FY 2026-27 ICM PROPOSED BUDGET BRIEFING

City Council Follow-Up Questions and Responses_3

The following provides responses to follow-up questions raised by members of the Kyle City Council regarding the FY 2026-27 Interim City Manager (ICM) Proposed Budget. Supporting schedules and analyses referenced below are provided as attachments to this briefing.

QUESTION 1

Requestor:	Council Member Mark McKinney
Date Requested:	August 10, 2026

Council Question

Q1. Tax rates: On 8/1 you informed us that the tax assessed value had dropped 1.28%. The NNR for the proposed budget was .517526, with a proposed rate of .52754, showing a slight reduction from the .5957 previous adopted rate. I would think that the NNR would go up If our TAV dropped. What am I missing? Is it wise to reduce taxes during a time of financial turmoil? Please explain how reducing rates helps strengthen the city's general fund balance.

Staff Response

A1. As noted in the ICM's initial response on August 10, 2026, there appears to be a misunderstanding regarding the information presented during the August 1, 2026 City Council budget workshop. During that presentation, ICM did not discuss any proposed property tax rates for Tax Year 2026, including the No-New-Revenue (NNR) Tax Rate, the Voter-Approval Tax Rate (VAR), or a proposed tax rate for Tax Year 2026/Fiscal Year 2026-27. During the budget presentation, ICM reminded Council and residents that the City was still awaiting the certified property tax rate calculations from the Hays County Tax Assessor-Collector's Office and that we planned to discuss the City's property tax rates for Tax Year 2026/Fiscal Year 2026-27 at a special called City Council meeting scheduled on August 13, 2026.

Late this afternoon (August 12, 2026), after receiving the final base valuation determination for TIRZ #4 from HaysCAD, we were able to complete the City's property tax rate calculations for Tax Year 2026/Fiscal Year 2026-27. The calculated rates are as follows:

- Current Adopted Tax Rate: $0.5957 per $100/TAV
- No-New-Revenue Tax Rate (NNR): $0.6322 per $100/TAV
- Voter-Approval Tax Rate (VAR): $0.5650 per $100/TAV
- Proposed Tax Rate - Option 1: $0.5600 per $100/TAV
- Proposed Tax Rate - Option 2: $0.5340 per $100/TAV

You are correct that all else being equal; a decrease in taxable assessed value (TAV) would generally result in an increase in the No-New-Revenue Tax Rate (NNR). This is because a higher NNR tax rate would be required to generate the same amount of revenue from the same properties taxed in the prior year.

While the City's overall net taxable assessed valuation declined slightly for Tax Year 2026, an unusual circumstance is affecting this year's tax rate calculations.

Under normal conditions, the Voter-Approval Tax Rate (VAR) is higher than the No-New-Revenue Tax Rate (NNR). The City's calculated Voter-Approval Tax Rate (VAR) for Tax Year 2026/Fiscal Year 2026-27 is lower than the No-New-Revenue Tax Rate (NNR). This is an uncommon situation, but it is directly attributable to the significant reduction in the City's debt service obligations for Tax Year 2026/Fiscal Year 2026-27. The City's tax-supported debt service requirements for Tax Year 2026/Fiscal Year 2026-27 have dropped significantly compared to the current year primarily due to the debt defeasance transaction approved by the City Council for the current fiscal year.

Based on the proposed recommended budget presented to City Council on August 1, 2026, and the certified taxable values now available, maintaining the current adopted tax rate of $0.5957 would generate more property tax revenues than is necessary to fund the recommended proposed budget.

Additionally, under state law, the City may not adopt a property tax rate that is above the calculated Voter-Approval Tax Rate (VAR) without triggering a voter approval election. As shown above, the City's calculated Voter-Approval Tax Rate (VAR) for Tax Year 2026/Fiscal Year 2026-27 is $0.5650 per $100 of taxable valuation.

Ultimately, the question of whether to reduce the property tax rate is a policy decision for the City Council to make in the best interest of our taxpayers, residents, and businesses. However, strictly from a financial management standpoint, staff's responsibility is to ensure that the proposed tax rate generates sufficient revenue to fund City operations, meet debt obligations, and preserve appropriate financial reserves. Based on the recommended proposed budget and tax rate calculations shown under A2 above, those objectives can be achieved at a rate below the current adopted tax rate of $0.5957 per $100/TAV.

In general, reducing the property tax rate does not, by itself, strengthen the City's General Fund balance. Rather, the financial strength of the City's General Fund should be determined by the City's ability to maintain a structurally balanced budget, preserve and maintain required financial reserves, monitor and manage expenditures within authorized budget limits, plan for mitigating future financial risks, and maintain a strong credit rating for its bonds. A property tax rate reduction is strictly a policy decision for the City Council to consider and make in the best interest of the City's financial position and its taxpayers.

QUESTIONS 2-4

Requestor: Council Member Mark McKinney

Date Requested: August 10, 2026

Council Question

Q2. Revenues and transfers in: If I'm reading right, last years approved budget estimated $97,846,174 in total revenues and transfers in. On May 16th, we were told to expect a reduction to $89,488,806. The August 1st presentation showed $73,685, 414; but I don't think that includes the estimated $35,060,036 from the water utility. Am I following that right? Do the previous numbers include revenue into the 4 main operating funds? And is that before allocation to the debt service fund?

Q3. Debt service fund: In the May16th meeting, I inquired about how we get from the roughly $42.522 million in property tax revenue (amended to roughly $41.9 million actual) to the $21.669 million that goes into the general fund. You explained that the difference was to cover I&S and went into the debt service fund. Is the debt service fund a separate fund from the general fund or a subcategory within the general fund? From the $20.231 million that went into the debt service fund, my memory is telling me we budgeted a little over $18 million including the defeased amount last year. I would expect a reserve balance of around $2 million in that fund, but you're telling me that there is a $6.5 million dollar deficit there as of 7/23, based on your answer to my question on August 1st. Please clarify our position in the debt service fund.

Q4. Financial statements: The 24-25 ACFR shows a beginning balance in the general fund of $17,177,707. The presentation we received on May 16th showed a beginning balance $14,977,707. How is there exactly a $2.2 million dollar difference between the two?

Staff Response

A2-A4. The majority of the financial matters raised in Q5. were addressed in detail during the May 16, 2026 City Council financial briefing, including discussion of the City's General Fund financial position, revenue assumptions, property tax allocations, debt service requirements, current-year expenditure estimates, and the methodology underlying the five-year financial forecast. The subsequent FY 2026-27 Proposed Budget presentations reflect updated information and revised estimates developed as the City continued to reconcile current-year activity and refine the proposed budget.

Staff recognizes the importance of providing Council with a clear and complete reconciliation of these figures across the various reporting periods and financial documents. These matters, including the underlying transactions, balances, assumptions, transfers, revenue allocations, and expenditure estimates, will be addressed further through the forensic audit requested and approved by the City Council. The forensic audit will provide an independent review of the City's financial records and related activity and will serve as the appropriate process for further validating and reconciling the historical and current financial information underlying these questions.

Staff will continue to provide the City Council and the forensic audit team with the financial records, schedules, supporting documentation, and other information necessary to facilitate that review and to support a transparent and complete assessment of the City's financial position.

QUESTIONS 5

Requestor: Council Member Mark McKinney

Date Requested: August 10, 2026

Council Question

Q5. Estimated expenditures breakdown: In the August 8th presentation, we were shown a reduction in projected estimates. Please share with me the detailed breakdown of how these estimates were arrived at. For example, in May we were looking at a $83,237,567 estimated expenditure and now looking at $71,355,818. Where can I find the itemized breakdown of how those numbers were calculated? Will that also show me how the subsequent years 2-5 were calculated?

Staff Response

A5. On August 1, 2026 Council was presented the Interim City Manager's Recommended Proposed FY 2026-27 Budget, in detail, including cost containment measures implemented for FY 2026-27, and key assumptions used in developing the FY 2027- 2031 Five-Year Financial Forecast, for all four major funds. Please refer to Attachment #4- FY 2026-27 General Fund Before v After Cost Containment, for details presented as such. Additionally, please refer to Attachments #1A and #1B, here: Fiscal Year 2026 - 27 Proposed Budget, which shows itemized cost containment items for FY 2025-26 and FY 2026-27, with the detailed amounts and components.