



City of San Marcos

Budget Policy Meeting Minutes City Council

Friday, February 26, 2021

11:30 AM

Virtual Meeting

This meeting was held using conferencing software due to COVID-19 rules.

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 11:31 a.m. Friday, February 26, 2021. This meeting was held online.

II. Roll Call

Council Member Garza arrived after roll call at 1:36 p.m.

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

PRESENTATIONS

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2021-2022 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

Bert Lumbreras, City Manager, provided an introduction and expressed the importance of the budget. He stated this process starts with Visioning in January of each year and the strategic initiatives, developed during that meeting helps guide the City for the next 12-18 months. Mr. Lumbreras stated the focus is for the 2022 Fiscal Year, but the City is planning and preparing for the following fiscal year in terms of critical considerations that will have long-term impacts beyond next year's budget. This policy provides direction that will be shared with the directors to use as they prepare their budgets.

Mr. Lumbreras outlined the order of discussion topics for this meeting, which include a year-end review, the budget process and timeline, and effects of the COVID pandemic on the budget. He also reminded Council the meeting will focus on policies as it pertains to the budget and the approval of the Budget Policy statement will be considered in March which will provide the direction

needed to ensure it reflects the goals discussed.

Mr. Lumbreras introduced Marie Kalka, Finance Director to provide the presentation.

Ms. Kalka reviewed the FY 2020 Year End Summary including the: General Fund, Electric Utility Fund, Water/Wastewater Utility Fund, Drainage Utility Fund, Airport Fund, and Hotel/Motel Fund

Ms. Kalka outlined the budget development process:

- Set strategic initiatives for coming year
- Formulate policy statement to guide city manager during budget preparation
- Deliver budget capacity and trends
- Deliver budgeted programs, revenues, and expenditure philosophy
- Deliver proposed budget of all general budget items by fund type

Once City Council formulates a budget policy the City Manager works with staff to develop the budget document.

The budget timeline was outlined which included the Budget Policy Workshop held today, Public Hearing and Budget Policy adoption in March, Executive Team Budget review in April, 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. Kalka reviewed the federal, state, regional, county and local economic indicators include unemployment, home prices, consumer price index (CPI), and new single family homes.

Ms. Kalka outlined the Strategic Initiatives that were approved in draft form on February 24, 2021, these include:

- COVID Response
- Workforce Development
- Workforce Housing
- Downtown Vitality
- Sustainability

There will also be an area of focus on homelessness in the community.

Property Tax - 28% of the total budget

Notation: We are in the second year of SB (Senate Bill) 2 Property Tax Cap @ 3.5%

Ms. Kalka reviewed the rates for the last four years.

*** SB2 new terminology: Voter-approval tax rate (rollback rate) and no new revenue tax rate (effective rate)**

*** Assumption in base budget: Tax rate would be equal to or less than the voter approval tax rate of 59.30**

*** Exceeding the voter-approval tax rate automatically triggers an election**

Sales Tax - 43% of the total budget

Notation Comptroller Sales Tax ruling: change in definition of place of business determining collection point) This included the following:

- Base – 68% (.75% average decline over last 12 months due to COVID)**
- Outlet Malls – 26% (13% average decline over last 12 months COVID impact)**
- Shift in Sourcing Rule – 6% (Revenue loss from Comptroller ruling on internet sales)**

All Other - 29% of the total budget (Other fees forecasted using historical growth trends)

Ms. Kalka provided a General Fund Financial Forecast for the years up through FY25.

Ms. Kalka provided the General Fund Estimated Contractual Obligation Increases. These include:

Operating:

Facility Services/Utilities - \$47,000 or 3% increase

Facility Maintenance - \$130,000 or 15% increase

Vehicle Repairs - \$150,000 or 45% increase

SW License & Maintenance \$300,000 or 20% increase

Contracted Veterinarian \$15,000 or 15% increase

Street Maintenance \$88,000 or 4% increase

EMS Services \$100,000 of 10% increase

Transit Local Match \$750,000 or 100% increase

Personnel:

Civil Service \$800,000 or 4% increase

Non-civil Service \$1,100,000 or 4% increase

Preliminary forecasted base budget could require \$3.48M increase of General Fund appropriation due to these contractual obligations.

Ms. Kalka reviewed the 2021 Budget General Fund Agency/Event Funding, which include:

\$890,000 in Social Services, broken down into the following:

Human Services Advisory Board \$500,000

Hays Caldwell Women's Center \$150,000

Court Appointed Special Advocates \$45,000

Family Justice Center \$45,000

Youth Funding \$50,000

Museums \$100,000

Other: \$130,000

Sights n Sounds \$80,000

Veterans Day \$5,000

Summer Fest \$15,000

Special Events \$30,000

For Total Recurring Expenses of \$1,020,000

Ms. Kalka provided the General Fund Options which include:

Fund balance %

- **Flexibility with between 20-25% fund balance**

Operating process

- **Explore potential reductions in service levels**

Revenue

- **Explore potential new revenue sources**
- **Rate analysis of current rates**

Other

- **Capital Improvement Projects (CIP)**
- **Tax Increment Reinvestment Zones (TIRZ)**
- **Senate Bill 2**

Ms. Kalka explained the current general fund operating process which includes:

- **Zero based budgeting**
- **Federal/State mandates**
- **Operational necessity**
- **Core services**

Ms. Kalka provided the additional General Fund Considerations, including the Animal Shelter, COVID Assistance, Spanish Bilingual Pay Program, Staffing Needs and Police/Fire Agreements

Ms. Kalka explained the Enterprise Fund Revenue utilizes model rates over a

multi-year period to determine required adjustments. The Enterprise Fund includes Operations & Maintenance, Capital Needs & Existing debt obligations, Current and future infrastructure needs and rate increases in small increments over time to meet future needs.

Other Forecasting Assumptions include Property Tax collections, Sales Tax collections, Hotel Occupancy Rates, Stormwater Rate Study – proposed changes to be implemented and Transit Cost per hour of \$79.

Discussion was held on the tax rate and if there was an interest in not exceeding the voter-approval tax rate. Mr. Cosentino stated cities are allowed to have a higher voter approval rate due to the disaster declaration that is in place and Senate Bill 2. Concerns included seniors who want to stay in their home but increasing taxes on a fix income can be difficult to pay. Mayor Hughson noted that we need information about SB 2 and how it may affect future Economic Incentive 380 agreements. Council Member Baker suggested that the City assist our City taxpayers with protests of property values to the Hays Central Appraisal District. Following discussion Council provided consensus to not increase the current tax rate and decrease if possible. Council would also like to review exemptions that we currently do not have. Staff stated this will come forward in the future but not for the current Fiscal Year.

Ms. Kalka explained that the City's Fund Balance policy requires 25% of operating expenses equivalent of 90 days of purchasing power. Stephanie Reyes, Assistant City Manager said instead of a number, it could be a range to ensure financial stability and a higher bond rating. Council held discussion and provided consensus to allow flexibility, as the budget is prepared, to go between 20-25% fund balance and Council is okay for the fund balance to go to 20% this year, but not to do this multiple years.

Discussion was held regarding Social Services & Other funding and Council provided consensus to remove the \$150,000 Hays Caldwell Women's Center funding as this was to assist with transitional housing and we have paid in full the amount we promised and increase HSAB funding by that \$150,000 making it \$650,000 for FY22 only to help assist with COVID recovery. Staff will provide additional information to Council regarding Sights n Sounds.

Discussion was held regarding merit increases for staff. Linda Spacek, Director of Human Resources, stated the City looks at peer competitors to ensure we are competitive in the market. Currently there is a proposed of a 4% increase. Mayor Hughson stated we call this something different than merit increase

because it includes Cost of Living Allowance (COLA), merit and market equity. Council provided consensus to move forward with the 4%, but they would like to see more done for employees that are lower on the pay scale.

Council provided consensus to continue the Youth Services contract.

The following additional considerations were discussed:

Animal Shelter - Council provided consensus to continue funding as we can

Spanish Bilingual Pay Program - Council provided consensus to look into program and provide additional pay

Staffing Needs – Council provided consensus to allow the City Manager to look into all areas and determine staffing needs. Council asked to look at additional grant personnel. Mayor Hughson would like to allow grant staff broad discretion and to keep community partners apprised of potential grants.
Police/Fire Agreements – This is informational only and no direction is needed at this time as agreements end FY2022 and negotiations will begin in October of this year.

COVID Assistance – Council provided consensus to continue funding as we can, including seeking any and all grants.

The Budget Policy Statement will be on an agenda soon for approval.

Council will continue the discussion on property taxes and exemptions in a work session sometime soon. Council expressed their appreciation to staff for their work.

III. Adjournment.

Mayor Hughson adjourned the Budget Policy Workshop meeting of the City Council at 3:21 p.m.

Tammy K. Cook, Interim City Clerk

Jane Hughson, Mayor