fiscal years.
9. Absolutely no drawdown of reserves to cover or pay for recurring operating expenditures.
10. Restore and maintain required reserves.
11. Preserve essential jobs and positions within the City organization.
12. Review each City department's organization structure to maximize operational efficiency and eliminate duplication of efforts, and other organizational redundancies.
13. Review each budget line-item for every City department and realign proposed budget based on actual expenditure trends.
14. Temporarily suspend selected employee benefits and utilize normal attrition within the City organization to mitigate reduction in force (RIFs), salary reductions, furloughs, and other severe cost cutting measures that would negatively affect all our City employees.
15. Honor commitments agreed to by the City in its 3-year Meet & Confer agreement with its police officers' association (Kyle Law Enforcement Association - KLEA).

Budget Development Challenges

The development of this budget occurred during a period of significant financial and operational challenges. As discussed with the City Council during the review of the City's 5-year financial forecast on May 16, 2026, the City continues to experience a structural imbalance that has developed over multiple budget cycles. Key challenges include:

1. Preserving essential municipal services while balancing the budget and restoring City's reserve balances.
2. Creating a financial plan that will result in long-term fiscal sustainability.
3. Increasing inflationary cost pressures from effects of national and state economic conditions.
4. Current economic conditions have further intensified the budgetary and financial challenges facing the City today.
5. Slowing growth in the City's two primary sources of revenues; property tax revenues and sales tax revenues.

6. Continued decline in City's third primary source of revenue; development revenues.
7. The need to restore and maintain reserve balances while avoiding reliance on one-time revenues.
8. Significant long-term capital funding requirements for transportation, water, wastewater, drainage, and park infrastructure.
9. Rising operating and capital costs; personnel, public safety, health insurance, construction materials, and other support costs.
10. Base budget expenditure requirements exceeding forecasted revenues with increasing expectations and pressure from stakeholders to continue doing business as before – no reductions in personnel, operating costs, services, or programs.

Recognizing these challenges, the management team implemented extensive cost-containment measures and organizational realignments designed to improve efficiency, eliminate redundancies, and reduce recurring expenditures while preserving essential services.

Key Dates For Budget Development, Public Hearings, & Final Adoption

March 6-8, 2026:	Council Visioning Workshop
April 24, 2026:	Community Budget Survey Completed
May 16, 2026:	**Council Budget Planning Meeting #1:** Review of 5-Year Financial Forecast
June 13, 2026:	**Council Budget Planning Meeting #2:** Review & Council Prioritization of 5-Year CIP Spending Plan
June 27, 2026:	**Council Budget Planning Meeting #3:** Review & Council Prioritization of Public Transportation Program & Special Public Events Programs
July 16, 2026:	**Council Budget Planning Meeting #4:** Update on Anticipated Savings From Cost Containment Measures Implemented to Mitigate $14.2 Million Projected Deficit for Fiscal Year 2025-26
August 1, 2026:	**Council Budget Planning Meeting #5**: ICM's Recommended Proposed Operating & Capital Budgets for Fiscal Year 2026-27 Presented to City Council
August 13, 2026:	**Council Budget Planning Meeting #6:** Results of 2026 Cost of Service Study Update & Rates for Water & Wastewater Services Proposed for Fiscal Year 2026-27

2026 Certified Taxable Assessed Valuations, Property Tax Rate Calculations for M&O and I&S, & Proposed Property Tax Rates for Fiscal Year 2026-27

Resolution to Record City Council's Vote to Consider Property Tax Rate Increase at a Future City Council Meeting (If Necessary)

September 5, 2026: **Council Budget Planning Meeting #7:**
1st Public Hearing – Proposed Budget , Fees, & Utility Rates
1st Public Hearing – Proposed Property Tax Rates
1st Reading - Budget Adoption Ordinance
1st Reading - Property Tax Rate Adoption Ordinance
1st Reading - Property Tax Rate Increase Ratification Ordinance

September 15, 2026: **Council Budget Planning Meeting #8:**
2nd Public Hearing – Proposed Budget, Fees, & Utility Rates
2nd Public Hearing – Proposed Property Tax Rates
2nd Reading - Budget Adoption Ordinance
2nd Reading - Property Tax Rate Adoption Ordinance
2nd Reading - Property Tax Rate Increase Ratification Ordinance

Overview of Fiscal Year 2026-27 Recommended Proposed Budget

The recommended Proposed Budget for Fiscal Year 2026-27 is structurally balanced and adheres to the City's financial policies and City Charter requirements.

The recommended Proposed Budget for Fiscal Year 2026-27 provides funding for all essential municipal services and programs, including but not limited to, public safety, emergency response, streets and roadway maintenance, code enforcement, solid waste services, public transportation, water and wastewater operations, storm drainage maintenance, parks and recreation services, library services, and the City's 311 customer support services.

It is important to note that the recommended proposed budget has been developed under the guiding principle that recurring revenues must fully support recurring expenditures and that reserve funds should not be utilized to fund ongoing operations.

Provided below is a high-level summary of the recommended Proposed Budget for Fiscal Year 2026-27:

- $417.0 million total recommended proposed budget including operations & maintenance expenditures, debt service, and capital improvements.
- $71.3 million total recommended for City's **General Fund** operating budget.
  - $7.90 million or 9.97% less than current approved budget for FY 2025-26.

  - $2.35 million estimated revenues & transfers-in above estimated expenditures & transfers.
  - $20.37 million estimated fund balance at 9-30-2027.
- $32.5 million total recommended for the **Water Utility Fund** operations and maintenance budget.
  - $1.04 million or 3.10% less than current approved budget for FY 2025-26.
  - $2.61 million estimated revenues & transfers-in above estimated expenditures & transfers.
  - $23.96 million estimated fund balance at 9-30-2027.
  - No rate increase is proposed for water service for inside and outside utility customers.
- $12.3 million in total recommended for the **Wastewater Utility Fund** operations and maintenance budget.
  - $1.72 million or 12.28% less than current approved budget for FY 2025-26.
  - $5.24 million estimated revenues & transfers-in above estimated expenditures & transfers
  - $30.86 million estimated fund balance at 9-30-2027
  - No rate increase is proposed for wastewater service for inside and outside utility customers.
- $1.8 million in total recommended for the **Storm Drainage Utility Fund** operations and maintenance budget.
  - $1.21 million or 40.32% less than current approved budget for FY 2025-26.
  - $0.46 million estimated revenues & transfers-in above estimated expenditures & transfers
  - $1.54 million estimated fund balance at 9-30-2027
  - No fee increase is proposed for storm drainage fee for residential and commercial customers.
- 1.28% decline in the 2026 certified taxable assessed valuation (TAV) when compared to 2025 certified TAV on the same basis. This TAV comparison is net of TAVs within the City's six (6) Tax Increment Reinvestment Zones (TIRZ).
- City is awaiting to receive 2026 certified property tax rate calculations to be completed by Hays County Tax Assessor-Collector.
- A 2.5% rate increase included for solid waste and recycling service (trash collection) per City's contract with Texas Disposal System (TDS) effective April 1, 2027.

- Addition of one new fee for wastewater utilities - cost recovery for industrial pretreatment sampling.
- No increase proposed for all other City rates, fees, and charges.
- No employee layoffs or filled positions eliminated in proposed budget.
- No reduction in employee wages or salary included in proposed budget.
- 460.0 total full-time equivalent positions (FTEs) proposed for FY 2026-27.
  - 11.0 or 2.34% less than current approved budget.
- 11.0 total number of positions eliminated in the proposed budget for FY 2026-27
  - $1.88 million in total recurring annual cost savings. List of positions provided in the budget document.
- 24.0 total number of positions frozen and unfunded in the proposed budget for FY 2026-27
  - $2.45 million in total recurring annual cost savings. List of positions provided in the budget document.
- $288.5 million total recommended in Fiscal Year 2026-27 for Capital Improvements Program (CIP).
- $838.5 million total estimated for a 5-year Capital Improvements Program covering Fiscal Years 2027 through 2031. This total 5-year estimate is subject to annual review and adjustments based on City Council priorities.

Key Highlights of Recommended Proposed Budget for Fiscal Year 2026-27

The following highlights are drawn from the Interim City Manager's Recommended Proposed Budget for Fiscal Year 2026-27, which will be presented to the City Council on August 1, 2026. These recommendations reflect the City's ongoing commitment to fiscal responsibility and the delivery of essential municipal services. The proposed budget addresses current community priorities while positioning the City for long-term financial sustainability.

Key highlights of the recommended budget include:

1. The recommended proposed budget for Fiscal Year 2026-27 is a structurally balanced budget.
2. Funds all essential City services, operations, and maintenance.
3. Focuses on core municipal services including public safety, street maintenance, sidewalk and right-of-way maintenance, solid waste & recycling collection services, water supply services, wastewater collection service, parks maintenance, library services, and 311 customer service support services.

4. Maintains responsive service levels for all essential City services to effectively serve our residents and businesses in Kyle.
5. Supports continued maintenance of all City facilities including public safety, emergency services, parks, playgrounds, library, and other public infrastructure – no City facility closures.
6. Maintains a structurally balanced budget where recurring revenues support recurring expenditures.
7. Revenue and expenditure estimates have been carefully examined and analyzed to maintain a conservative margin to absorb some level of decline in economic conditions.
8. Provides for continued capital investment in critical public infrastructure for mobility, sidewalks, water supply and distribution, wastewater treatment and collections, parks, etc.
9. Budget provides for the continuation of construction of new roads and intersection improvements under the Road Bond Program.
10. Plans for available grant opportunities and external funding sources whenever practical and feasible.
11. No employee layoffs, furloughs, or other types of reduction in workforce included in the Interim City Manager's recommended budget.
12. Continuation of contributions by the City for employee and family coverage for health insurance.
13. Provides funding for City's financial obligations agreed to under the 3-year Meet & Confer agreement with the police officers' association (Kyle Law Enforcement Association - KLEA).
14. All sworn civil service City employees will receive an average 4% pay increase (step increase).
15. All Corporal ranked police officers will receive an additional 2% peer city-based pay increase per the Meet & Confer agreement.
16. No pay increase is funded in the proposed budget for civilian City employees.
17. Proposed budget temporarily suspends selected benefits for all City employees, including but not limited to, leave buyback program, tuition reimbursement program, City paid 12-weeks parental leave program, and cash contribution for health reimbursement arrangement account (HRA).
18. Recommended proposed budget adds an additional paid holiday for all City employees to observe Good Friday – no additional cost is required.

Alignment of Proposed Budget With City Council & Community Priorities

The recommended proposed budget reflects priorities identified through feedback provided by the City Council during special called budget planning meetings, feedback and comments provided by residents to City Council during Council meetings, and the community budget survey.

Residents who responded to the community budget survey consistently identified roadway improvements, water supply capacity, maintenance of existing parks and facilities, reduction in property tax rates, reduction in water and wastewater rates, and cost containment as among the City's highest priorities.

The recommended proposed budget aligns available resources with those priorities while balancing service delivery expectations against current fiscal realities.

Long-Term Financial Sustainability

The Fiscal Year 2026-27 Recommended Proposed Budget represents an important step in the City's multi-year financial recovery strategy.

While significant progress has been made through organizational restructuring, implementing operational efficiencies and cost-containment initiatives, maintaining continued fiscal discipline and momentum will be necessary in the City's future budget cycles.

The recommended budget for next fiscal year advances the City's efforts to:

- Restore and maintain healthy reserve balance in the City's General Fund.
- Improve operational efficiency throughout the City organization - one City department at a time.
- Align expenditures with sustainable revenue sources.
- Ensure delivery of essential municipal services.
- Maintain financial flexibility to absorb further decline in economic conditions.
- Continue investment in critical public infrastructure including the 2022 Road Bond Program projects.

Availability of Detailed Budget Information & Document

An electronic copy of the Interim City Manager's Recommended Proposed Budget for Fiscal Year 2026-27 is available on the City's website. In addition, a printed copy of the complete proposed budget document is also available for public inspection during business hours at Kyle City Hall located at 100 West Center Street, Kyle, Texas and at the Kyle Public Library located at 550 Scott Street, Kyle, Texas.

Interim City Manager's Recommendation

The Recommended Proposed Budget for Fiscal Year 2026-27 reflects a cautious approach to balance between maintaining essential municipal services, addressing financial challenges including the $14.2 million projected deficit in the City's General Fund by the end of the current fiscal year (FY 2026), preserving the City's workforce, and ensuring long-term financial sustainability.

While difficult and unpopular budgetary and managerial decisions were necessary, the recommended proposed budget positions the City of Kyle to continue meeting the needs of its residents and businesses while maintaining sound financial discipline.

I respectfully request the City Council's review of the Fiscal Year 2026-27 Recommended Proposed Budget and look forward to discussing the budget in greater detail during the upcoming budget meetings and public hearings.

Following the City Council's review and consideration of any amendments to my recommended proposed budget, I recommend approval of the proposed budget, associated fees and rates, and related Ordinances for Fiscal Year 2026-27, in accordance with the City Charter and established budget adoption schedule.

Respectfully submitted,

Perwez A. Moheet, CPA
Interim City Manager

Attachments

cc: Amber Schmeits, Deputy City Manager
Jesse Elizondo, Assistant City Manager
All Department Directors
All City Employees