



# City of San Marcos

630 East Hopkins  
San Marcos, TX 78666

## Work Session Meeting Minutes City Council

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Tuesday, March 1, 2022

3:00 PM

City Council Chambers

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### 630 E. Hopkins - Work Session

#### I. Call To Order

**With a quorum present, the work session of the San Marcos City Council was called to order by Mayor Hughson on Tuesday, March 1, 2022 at 3:00 p.m. This meeting was held in-person and online.**

#### II. Roll Call

**Present:** 6 - Mayor Jane Hughson, Council Member Maxfield Baker, Council Member Saul Gonzales, Mayor Pro Tem Shane Scott, Deputy Mayor Pro Tem Alyssa Garza and Council Member Jude Prather

**Absent:** 1 - Council Member Mark Gleason

#### III. 30 Minute Citizen Comment Period

**Lisa Marie Coppoletta, spoke about the rules of decorum on the dais and stated the Charter does not speak on protecting the citizens related to speaking at the dais. She spoke on items 28, 29, 30 of the regular meeting and says the council tends to micromanage from the dais. She spoke on Council Member Bakers right to attend meetings from home and not return to the chambers. She also spoke on the Ukrainian crisis and stated council is arguing about rules of decorum when we don't have emergency generators, food if there is a global situation, no emergency evacuation plan for victory gardens, and no command control center for citizens to work with first responders. There is nothing agenized to have conversation if there were to be an attack from Russia. She wants discussion on protecting the rights of citizens.**

#### PRESENTATIONS

1. Receive a Staff presentation on the City of San Marcos Economic Development Incentive Policy, and provide direction to Staff.

**Stephanie Reyes, Interim City Manager, provided an update and reminded Council that a presentation was held on June 1, 2021. The feedback presented**

at that meeting was to have Staff research other incentive tools outside of Chapter 380 agreements and find ways to keep San Marcos competitive and adaptive in the attraction and retention of businesses and jobs. Emphasis was also given to find avenues to support existing businesses as well as our smaller businesses. At Council's direction, staff worked with the Economic Development San Marcos Board, Greater San Marcos Partnership, and the San Marcos Area Chamber of Commerce on incorporating feedback and best practices into a proposed update to the incentive policy. The enclosed policy that will be discussed this evening takes Council's direction to evaluate other incentive tools and create opportunities to support legacy, existing, and small businesses in San Marcos – creating jobs for our citizens and adding to the vibrant culture of the city. It is one more tool to facilitate intentional growth in our community. It's also important to remember this policy needs to have the flexibility to accommodate a variety of projects without needing constant revisions. With Council's feedback and direction to move forward, staff will bring back an item for a future City Council meeting to formalize these tools.

Mrs. Reyes introduced Kelsee Jordan Lee, Economic and Business Development Manager, to provide the presentation.

Mrs. Jordan Lee, stated this work session is to provide an overview of proposed updates and receive City Council feedback to incorporate into a new policy for economic development incentives. The first question is why have a policy for incentives? She stated this is a best practice and a policy provides formal guidance on incentives, supports growth and a stable tax base through economic diversification through the types of projects that are recruited and retained by offering assistance, provides consistency and sets expectations to the process when a business makes requests, and it sets guidelines for the process that the decision-making bodies can follow.

Mrs. Jordan Lee provided background and stated the current economic development policy was adopted in December 2013, was amended in January 2016 to add a criterion for living wage, and amended in February 2016 to add the Economic Development Supplemental Fund. Changes in the community and the overall economic climate necessitated giving this policy a thorough look. Staff presented in a work session last year and received high-level feedback on items to research further and consider bringing back. The City Council also expressed a desire for the City to work with different boards and business leaders representing the community for feedback a new policy was developed. Multiple meetings and discussions were held with the Economic Development San Marcos Board (the Board also passed a recommendation

resolution for suggested updates which are included in the packet). Staff also did a presentation to the Chamber of Commerce board of directors, has had discussions with the Greater San Marcos Partnership team as they are our key partners in implementing parts of the policy, and staff members from different city departments who are involved in the development and growth of the city.

The proposed framework for a policy that came out of these discussions with the previously mentioned parties include a more robust policy at the direction of the City Council, exploring different types of incentives that can be used for new or existing, and large or small businesses. The intent is to have something that can support the spectrum of business types in the community. There has been discussion that the City should find ways to remove barriers to growth, particularly for expansion opportunities and for smaller companies and many of these additions can be tools to help those businesses. A comprehensive listing of changes is in the packet presentation and the enclosed redline version. Ms. Jordan Lee covered notable proposed changes. She stated the ultimate intent is to have a policy that is easier to understand, reflects the values of the community, and makes a positive impact on the businesses and people who have made San Marcos home. There are additional incentives beyond Chapter 380s which is what is the primary tool in the current policy. Specifically, the BIG Grant, Legacy Business Program, Small Business Retention Incentive, and Sustainable Resources Grant are proposed to offer assistance for small or existing businesses, and businesses can also be eligible for the Downtown Co-Marketing Fund and Main Street Incentive. The scoring matrix allocates points for economic & fiscal impact, sustainability, labor force practices, and quality of life considerations. There is also the opportunity for some additional points for extraordinary items. As discussed at the last work session, administrative approval has been included for some incentives. Having administrative approval for certain levels of incentives increases the timeliness of the requests and reduce burden or unintended barriers especially for small businesses to go through what could seem like to them an arduous process shuffling between different EDSM and City Council meetings. Definitions were updated or added to ensure that there is a clearer understanding of what all the involved parties are talking about when applying for or considering assistance requests. The most impactful change is the proposal that tax-based incentives such as Chapter 380 agreements for businesses or speculative buildings would only be for the Maintenance & Operations (or M&O) portion of the tax rate. This is something that would be unique to the area as none of our surrounding cities are currently limiting incentives to this portion of the tax rate within their policies. This topic was discussed later in the meeting.

The living wage was replaced by the county all industry average wage for the county in which a business is or is going to be located. Those amounts are \$43,394 for Hays County, \$38,338 for Caldwell County, and \$45,886 for Guadalupe County.

The EDSM Board had multiple meetings to discuss proposed updates to the policy. There was a lot of great discussion looking at items from a number of points-of-view. The recommendation resolution included in the packet was passed 6-3 at the January 28 meeting. There are details in as to comments why certain board members mentioned they voted for or against it, but the primary concern that was shared involved removing or keeping the M&O limitation on the tax rate. The final version that was passed by the EDSM Board does recommend keeping the total tax rate on the table and not limiting it in the policy to only the M&O portion. The proposed version staff is bringing to you today does include that limitation.

The proposal brought by staff removes what was Exhibits A & B which had the preferred scenario map and the strategic initiatives. Initially, staff thought to include those documents within the policy for easy reference by any applicants; however, because both of those documents can change or be updated by City Council separately, it was recommended to not have them embedded within the policy but to ensure that they are on the city's incentive page so they can still be referenced easily but not require the policy to be updated every time there is a tweak to one of those documents.

Then the last two changes came about as staff continued to work on what the processes and incentives would look like. There is some enhanced wording on the processes the grants would follow along with updated wording for the Downtown Co-Marketing Fund.

Discussion was held on the proposed policy change related to the potential to limit tax-based incentives to only the M&O portion of the tax rate. The current total tax rate is 0.6030 per \$100 valuation. The Maintenance and Operations portion, the part that is used in the General Fund for normal city operations, is currently 0.4076 (or 67.6%) of the tax rate, and the Interest & Sinking portion, the part that is used to service the debt of the City, is currently 0.1954 (or 32.4%) of the tax rate. If there is a project with a \$10 million capital investment and those improvements are appraised at that same amount, the M&O portion of the taxes to the City would be \$40,760 and the I&S portion would be \$19,540, for a total of \$60,300 rebated to the business if a 100% incentive is given. With the current policy, if an incentive is offered from the

total tax rate, it would include a rebate of the I&S taxes which cannot be paid from the Debt Service fund. This means that portion would come out of the General Fund so, potentially, more money would come out of the General Fund than has been deposited by the company. Throughout the proposed policy, we tried to follow best practices of what other jurisdictions have done and evaluate if they would also work here in San Marcos. This would be something where San Marcos would be unique in pursuing this path, so there is a trade-off to be considered between the potential to retain additional taxes paid to the City which is, of course, always desirable versus San Marcos being seen as less competitive and losing out on prospects at the beginning by not being open to offering what other cities are offering.

Discussions were held about the property taxes paid, but there are other items that staff tries to capture when evaluating the economic and fiscal impact to the city. As part of the agreement with the City, the Greater San Marcos Partnership performs an economic impact analysis that estimates items such as sales tax revenue, utility revenue, salaries paid, and property tax revenue paid to other jurisdictions like the school district and the county. Looking at a more holistic net benefit to the community as much as we can. This is an example of how what is paid to other jurisdictions has been shown in previous project presentations. This estimates the benefit to the City, San Marcos CISD, and Hays County. The scoring matrix has been updated for Chapter 312 Agreements, Chapter 380 Agreements, EDSF, and Fee Waiver requests. Because it is an economic incentive, the scoring is allotted most heavily for economic & fiscal impact at 70 points, 10 points for environmental sustainability, 10 points for labor force practices, and 10 points for cultural & quality of life considerations. There is also a potential for a project that makes an extraordinary impact economically or to the community to garner additional points. While, in theory, a project could come in that checks all the boxes for the base points and the extra points to score up to 120, which would be very fortunate. The maximum score that would influence incentives given is still capped at 100. The extra points are there so that a project that might miss a few points for something in the base categories but could still have an extraordinary impact or go above the norm for integration in the community, could still have the opportunity to have that reflected in the application.

The scores determine the amount of an incentive to consider. These thresholds are the same as what is in the current policy with one exception that will be covered. 81-100 is up to 80% of the net present value of the estimated total tax liability or up to \$200/job per year up to 10 years. 71-80 points is up to 70% of the tax liability and \$150/job. 60-70 points is up to 60%, but unlike the current

policy, it does not have an incentive per job component. She clarified that if a project scores, for example, 78 points, they may still have a year that is at 100 or 90 or 80% in that year, but their entire incentive proposal should not exceed 70% of the estimated total tax liability over 10 years.

She thanked Council for direction given and thanked GSMP, EDSM, Chamber, and all businesses that choose to make San Marcos home.

From City staff's position, there is one key item that Mrs. Jordan Lee asked for direction on is whether to keep the current policy position on tax-based incentives where the total tax rate can be considered, that's including both the M&O and I&S portions, (of course, knowing that City Council may have a preference to direct GSMP to start negotiations at or below that M&O threshold), or if the City Council wants to have the tax rate limitation ingrained into the policy itself so that it's completely taken off the table.

Mayor Hughson inquired about projects being considered on a case-by-case basis regarding these tax-based incentives.

Anna Miranda, Interim Director of Finance, provided explanation on the calculation of the Total Tax Rate and M&O. Mayor Hughson asked if we are trying to be competitive why would we offer the M&O only. Mrs. Reyes said this is not the more competitive option but this creates a more revenue neutral opportunity and also considers the total tax rate. Mr. Scott said he does not want to lose money, and he used to like incentives, but as growth is imminent, he would be okay seeing less incentives being given out. Mayor Hughson reminded Mr. Scott that we consider each application for incentives separately and make the final determination on the percents and years rebated. Mrs. Jordan Lee said staff does try to capture other sources of revenue.

Council Member Baker said issuing the I&S rate is not fiscally responsible. He hears that we might lose out or not be competitive however he does not think we need to seek out or beg and plead to bring these companies to the City. He spoke on other cities in our region getting these companies and that is okay. He also spoke on scoring matrix and thinks labor force practices and environmental sustainability should be higher.

Mrs. Reyes said it is discretionary on Council's part of what they want to do. This is an opportunity to look at what council wants to see in terms of how we grow. These are tools and it is not a "shall provide" but "may provide". How do we diversify this is something staff needs to hear.

**Mr. Baker thought the point of this policy is to set something so we can determine what we want or not want. We need to determine if these companies have improved quality of life, there needs to be measurable's when incentives are given.**

**Council Member Prather thinks we should respect the process and we should look to experts on matters such as these.**

**Council Member Gonzales does not want to give more than a business puts in.**

**Mayor Pro Tem Scott supports the staff recommendation.**

**Upon completion of discussion Mayor asked council to provide consensus on various items. Mayor Hughson noted that there is not a mission or similar statement at the beginning of the document. She noted that we had worked hard on the agreement with the Greater San Marcos Partnership and asked if Council would be interested in including either the following subsections under the General Purpose & Objectives section or something similar.**

**B. Mission and Goals. The mission of the Corporation's economic development services will be to enhance and diversify the San Marcos area economy. The Corporation agrees to accomplish this mission by:**

- 1. Supporting Quality Growth in Export –Oriented Target Sectors through small business development, entrepreneurship, business attraction and business retention efforts**
- 2. Optimizing the local talent base, including workforce development initiatives.**
- 3. Promoting San Marcos as a location for business**

**C. Small Business Development. The Corporation will continue its efforts in working with prospects that are small businesses and, in doing so, commit substantial resources in terms of time, personnel and funds to the growth of local small and medium enterprises (SMEs) including, but not limited to micro –business. For the purpose of this agreement a SMEs shall mean any business meeting the Small Business Administration's (SBA) definition. Objective: To diversify and grow the regional economy by working with SMEs in primary industry sectors by evaluating their needs and assisting them to find appropriate resources.**

**Council provided consensus to move forward with these additions or**

something similar. Staff will work on this.

Discussion was held on providing incentives on the total tax rate. Consensus was to consider these scenarios on a case-by-case basis and not solely on M&O.

The proposed matrix included 70 points for economic & fiscal impact, 10 points for environmental sustainability, 10 points for labor force practices, and 10 points for cultural & quality of life considerations. Upon completion of discussion, council provided consensus to change these to 40 points for economic & fiscal impact, 20 points for environmental sustainability, 20 points for labor force practices, 20 points for cultural & quality of life considerations.

Council provided consensus to change the scoring matrix determination to be made by the City, Mrs. Reyes directs this to happen.

Mayor Hughson stated the city has 5 maps that are considered downtown maps that serve different purposes and suggested calling the downtown area specifically the "Main Street District." Council concurred.

The policy authorizes the City Manager to spend up to \$100,000 and this is inconsistent with other policies. Council provided consensus to set this to \$50,000 which is consistent with the limit by the City Manager in other business of the city.

The policy defines headquarters as having a minimum of 26 full time employees. Council provided consensus to decrease this number to be determined at a later date.

The policy states that any company receiving incentives is expected to make efforts to use local public resources to inform the local labor force of career opportunities (e.g., San Marcos Public Library, Workforce Solutions Rural Capital Area, Texas State University, San Marcos Daily Record, local job fairs). Council consensus was to change this from "expected to make efforts" to "must".

Council Member Baker inquired about infill development and wants to ensure those are eligible. Council provided consensus to create a new section on in fill development.

Council provided consensus to add the following statement under process in

**Exhibit A – Incentive Policy Process and Scoring for Chapter 312 Agreements, Chapter 380 Agreements, Economic Development Supplemental Fund, and Fee Waivers:**

**New text to be 3. City staff will review the application and points and make a recommendation to the EDSM Board. Staff may reword as needed, based on our direction tonight.**

**Exhibit C - Downtown Co-Marketing Fund**

**Mayor Hughson noted that a statement regarding the fact that there may be additional guidelines and requirements to be met regarding the Historic Downtown area and the general downtown area. Currently, the statement in the existing B I G grant policy includes “Please note, if you are planning on doing construction in a Historic District, by City code, a Certificate of Appropriateness must be obtained from the Historic Preservation Commission prior to exterior alterations (including signs) in the designated Historic Districts.” Staff will reword as needed to add the requirements for the rest of the requirements that are for the downtown area. Council provided consensus to move forward with this.**

**Mayor Hughson would like to add “The Texas Historical Commission has a Texas Treasure Business Award program. The city may assist business who qualify for this award with their application and if the business receives the award, the city will provide publicity. Council provided consensus to move forward with this.**

**Council provided consensus to change "grant funding" to "a loan" within Exhibit G – Small Business Retention Incentive. Exhibit G grant funding remove and change to “a loan” and in some cases it may become a grant if certain requirements are met.**

**Ms. Reyes noted that the funding amount for each program will be determined at budget time.**

**There was a proposal to remove “regional distribution” as a targeted industry, in the Definitions, but there was no consensus to do so. Staff will bring these amendments back for a finalized policy to be voted upon at a future meeting.**

## **EXECUTIVE SESSION**

- 2. Executive Session in accordance with the following sections:
  - A. Sec. §551.074 of the Texas Government Code: Personnel Matters: to discuss the duties of the City Manager related to the Meet and Confer Process.****

B. Sec. §551.074 of the Texas Government Code: Personnel Matters: to discuss goals for the city council appointees: city manager, city attorney, city clerk, and presiding judge of the San Marcos Municipal Court

**A motion was made by Council Member Gonzales, seconded by Council Member Baker, to enter into Executive Session at 5:08 p.m. The motion carried by the following vote:**

**For:** 6 - Mayor Hughson, Council Member Baker, Council Member Gonzales, Mayor Pro Tem Scott, Deputy Mayor Pro Tem Garza and Council Member Prather

**Against:** 0

**Absent:** 1 - Council Member Gleason

IV. Question and Answer Session with Press and Public.

**None.**

V. Adjournment.

**A motion was made by Council Member Prather, seconded by Council Member Gonzales, to adjourn the work session of the City Council on March 1, 2022 at 5:32 p.m. The motion carried by the following vote:**

**For:** 6 - Mayor Hughson, Council Member Baker, Council Member Gonzales, Mayor Pro Tem Scott, Deputy Mayor Pro Tem Garza and Council Member Prather

**Against:** 0

**Absent:** 1 - Council Member Gleason

**Tammy K. Cook, City Clerk**

**Jane Hughson, Mayor**

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