



**Budget Policy Workshop Meeting Minutes
City Council**

Thursday, February 26, 2026

5:30 PM

City Council Chambers

630 E. Hopkins St. - Budget Policy Workshop

I. Call To Order

With a quorum present Mayor Hughson called the Budget Policy Workshop meeting to order at 5:30 PM on Thursday, February 26, 2026.

II. Roll Call

Present: 7 - Mayor Pro Tem Shane Scott, Deputy Mayor Pro Tem Alyssa Garza (arrived at 5:32 PM), Council Member Amanda Rodriguez, Mayor Jane Hughson, Council Member Lorenzo Gonzalez (joined online at 5:32 PM), Council Member Matthew Mendoza and Council Member Josh Paselk

III. Citizen Comment Period

No citizens signed up to speak.

PRESENTATION

1. Receive a staff presentation and hold discussion regarding the Fiscal Year 2026-2027 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

City Manager Stephanie Reyes outlined the purpose of the budget policy workshop, noting it is a key step in the annual budget cycle designed to ensure transparency and structured policy direction. She emphasized that FY 2027 planning must balance community safety, essential services, economic vitality, and quality of life amid shifting economic conditions and service demands. San Marcos enters this cycle facing EMS and public safety demands, expiring federal funding, inflationary pressure, and slower sales tax growth.

Budget Calendar & Financial Approach

Finance Director Jon Locke reviewed major budget dates including the preliminary property tax roll (April 30), workshops (May 19 and June 25), proposed budget submission (August 18), and final adoption (September 15). He noted some Considerations including:

- **Budget must be aligned with City Council’s strategic plan goals**
- **Continue revenue forecasting based on historical and recent trends**
- **Adjust operating expense forecasts for inflation to maintain current service levels**
- **Incorporate benefits from economic development**
- **Confirm support of previously adopted Council Resolution regarding Compensation Philosophy. Compensation is one of several pillars for becoming an Employer of Choice.**
- **Prioritize core services**
- **Be diligent in managing available capacity**

Monitor and respond to changes in revenues and expenses. He stressed maintaining a structurally balanced budget to ensure long term stability and avoid reliance on one time funding sources.

Mr. Locke provided a General Fund Overview

Property tax remains the largest revenue source at 35%, followed by sales tax at 30%. Property value growth has slowed significantly from post COVID highs to 0.7% in FY 2026. Sales tax experienced declines in FY 2024 but is gradually recovering.

He discussed Debt Service and Operations funding for us and other cities. He discussed the tax rate and how much a penny in property tax, \$876,000.00 will fund.

He also showed the Sales Tax Collections for the past 6 years.

Current Financial Challenges

The General Fund faces an estimated \$4 million deficit in FY 2027, possibly increasing to \$15 million by FY 2030. Forecasting assumes slower sales tax growth, personnel cost increases, and reduced property value growth.

Staff implemented measures such as managed hiring, retirement incentives, and fleet analysis to moderate costs.

Service Level Impacts

Vacancies affect purchasing, public works maintenance, library coverage, parks and activity center coverage, planning and development services, and communications capacity.

Fire and Police departments reduced community programs, service levels, and training due to limited staffing.

Compensation & Personnel

Council previously adopted a compensation philosophy, citywide vacancy rates

improved from 15% to 8% following compensation adjustments.

Council Member Gonzalez asked if the rates under discussion are projected or theoretical. Mr. Locke clarified that current rate is 65.15 cents, voter approval rate allows 3.5% increase, and no new revenue rate yields same revenue as prior year. Mr. Gonzalez expressed resistance to exceeding no new revenue rate unless numbers change.

Council Member Rodriguez asked for clarifications on deferred hiring and budget adjustments in City Manager's Office and other departments; concerned about equity of budget cuts across departments.

Deputy Mayor Pro Tem Member Garza would like a written synopsis about deferred hiring of community support specialist position and impacts on service delivery; expressed frustration about delayed filling of critical positions.

Mayor Hughson clarified that the community support specialist position remains unfilled due to managed hiring freeze, but operations funding remains.

Council Member Paselk asked about confidence in achieving \$4 million savings: City Manager Reyes stated progress toward \$2 million so far via retirement incentives and other measures.

Council Member Rodriguez & Deputy Mayor Pro Tem Garza stressed importance of equitable budget cuts and that cuts often compound over years, affecting service quality and employee morale.

Mayor Hughson asked council's direction on tax rate: majority preferred keeping rate at and no-new-revenue rate with others preferring the current 65.15 cents hoping for no increases at this time, citing current economic challenges and community impact. Mayor Pro Tem Scott agreed with no increase, emphasizing taxpayers should not see higher bills now.

After discussion key policy direction was provided on tax rate, debt, compensation, federal funding, social services, hotel occupancy tax, community enhancement fund, and enterprise fund policies.

No-new-revenue rate was preferred by 4, current rate by 3. Council gave direction to keep the debt component of the tax rate less than or equal to 30 percent. Council gave direction to include a 3 percent cost of living adjustment for non civil service employees for a total of \$1.3 million.

Expiring Federal Funding

Council reviewed items previously funded by ARPA that need ongoing funding decisions, including mental health clinician, eviction prevention services, cybersecurity analyst, transit operations, and various other programs. The total impact is included in the \$4 million deficit projection.

Council agreed to continue funding all expiring federal programs, with the understanding that detailed efficacy information would be provided for future review.

Social Services Funding

Human Services Advisory Board (HSAB) funding increased from \$550,000 to \$750,000 in fiscal year 2026. Council discussed whether HSAB funding should be protected from cuts if departments face reductions.

Council agreed that HSAB funding should not be decreased, even if other departmental budgets face cuts, though it would not automatically increase if departments don't receive inflation adjustments.

Hotel Occupancy Tax Fund

The hotel tax fund supports tourism marketing, downtown events, arts, and historic preservation with revenues from 7 percent occupancy tax and 2 percent venue tax. Staff projects conservative 1 percent annual revenue growth with 3 percent expense increases.

Council made several decisions regarding hotel tax usage:

Council unanimously approved continuing to budget hotel tax revenues based on historical conservative trends.

Council unanimously supported allocating funding for historical restoration and preservation based on capacity, with a maximum of approximately \$500,000, prioritizing city owned properties first before opening to community applications.

Council also directed staff to research how other cities use hotel occupancy tax revenue to support policy objectives and create allocation recommendations by specific percentages.

Community Enhancement Fund

This fund supports beautification activities through residential and commercial enhancement fees.

Council supported funding both the I 35 improvement program and Sunset Acres fencing project, with priority given to Sunset Acres.

Council also approved increased operational expenses of up to \$250,000 for maintaining Highway 123 and I 35 plantings.

Enterprise Funds

Electric Fund

Council unanimously supported continuing current electric rate increase policies to achieve debt service coverage ratio of 1.5 range by fiscal year 2029.

Water/Wastewater Fund

Similar to electric, council supported continuing incremental rate adjustments to reach recommended debt service coverage ratios of at least 1.2.

Council unanimously approved continuing current water/wastewater rate policies to achieve recommended debt service coverage ratios by 2030.

Stormwater Fund

Council supported the hybrid funding approach where stormwater fund covers up to \$5 million in capital projects with general fund assistance for additional amounts .

Resource Recovery Fund

The fund shows capacity with approximately \$400,000 annual surplus being reserved for a future resource recovery center. No specific decisions were required.

Airport Fund

Council established fund balance requirements for the airport fund and deferred dedicating property tax revenues generated at the airport back to airport operations until fiscal year 2028, given general fund constraints.

Council consensus directed the establishment of fund balance requirements for the airport fund.

Council consensus deferred dedication of airport property tax revenues to airport operations until FY 2028.

Transit Fund

The transit fund requires increased general fund contribution of \$213,000.00 in fiscal year 2027 and \$350,000.00 annually thereafter due to reduced federal and state funding reductions.

Council Member Rodriguez and Mayor Hughson thanked staff for extensive work. Finance Director Locke and the finance team were recognized for clear

presentations and long term projections.

IV. Question and Answer Session with Press and Public.

Laura Benavides asked several questions about various budget items including:

Slide 47: What's the agreement with school district?

Slide 48: Where can I find conditional use permit committee meetings?

Slide 50: What is Police Community Outreach?

Slide 55: Looking for background info on success rate. Is there a survey?

Slide 60: What is the affordable housing spreadsheet?

Slide 68: Is there a specific amount allotted to historical sites? Specific committee for this?

Slide 70: Are there specific amounts per support item?

Slide 73: Who made the decisions on Sunset?

Are we practicing horticulture?

Rather than fencing, can we construct sidewalks on 123 between WW and high school instead of beautification?

Who makes the adoption determinations?

City Manager Ms. Reyes stated that the answers will be provided by email to Ms. Benevides. Councilmember Rodriguez asked for those answers to be provided to the council also.

Ms. Reyes noted that the participatory budget process continues.

She also stated that there would be town halls held regarding the budget, dates to be announced.

V. Adjournment.

Mayor Hughson adjourned the Budget Policy Workshop meeting at 9:26 PM.

Elizabeth Trevino, City Clerk

Jane Hughson, Mayor