



**Budget Policy Workshop Meeting Minutes  
City Council**

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Wednesday, February 16, 2022

5:30 PM

City Council Chambers

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**630 E. Hopkins - Budget Policy Workshop**

I. Call To Order

**With a quorum present, the budget policy workshop meeting of the San Marcos City Council was called to order by Mayor Hughson at 5:31 p.m. Wednesday, February 16, 2022. This meeting was held in-person and online.**

II. Roll Call

**Council Member Prather arrived after roll call at 5:35 p.m.**

**Present:** 7 - Mayor Jane Hughson, Council Member Maxfield Baker, Council Member Saul Gonzales, Mayor Pro Tem Shane Scott, Deputy Mayor Pro Tem Alyssa Garza, Council Member Jude Prather and Council Member Mark Gleason

III. 30 Minute Citizen Comment Period

**PRESENTATIONS**

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2022-2023 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

**Stephanie Reyes, Interim City Manager, provided an introduction. She stated each budget process is unique. The last couple of years have been defined by revenue constraints placed on the city by the State and the effects of the COVID pandemic. While those items will still have an impact on the Fiscal Year 2023 budget, the highlight for this upcoming budget is to focus on the basics to ensure community needs and expectations are met. This means concentrating on the City's primary goal of safeguarding the health, safety, and welfare of our residents, which includes a commitment to maintaining infrastructure, public safety, providing a high quality of life, adequate support services, sound development, and protecting our natural resources. Approving the budget is one of the most important actions the City Council takes each year, and San Marcos has a very deliberate process so that the budget incorporates Council's strategic initiatives. This process began at your Council Visioning session in January when you discussed what you would like to focus**

on for the next 3 to 5 years. This meeting continues that process and discussion will be on the Fiscal Year 2023 Budget Policy. Once approved, this policy provides the direction that will be shared with the directors to use as they prepare their department budgets.

Staff does understand and share in the community concerns and Council's desire to keep the tax rate as low as possible, while still providing service levels for a growing community. Staff's success is Council's success and Council's success is the community's success. She stated we are all in this together.

Along with the limits of our current funding abilities, especially in the General Fund, we are also dealing with the effects of the national dilemma of retaining a workforce that is rapidly changing due to individual lifestyle preferences and redefining of where careers fall on people's priority lists. In fact, a recent survey conducted by Principal Financial Group indicated that a third of workers are unsettled in their current job and are looking to change jobs, planning to retire, leave the workforce, or are on the fence about staying in their current job.

Improving upon the core services the City provides to our community is largely dependent upon the talents and skillsets of our workforce.

This is a challenge because we are working in an environment with lower employee morale coupled with Covid's emotional and economic impacts as well as not implementing our annual pay increases. Staff typically undertakes compensation studies where jobs are compared within our pay plan to those same jobs in our peer cities every three years and implement the study findings in the off years. This helps ensure we don't have to play catch-up or provide huge increases at any given time. A pay study hasn't been implemented since 2017. What you will hear today is that we have fallen behind by not keeping up with this practice and philosophy. It is exacerbated by being in the critical environment competing for talent and facing the great resignation. In addition, San Marcos is not a City as large as Austin, San Antonio or Houston which can pay employees more and create more specialized, narrowly-scoped jobs. Our job descriptions are broader – meaning we ask more of our employees - and we don't pay like they do.

We have historically competed regionally for employees but in this virtual world everyone has grown more accustomed to, more jobs are offering 100% telework, thus increasing the scope of the market pool in which we are having to compete for talent. On top of pay, we aren't able to provide additional

resources to serve our community. We have had three years of zero-based budgeting where departments did everything to conserve while ensuring we provide core basic services to our community. To put this in perspective, we are in one of the fastest growing communities in the nation. When you look at the development permits issued and maintenance we have taken on as well as the increase in population and Texas State's growth, our resources have not kept up with that demand. The pressure of our rapidly growing region and community means we have to be intentional about dedicating sufficient resources to provide basic services to our community. A couple of proposals to address this will be presented this evening. One note is conservative revenue estimates are necessary to maintain secure financial stability; however, this practice has constrained staffing and resources within critical areas.

In advance of this meeting, directors were asked to share some of the constraints their departments are experiencing. In addition to attracting and retaining qualified staff, they responded that some of their biggest challenges are increased costs, supply chain issues, and the number of staff not keeping up with the significantly larger workload created by our growth and priorities. Ms. Reyes thanked the Directors, Assistant Directors and Managers for working with their teams to lead and set the expectations for how the city will achieve our mission of providing for the health, safety and wellness of our community. She also thanked the dedicated staff throughout the organization as they continue to work day in and day out serving our community. She thanked Council for their support, their open minds and their desire to continue to make San Marcos an outstanding place to live, work, play, and visit.

Ms. Reyes said this is the meeting is only the beginning of our budget discussion. There will be several more opportunities to discuss topics brought up today. Future budget work session dates have been scheduled for May 17, June 29, and August 18. There is still a lot of work to do in the months ahead to develop this budget, but the discussion today and approval of the Budget Policy statement in March will provide the direction needed to ensure it reflects the goals of council.

Ms. Reyes introduced Interim Finance Director Anna Miranda to begin the presentation.

Ms. Miranda provided an outline of what will be discussed this evening including the Budget Process, FY21 Year-End Review, Challenges, Core Services/Strategic Initiatives, Economy and Environment, General Fund, Other

**Major Operating Funds, Key Forecast Assumptions, Budget Policy Discussion, and Decision Point Summary.**

The budget is developed by the following: set strategic initiatives for the coming years, formulate policy statement to guide City Manager during budget preparation, deliver budget capacity and trends, deliver budgeted programs, revenues, and expenditure philosophy, and deliver proposed budget of all general budget items by fund type.

The budget timeline was outlined which included the Budget Policy Workshop held today and tomorrow, Public Hearing and Budget Policy adoption in March, Budget Work Session and Capital Improvement Program (CIP) Update in May, budget workshops in June and August, Public Hearing and adoption of budget and tax rate in September, and finally implementation and monitoring of budget to begin with the new fiscal year in October.

Ms. Miranda provided the Community and Economic Challenges, which include the following:

- Growing Community
  - pop. 44,894(2010) 67,553(2020) = 50.5% growth
- Continued impact of state ruling for sales tax on e-commerce
- Continued Uncertainty including inflation – “Headline” rates, the “Great Resignation” which involves employee recruitment and retention and a work from home environment. There are supply chain disruptions/cost increases, COVID-19 variants, and slow retail growth.

Ms. Miranda stated the focus will be on the basics including funding core services and considering department constraints.

Fund Core Services include:

- Public Safety
- Public Health and Welfare
- Maintain Infrastructure
- Quality of Life
- Protection of Environment
- Sound Development
- Support Services

Department Constraints include:

- Increased Costs
- Attracting/Retaining Qualified Staff
- Workload/Capacity/Expectations

- **Supply chain disruptions**

This policy will also consider the 2022-2023 Strategic Initiatives set by Council:

- **Workforce Housing**
- **Sustainability**
- **Covid Response**
- **Community Safety**
- **Economic Development**
- **Additional Area of Focus: Assessment of Community Assistance**
- **Develop Equity Policy**

**Ms. Miranda reviewed the Economic Indicators including Unemployment, Home Prices, and Consumer Price Index for Federal, State and within our Region.**

**Ms. Miranda discussed The Great Resignation and What it means. Employees are making different life choices. Work-life balance is a focus, COVID taught many that they don't need "all the things". Employers are offering hiring incentives to recruit potential employees back into the workplace. Many are closing storefronts and will remain virtual for the foreseeable future. Alternative workplace options are important – no "one size fits all". A record numbers of employees are leaving – retirees who we've depended on, employees working long shifts who aren't interested in that work life any longer, with an interest in family centric or shifting careers.**

**She explained how this affecting us. 60% of employees are paid below the market range for their position. 44% of employees with 5 years and less time in a position are at the entry quartile of the pay range which is below the prevailing wage. 73% of employees with up to 5 years time in their position are below the midpoint of the range. The current market requires higher salaries to attract candidates creating compression for current employees. The list of positions which are difficult to hire is growing and we are losing key talent in a very rapidly changing market. Recent employee exit interviews discuss leaving due to increased workload, expectations, and not regularly funding staff increases. Skillsets/positions at the City are mostly to provide core basic and quality of life services. Due to the number of employees affected, the fix may take multiple years and will be expensive.**

**The city has positions that include continuous recruitment which include 911 Telecommunicators, Equipment Operators, Lineworker & Lineworker Apprentice, Police Officers, Maintenance Operator, and WIC Health &**

**Nutrition Specialist. Other positions have been difficult to fill including Accountants, Grant positions, Planners, Inspectors, Commercial Driver Licenses (CDL) (city has started an in house CDL training program), Summer recreation program positions, Technology, and Technical craft – mechanics, equipment operators, instrumentation, etc.**

**Staff Recommendation:**

- **Develop a clear compensation policy**
- **Demonstrate that we value employees as our most valuable asset.**
- **Update compensation plan:**
- **Review peer comparators**
- **Update job descriptions**
- **Market study**
- **Consider the long-term impact of compensation policy to organizational culture. In today's market, total compensation must articulate more than direct wages.**

**FY23 Budget Considerations for all funds include:**

- **Zero-based budgeting**
- **Factor in necessary CPI (consumer price index) depending on industry**
- **Revenue forecasting, based on historical trends**
- **Enhancement of City's grant program to maximize alternative funding opportunities**
- **Staffing**
- **Competitive market – recruitment and retention incentives?**
- **Support market rate compensations study**
- **Increase personnel to adequately support core services**
- **Evaluation of health insurance**
- **Review current financial policy and update where needed with FY23 budget**
- **Maintain Cost Allocation Plan transfers**
- **Incorporate priorities from Council visioning sessions**

**Ms. Miranda reviewed the FY 2021 Year End Summary including for the General Fund.**

**The General Fund Summary, includes the following:**

- **\*Revenues exceeded revised budget by \$9.9M**
  - **Property tax exceeded budget by \$1.1M (4.2%)**
  - **Sales tax exceeded budget by \$8.8M (26.6%)**
  - **Permit revenue exceeded budget by \$1.7M (45.9%)**
  - **Increases offset reduction in fines, interest and charges for services**

**\*Expenditures were \$5.2M under budget**

- Salary savings of over \$2M
- Savings in Contracted services of \$2M
- Savings in Other Expense of \$2M

**\*FY 21 added \$8.3M to fund balance – exceeds 25% threshold**

- Cash fund FY22 General fund CIP to keep debt rate flat
- Use for non-recurring expenses
- Should not use for recurring costs

**Property Tax - 31% of total budget revenue**

**Sales Tax - 38% of total budget revenue**

**All other - 31% of the total budget**

**Ms. Miranda provided the FY23 General Fund Revenue Considerations, which include:**

**Property Tax Rate**

**The Tax Rate per \$100 in FY19 was 61.39 cents, FY20 61.39 cents, FY21 59.30 cents and FY22 60.30 cents.**

**Property Tax collections for Taxes have been 2017 - \$21.64M, 2018-\$28.07M, 2019 - \$30.67M, 2020 - \$34.66M, and 2021 - \$37.09M**

**FY23 General Fund Revenue Considerations****\*Property Tax**

- New homestead exemption of \$15,000 and increase to senior/disabled exemption from \$25,000 to \$35,000
- Consider adopting rate between the No New Revenue Rate and the Voter Approval Tax Rate, as in prior years

**\*Sales tax collections**

- Projections based on historical trends

**\*American Rescue Plan (ARP) funding**

**\*Tax Increment Reinvestment Zones – higher growth areas impacts tax rate calculation**

**\*Explore new revenue sources****\*Development services fee study in progress**

**Ms. Miranda provided the FY23 General Fund Estimated Increases, which include:**

**\*Personnel**

- Compensation Study – set aside 5% for funding results ~\$3M

- Additional personnel to fund core services - 40+ unfunded requests in PY
- Upcoming Meet and Confer negotiations

**\*Contracted Services**

- Traffic Signals previously maintained by TXDOT, will be transferred to City
- Vehicle replacements – supply chain disruptions have caused increased prices and delayed delivery

**\*Materials and Supplies - rising costs**

**\*Other Charges**

- Potential federal and state mandates
- Increased costs for support of transit services
- Some return to in-person professional development, travel
- May see compliance in 380 agreements and requests for incentive

**\*Capital Improvement Projects**

**FY22 Midyear Personnel Considerations**

- Issuance of debt impacts the City's calculated debt rate.
- The City has been constraining debt funded CIP in an effort to build capacity for new City Hall facilities and future bond election.
- The City has been working with our financial advisor to build a debt model

Ms. Miranda reviewed other major operating funds including Electric Utility Fund, Water/Wastewater Utility Fund, Drainage Utility Fund, Airport Fund, and Hotel/Motel Fund.

**Enterprise Fund Considerations**

**FY 21 Highlights**

- Winter storm impact on Ferguson revenue in Electric
- Utility forgiveness program – offset by reduced costs and increased revenue

**FY 23 Planning**

- Annual rate model reviews - meet operating and capital needs with goal of small increments over time
- Maintain fund balance thresholds
- Electric – 60 days
- Water/Wastewater – 25%
- Continue to cash fund CIP to the extent possible with excess fund balance
- Increases in operations & maintenance anticipated based on CPI increase over prior year

2. Receive a Staff Presentation and hold discussion regarding American Rescue Plan (ARP) Funding, and provide direction to the City Manager

After Ms. Miranda provided the decision point summary from item 1, Council asked to move onto the American Rescue Plan (ARP) Funding prior to

providing direction.

**Ms. Miranda provided the History of the American Rescue Plan Fund:**

- **US Treasury launched Coronavirus State and Local Fiscal Recovery Fund program totaling \$350B**
- **San Marcos total allocation \$18,101,483**
- **Received \$9,050,741 on June 1, 2021**
- **Anticipate remainder to be received June 2022**
- **Funds incurred during the period 3/3/2021-12/31/2024 and expended by 12/31/2026**

**Initial Distribution included Public Health Response, Negative Economic Impacts, Services to Disproportionately Impacted Communities and Infrastructure**

**1st round council deferred funding included Briarwood & River Ridge stormwater project, Stormwater improvements at City facilities, Stormwater improvements at Hull/Grove St., Small Business Counseling Program and Marketing grant for digital campaigns.**

**Ms. Miranda provided information on the State and Local Fiscal Recovery Funds (SLFRF). These were released in January 2022, effective April 2022 - Treasury will not take action if implemented prior to that date and these funds provide more flexibility and is simplified.**

**The Key changes from May 2021 Interim Rule include the following:**

- **Replacing Lost Public Sector Revenue: Standard allowance for revenue loss**
- **Public Health and Economic Impacts:**
  - **Clarifies can use for capital expenditures that support**
  - **Expanded households/communities disproportionately impacted by COVID-19**
  - **Broader uses in this area**
  - **Broader set of uses to restore and support government employment including hiring above pre-pandemic baseline and retention incentives**
- **Premium pay: more streamlined options to providing**
- **Water, Sewer, Broadband Infrastructure: broadens eligible broadband infrastructure**

**Each are discussed in more detail below:**

**Replace lost public sector revenue: standard allowance up to \$10M, not to**

exceed award amount, to spend on government services including but not limited to:

- Road building and maintenance and other infrastructure
- Health services
- General government administration, staff and admin facilities
- Environmental remediation
- Provision of public safety services (including purchase of vehicles)
- Restrictions: offset a reduction in tax revenue, deposits into pension funds, debt service, settlements/judgements, or for any purpose that conflicts with the purpose of the American Recovery Plan Act

Support COVID-19 public health and economic response by addressing COVID-19 and its impact including but not limited to:

- Programs, services, and capital expenditures that respond to the public health and negative economic impacts of pandemic
- Public health uses include COVID-19 mitigation and prevention, medical expenses, behavioral healthcare, and preventing and responding to violence
- Respond to negative economic impacts includes assistance to those that were either impacted or disproportionately impacted:
  - Households: re-employment, job training, food, rent, mortgages, utilities affordable housing development, childcare, early education, addressing learning loss
  - Small businesses or nonprofits: loans or grants to mitigate financial hardship, technical assistance
- Assistance to impacted industries that faced substantial pandemic impact

Provide premium pay for eligible workers performing essential work

- Performing in-person essential work in key economic sectors
- Below a wage threshold
- Non-exempt from FLSA

Invest in water, sewer, and broadband infrastructure

- Water and sewer projects including those eligible under EPA’s Drinking Water State Revolving Fund, EPA’s Clean Water State Revolving Fund, lead remediation, stormwater infrastructure, and aid for private wells/septic units
- High Speed Broadband infrastructure in areas of need such as areas without access to adequate speeds, affordable options, or where connections are inconsistent or unreliable. Projects must require broadband service providers to participate in low-income subsidy programs

Ms. Miranda stated Council may want to consider using ARP funding to

address Strategic Initiatives.

Ms. Miranda stated council was interested in creating an equity framework and stated ARP funds could be utilized to create this framework. Ms. Miranda provided a definition of Equity, which means people should be treated uniquely by public policy to compensate for different circumstances and consequent need for help from government. Equality, means treating all people the same.

Ms. Miranda discussed other considerations for council, including:

- Factors to consider in FY2023 General Fund operating budget
- Homestead exemption and increase of Sr./Disabled exemption
- Tax rate considerations
- Strategic initiatives
- Core services
- Core local government functions: Health, Safety and Welfare
- Constraints of debt model and capacity of CIP with flat rate
- Personnel: additional staff needed, compensation, recruitment and retention
- City Hall building
- Outcome based programs

Ms. Miranda stated staff reviewed various equity framework from other cities, including City of San Antonio, City of Austin and Harris County. The proposed criteria for equity consideration is to ensure services provided are accessible, services produce desired outcomes, and services are located in an area of need.

Potential Allocation/Distribution

\$9,050,742 = Total 2nd round distribution

\$6,050,742 = Support core local government function to effectively serve growing community and meet Council strategic initiatives

\$3,000,000 = Community-based programs considered for funding under equity criteria established by Council

Ms. Miranda provided the following timeline:

- February-April 2022:
  - Department needs/requests gathered
  - Call for external applications
  - Council direction incorporated into proposed ARP funding application
- May 2022: Present ARP proposed budget to Council (including applications)

received) for 2nd round of funding

- June 2022: 2nd round funds received
- June 2022-Dec 2026: Funds spent

Council will continue discussion and provide direction on the allocation of funds, Equity Framework, Equity Criteria and any other considerations at the Budget Policy Workshop tomorrow evening.

Ms. Miranda continued with the decision point summary and Council held discussion on the following:

### Decision Point Summary

**1. FY22 Mid-Year Personnel Considerations - discussion was held and council provided consensus to approve a 2% midyear increase for non-civil service staff.**

**2. Fund personnel additions to adequately support core services - upon completion of discussion, council provided consensus to allow Ms. Reyes and staff to look at additional staff considerations for FY22 Budget.**

**3. Fund and implement results of the compensation study - Linda Spacek, Director of Human Resources, provided a cost estimate of about \$60,000 to do a compensation study and what this entails. Upon completion of discussion, council provided consensus to fund the compensation study at a cost of approximately \$60,000. Mayor Hughson inquired as to the expected cost to implement the compensation study. Ms. Reyes stated that an estimate is 5% and that would be for FY23.**

**4. Tax Rate: Not to exceed greater of No New Revenue Rate or current rate or Stay between the No New Revenue Rate and Voter Approval Tax Rate - upon completion of discussion, council provided consensus to keep it at the current rate or lower. Discussion was held on property tax collections and there was interest in a push for extension or additions to homestead exemptions if we are not able to lower the rate for everyone.**

**5. Constrain CIP to keep debt rate flat and tie CIP to available capacity in the model - upon completion of discussion, council provided consensus to keep debt rate flat and tie CIP to a debt rate model.**

**6. Revenues: Budgeting based on historical trends - Discussion was held and**

**Ms. Reyes stated the city has been conservative in the budgeting process and this has constrained us for potential growth. Staff would like to be allowed to look at historical trends in preparing the budget. Upon completion of discussion, council provided consensus to allow staff to look at historical trends.**

**7. Fund Balance: Maintain at 25% of expenditures? Use excess to fund one-time expenditures? Upon completion of discussion, council provided consensus to maintain at 25% of expenditures and allow for the use of one-time expenditures with this excess.**

**Discussion will continue tomorrow evening.**

IV. Question and Answer Session with Press and Public.

**None.**

V. Adjournment.

**A motion was made by Mayor Gleason, seconded by Mayor Pro Tem Scott, to adjourn the Budget Policy Workshop of the city council at 8:54 p.m. The motion carried by the following vote:**

**For: 7 -** Mayor Hughson, Council Member Baker, Council Member Gonzales, Mayor Pro Tem Scott, Deputy Mayor Pro Tem Garza, Council Member Prather and Council Member Gleason

**Against: 0**

**Tammy K. Cook, City Clerk**

**Jane Hughson, Mayor**