



August 1, 2025

Kaufman City Council
209 S. Washington Street
Kaufman, TX 75142

Dear City Council:

In accordance with the Kaufman City Charter and the State of Texas Local Government Code, the proposed FY26 Budget for the fiscal year beginning October 1, 2025, and ending September 30, 2026, is presented and attached as an exhibit to this memorandum.

The proposed FY26 Budget presents in financial terms the plan for accomplishing the objectives and goals of the City Council during the upcoming fiscal year. Preparation of this document requires a comparison of the anticipated revenues with proposed programs and priorities based on City Council priorities, service demands, and/or prior project commitments.

While the proposed budget does not fund all departmental requests, it meets City Council goals expressed during the planning process. The proposed budget is a priority-based budget reflecting the city's following core values:

- Providing exceptional governmental services;
- Remaining fiscally sound;
- Effectively allocating resources to meet citizen needs; and
- Valuing our employees

The attached document is a responsible financial plan developed utilizing advanced planning methods and Governmental Accounting Standards Board provisions and complies with the proposed Fund Balance Policy (GASB 54). Prudent financial and operational philosophies have guided the development of the budget. The FY26 Budget highlights include:

- Continuing the employee Step Pay Plan with imbedded retention payments
- Funding Chapter 380 Agreement for KLLM

- Enterprise Fleet Management lease of (5) vehicles; (2) Public Works vehicles, (2) Police Department vehicles, and Fire Department vehicle
- Two (2) full-time positions: 1 Fire Marshal and 1 Procurement Officer
- Conservative residential development (130 residential permits)
 - Georgetown Phase (30 permits)
 - Freeman Farm (30 permits)
 - Highland Meadows Phase 1 (30 permits)
 - Enclave 1 (30)
 - Infill (10)
- \$167,000 Street Maintenance/Rehab (primarily dedicated to curb, sidewalk repair & materials)
- \$640,000 Street Maintenance Fund (1/4 penny Sales Tax)
- Increased Retail Utility Rates
- Continuing enhanced ROW maintenance
- Capital improvements program to include, Completion of Crestview and Royal Street reconstruction, SH 34 Water Line extension, and City Lakes Park improvements

FY26 Budget Development Considerations

The proposed budget includes total revenues of \$25,421,511 and expenditures of \$24,777,869 excluding the Capital Improvement and Grant fund projects, the overall budget contains a surplus (revenues over expenditures) of \$643,640. The following sections discuss, by fund, the major issues addressed in the FY26 budget.

GENERAL FUND

Revenues – Each revenue source is carefully evaluated during the budget process to ensure adequate levels of funding. Diversifying city revenue sources to reduce reliance on property taxes is critical to minimizing the tax burden of our residents and commercial property owners. Identified diversification areas include maximization of sales tax revenue along Highway 34, Kings Fort Parkway, US 175, Downtown Square, and Washington and Mulberry Street corridors.

- **Property Tax** – The second largest revenue source in the General Fund is the ad valorem tax. Maintenance and Operating (M&O) tax rate of 0.5354345/\$100 is proposed. Property tax revenue for M&O in FY26 is expected to increase by \$445,074. This is attributable to an increase in taxable property values (2.91% new growth; 4.18% increase of existing properties) all certified by the County Appraisal District.
 - **Property Tax Rate** - The FY26 Budget is based on a total property tax rate of \$0.7595 per \$100 assessed valuation. A goal of staff and Council is to propose a tax rate that will provide the necessary resources to continue providing the same level of quality, expected municipal services and service required debt, and remain at or below the current total tax rate. The proposed tax rate includes \$0.2240655 to service debt and \$0.5354345 to fund maintenance and operations.

- **Property Tax Base** - The certified 2026 appraisal rolls show an increase of 7.09% over the 2025 certified values. The total taxable value for the City of Kaufman is \$900,615,610. This represents a continual growth trend for the city. The average appraised home value is \$222,093.
- **Sales Tax** – The second largest revenue source in the General Fund is sales tax receipts. The FY26 budget is projected to remain flat in the FY26 adopted budget. Sales tax revenue is wholly dependent on the local economic conditions and can fluctuate. The potential for major commercial development exists along the corridors of Highway 34 Bypass, King's Fort Parkway, and Highway 175 to help diversify the city's revenue sources in future years. However, to remain fiscally responsible, the city takes a conservative approach to future development that would impact future sales tax receipts. The FY26 budget does not anticipate an increase from the forecasted FY25 year-end projection (\$3,840,370).
- **Franchise Fees** – The franchise fees are projected based on the past and current trends and franchisees' estimates. The projected growth supports a 1% increase in all franchise tax receipts for FY26.
- **Licensing and Permits** – Licensing and Permits will continue to increase as we experience the trending growth pattern. This budget assumes 130 new single family residential permits, Kings Fort Junior Tenants, Kaufman ISD Middle School, and several smaller commercial projects during the fiscal year.
- **Fines and Fees** – Fines and fees represent revenue generated from the municipal court, development related fees, and recreation-based fees. Staff will continue to make a concentrated effort in FY26 to decrease the outstanding warrants that are currently on the books. Staff anticipates continued growth related to development fees.

Expenses –

- **Personnel** – Being primarily service oriented, municipal governments are extremely reliant on their employees. The City of Kaufman is no different. For a department to add positions, a demonstrated need must first exist. Citizens and Council have come to expect the highest level of service at the lowest possible cost, all while being competitive in the marketplace. The proposed budget exemplifies this exact sentiment. This proposed budget plans for two (2) new positions: 1 Fire Marshal and 1 Procurement Officer, as well as upgrades to other currently funded positions. Several other positions needed have been identified but not funded.
- **Compensation** - The proposed FY26 Budget includes a market adjustment for Public Safety employees. This adjustment would include an additional step at mid-year for each eligible employee.
- **Health Insurance** - The health insurance program in FY26 continues with the Texas Health Benefits Pool as provider. The cost of health insurance continues to escalate nationwide. However, through the utilization of a broker we were able to keep the increase to single digits. The monthly city contribution to each employee

will cover employee health insurance, as well as dental and vision. Texas Health Benefits Pool is a non-profit health provider centered on providing full-service health protection for political subdivisions of Texas.

- **Parks** – The City Lakes Park grant has been funded by the TPWD. It is likely that construction will be completed by early 2026.
- **Equipment Replacement** – Minimal equipment replacement money is budgeted across the General and Utility Funds in FY26, and all capital equipment needs proposed will be purchased through the proposed FY26 operating budget.

WATER/SEWER (UTILITY) FUND

Utility Rates – Many variables and factors influence utility rates, including future wholesale purchase costs of bulk water, future capital improvements necessary to maintain healthy, safe water and wastewater services. The proposed FY26 wholesale water rate is anticipated to increase by 14 to 15%. This represents an increase of approximately \$264,725 for the purchase of the city's water needs for FY26.

It is anticipated that the sewer rate, too, will need to be increased to provide for more efficient operations at the Wastewater Treatment Plant. In addition, sludge hauling costs have increased.

OTHER FUNDS

Capital Improvement Program – Kaufman is in the process of several capital improvement projects around the city. When considering future capital improvements, the city considers federal and state mandates, the effect on citizens, and the effect a project will have on future operating budgets. The following projects were initiated and are currently under construction:

- Water/Sewer Infrastructure Improvements related to Street Bond Improvements
- Infiltration & Inflow Storm Sewer Projects
- Storm Drainage Improvement Projects for Phillip's and Ninth Street.
- Highway 34 Water Line extension
- City Lakes Park Improvements

Debt Service Fund – The total debt service for FY26 is \$2,487,685. The Kaufman EDC agreement will provide \$100,000 to assist in servicing this total debt amount. The Interest and Sinking (I&S) component of the total tax rate is \$.2240655. This I&S tax rate gives adequate resources to ensure all debt obligations are met in FY26 (assuming a 98% collection rate).

Storm Drainage Utility Fund – In FY16, the Kaufman City Council approved a fee to Kaufman property owners to cover the costs of providing the infrastructure and facilities that permit the safe drainage of storm water, the prevention of surface water stagnation,

and the prevention of pollution arising from nonpoint runoff, effective January 1, 2016. The city engaged a professional consultant to conduct a master drainage study to better assess current storm drainage infrastructure and future needs. The storm drainage fee for residential homeowners increased to \$6 per month in FY25 and will remain \$6 per month in FY26. In addition, commercial entities are charged based on an Equivalent Residential Unit (ERU) system, and the commercial drainage rate also will remain flat at a rate of \$6.00 per ERU.

Based on the Storm Drainage master study, the city continues to appropriate these resources to address the most pressing needs on a prioritized and approved basis.

Summary & Conclusion

Municipal government exists for one reason: to organize and deliver the best service possible with the resources available, to provide a safe, high quality of life for our citizens. This year's budget for FY26 represents a collective effort by the City Council and the city staff to meet that challenge. This budget is more than a financial document, it is a policy document that lays the groundwork for a continuation of current services and stabilizes the future financial position to carry on the city's duties and responsibilities, while meeting the goals and objectives outlined in the city's strategic vision. The city staff will continue to work to review, evaluate, and innovate to improve service delivery.

I appreciate the opportunity to lead an organization that provides our community with exceptional services, programs, and quality of life. I would like to thank the City Council for volunteering their time to serve their community and providing leadership to continue to make the City of Kaufman the gem of Kaufman County.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Holder".

Mike Holder
City Manager