BUDGETING FOR A BOOM THAT DIDN'T COME

A Purpose Paper on Why Kyle's City Revenue Slowed, and What to Do About It

Mario Reyes, Kyle City Council, District 3 | November 2026

PURPOSE

Kyle is facing a $14.2 million General Fund deficit. Residents deserve a plain answer to a simple question: why did the money stop coming in the way City Hall said it would? This paper uses the City of Kyle's own budget documents to explain what slowed, by how much, and why it turned into a crisis. It ends with the changes I will push for so it doesn't happen again.

The short answer: Kyle's economy cooled, but it did not collapse. Sales tax still grew. Businesses did not pack up and leave. What happened is that the city kept writing budgets that assumed the boom years would continue, and spent against those hopes. When the housing market slowed and interest income fell, the gap between the plan and reality came out of our reserves.

WHERE KYLE'S MONEY COMES FROM

The General Fund pays for police, parks, the library, street maintenance and city administration. It depends on three main sources, and the city's own budget presentation says all three weakened at once: "slowing growth" in property tax and sales tax, and a "continued decline" in development revenue.

Revenue source	FY 2025-26 budget	FY 2025-26 city estimate	Difference
Sales tax	$21.95 million	$20.28 million	-$1.67 million
Development fees (inspections and planning)	$7.00 million	$4.93 million	-$2.07 million
Interest and other income	$2.32 million	$1.15 million	-$1.17 million
Property tax	$21.67 million	$22.55 million	+$0.89 million

Source: City Manager's Recommended Budget FY 2026-27, presented July 28, 2026. The only major source that beat its budget was property tax, and only because the 2025 tax rate went up 26.9%.

1. DEVELOPMENT FEES FELL BY ALMOST HALF

When builders put up new homes and businesses, the city collects fees for plan review, permits and inspections. In a fast-growing city those fees are a big deal. In Kyle they are the third-largest source of General Fund money.

Fiscal year	Development revenue collected	Change
FY 2023-24 (actual)	$8.01 million	Best recent year
FY 2024-25 (actual)	$6.63 million	-17%
FY 2025-26 (estimate)	$4.93 million	-26%
FY 2026-27 (proposed)	$4.93 million	Flat

The decline started two years ago, but the budgets kept assuming growth. The FY 2024-25 budget counted on about $9.1 million in building permit and inspection fees alone, roughly $2.6 million more than the city's best recent year produced ($6.5 million in FY 2023-24). The city's later estimate for that line was about $5.3 million. The FY 2025-26 budget again set development revenue at $7.0 million, above what the prior year had brought in.

Why did fees fall? The city's documents don't say. The most likely reason is a slower housing market. In September 2026, Hays County home sales were down 30.5% from a year earlier as mortgage rates rose (Unlock MLS). Fewer homes being built and sold means fewer permits and inspections. That link is reasonable, but it is our reading, not a finding by the city.

2. SALES TAX KEPT GROWING, JUST NOT AS FAST AS BUDGETED

Kyle collected $19.35 million in sales tax in FY 2024-25 (audited). The FY 2025-26 budget set the target at $21.95 million, about 13% higher. Actual growth is closer to 5%, and the city now estimates $20.28 million. Through August, collections were up 8.1% over the year before but still 5.8% below budget, missing in 10 of 11 months.

This matters because it shows Kyle's shoppers did not disappear. The problem was the forecast, not the economy.

3. HOME VALUES WENT DOWN

For the first time in years, Kyle's tax base shrank. Kyle's certified taxable value fell 1.28% for 2026, from $6.23 billion to $6.15 billion. The average Kyle home's market value fell about 2.5%, from $314,965 to $306,952, even as Hays County values overall rose 9.7% on commercial growth. The city expects another 1% decline next year.

A smaller tax base means each penny of the tax rate brings in less. That is part of why the 2025 rate hike was so large, and why homeowners felt squeezed from both sides: their homes lost value while their city tax bills went up.

4. INTEREST INCOME DROPPED SHARPLY

Cities earn interest on the cash they hold. Kyle's "interest and other" income was $6.8 million in FY 2023-24 and $6.56 million in FY 2024-25. For FY 2025-26 the city budgeted $2.32 million and now expects about $1.15 million. The audited FY 2025 report shows investment earnings fell 39.7% in one year.

Part of this is lower rates. Part of it is simple: the city spent down its reserves for two years in a row, and less money in the bank earns less interest. Draining savings has a cost beyond the savings themselves.

WHAT IT WASN'T: COMPANIES LEAVING KYLE

Some residents have asked whether businesses that planned to come to Kyle changed their minds. We looked through city documents and local news from the past two years and found no confirmed case of a company canceling or pulling out of Kyle in that time. The cancellations on record are older: SmileDirectClub dropped a planned plant in 2020 because of COVID, and the Boring Company tunnel at Plum Creek was dropped years ago when Union Pacific objected. Tesla leases about 1.4 million square feet at the Kyle 35 Logistics Park (as of November 2024).

We should be honest about this. Kyle did not lose its economy. It lost track of its budget.

WHY A SLOWDOWN BECAME A $14.2 MILLION PROBLEM

Revenue slowing down is normal. Every city goes through it. It became a crisis in Kyle for three reasons the city's own records show:

1. Budgets were built on hope, not history. Development fees, sales tax and interest were all budgeted above what the prior year actually produced.

2. Spending grew faster than any revenue could. General Fund operating spending doubled in five years, from about $34 million to $68 million. Full-time positions went from 282 to 471. In the interim city manager's words: "The revenues didn't go up that fast."

3. Reserves were used to cover the gap. The adopted budgets for FY 2023-24 and FY 2024-25 both planned to spend reserves, about $8.4 million and $8.9 million in audited draws. By the time revenue came in short, the cushion was gone.

Credit where it's due. The interim city manager disclosed the deficit and wrote a budget to fix it. The FY 2026-27 budget cut General Fund spending by about 10%, eliminated 11 positions, held water rates flat and lowered the city tax rate 8.34%. That was the right direction. The job now is to keep that discipline going.

WHAT I WILL DO

For 16 years as a federal Contracting Officer, my job was to compare what was promised with what was delivered and stop the gap early. I'll bring that same discipline to Kyle's budget:

1. Budget what we actually collected. Forecast each revenue source from the last 12 months of real collections, not hoped-for growth. If the economy beats the forecast, that money goes to the reserve or to tax relief.

2. Report revenue to the public every quarter. Put budget versus actual for sales tax, development fees and interest on the council agenda every three months, in plain language, so a miss is caught in months, not years.

3. Set a trigger, not a surprise. If any major revenue source runs 5% below budget for two quarters, council reviews spending right away, before reserves are touched.

4. Protect the 25% reserve. No budget should plan to spend the city's emergency savings to cover ongoing costs.

5. Grow the tax base the right way. Recruit employers and commercial development that broaden the base, so Kyle depends less on homeowners and on new-home fees that rise and fall with mortgage rates.

Your Home Is Not the City's Piggy Bank!

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Mario Reyes, candidate for Kyle City Council, District 3

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SOURCES

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- City of Kyle, Sales Tax Revenue Tracking FY 2025-26 with history, Aug. 17, 2026: $19.0M collected vs. $20.17M budgeted Oct.-Aug.; +8.1% year over year.
- City of Kyle, Annual Comprehensive Financial Report FY 2025 (Mar. 18, 2026): sales tax $19.35M; investment earnings down 39.7%. cityofkyle.gov/media/pzunxtyj/acfr-2025-final-3-18-2026-w-cover.pdf
- City of Kyle FY 2024-25 budget and FY 2026 Annual Budget Book (OpenGov): building permit and inspection fees budgeted at $9.12M; audited General Fund reserve draws of $8.39M (FY 2023-24) and $8.86M (FY 2024-25).
- Community Impact, "City of Kyle faces $14.2 million budget shortfall, implements hiring freeze," May 20, 2026.
- Hays Free Press, "Kyle leadership reveals more than $14 million deficit, emphasizes cutting costs," May 2026 (article 26407): spending $34M to $68M; staffing 282 to 471; interim city manager quote.
- Hays Central Appraisal District 2026 preliminary values, via Dripping Springs News, "Hays County property values rise 9.7% in 2026": Kyle average residential value $314,965 to $306,952.
- Unlock MLS, September 2026 Central Texas Housing Report, via My Neighborhood News, Oct. 15, 2026: Hays County home sales -30.5%.
- KXAN, SmileDirectClub cancels Kyle facility (Sept. 2020); KXAN/Austin Business Journal, Boring Company tunnel scrapped; Kyle Economic Development / MySA, Tesla-leased Kyle 35 Logistics Park sold (Nov. 6, 2024).
- Calculations by the campaign: sales tax budget growth (~13%) and actual growth (~5%); development revenue changes (-17%, -26%).