



City of San Marcos

FY 2026 Budget Adoption

September 16, 2025

Fiscal Year 2026 Budget Calendar



BUDGET EVENT	DATE	DONE
Council Visioning & Strategic Planning Work Session	January 30 – 31	✓
Budget Policy Workshop	February 27	✓
Budget Policy Adoption	March 18	✓
Neighborhood Commission Presentation	April 16	✓
Budget Workshop & Preliminary CIP	May 20	✓
Budget Workshop	June 26	✓
Budget & Maximum Tax Rate Set	August 19	✓
Neighborhood Commission Presentation	August 20	✓
Public Hearings on Budget, Tax Rate & Fee Changes / CIP Submitted to Council	September 2	✓
Public Hearings on Budget and Tax Rate / Budget, Tax Rate & CIP Adoption	September 16	✓

PRELIMINARY
TAX ROLL: ✓
APRIL 30th →

CERTIFIED
TAX ROLL: ✓
JULY 25th →

→ We are
here



General Fund



Balancing the General Fund

- Current Circumstances

- Revenue and expense forecasts are based on assumptions, and the forecasted expenses are growing at a faster rate than forecasted revenues. The assumptions are discussed later in this presentation.
- Forecasted growth of property tax and sales tax revenues, which are the primary General Fund revenue source, are very low and reflect the current period of economic uncertainty of the nation.
- Annual sales tax revenues declined over the last several years and remain at low levels. FY26 is expected to be lower than in FY23.
- Three properties purchased by Housing Finance Corporations would bring in \$629,000-this money is included in tax rate calculations but can't be spent until we know there will not be an appeal.
- For the second year in a row, the value of new development has only been enough to make up for declines in the value of existing properties.



Balancing the General Fund

- Actions Taken to Right-Size Department Expenses

- In FY25, departments kept budgets flat.
- In FY26, departments together cut \$100,000 from their budgets.
- Implemented managed hiring program.
- *(Underway)* Review staffing to see if work can be done more efficiently with fewer people as attrition occurs.
- *(Underway)* Update the vehicle leasing study to ensure the program is still cost-effective based on current interest rates.
- *(Underway)* Review the take-home vehicle policy to identify changes to create efficiencies.
- *(Underway)* Review how vehicles and radios are assigned across departments to use them better and lower costs.



Balancing the General Fund

- The Significance of the Property Tax Rate

- Services provided by General Fund Departments and the ability to pay for debt to build new capital projects depends on growth in sales and property tax revenue
 - Capital project examples: Fire stations, roads, and flood control systems. Funding for these projects has been reduced from \$20 million to \$10 million per year.
- The State Legislature has laid the groundwork to further limit the City's local control authority to set the property tax rate at a level that can financially support the needs of our growing community.
 - It took more than one legislative session for the State Legislature to cap the property tax rate growth from 8% to 3.5%.
- For FY 25/26, a tax rate of 67.69¢ would bring in an additional \$3.6 million in property taxes compared to the tax rate of 64.96¢.



Setting the Property Tax Rate



Proposed Property Tax Rate

- Factors Considered

- Unlike other sources of revenue (such as sales tax), the annual property tax revenue estimate can largely be relied upon.
- New commercial construction results in new property tax revenue, but this new property tax revenue can be offset during economic downturns which lead to decreases in existing residential and commercial values.
- The State Legislature has eroded and continues to propose legislation for eroding local control to set the annual property tax rate.
- Property tax rates (including the school district and county) directly impact residents and businesses.
- Similarly, the General Fund services (such as Police, Fire, EMS, Parks, Library, and Public Works) directly support residents and businesses.
- The availability or lack of new property tax revenue impacts the ability to sustain or increase the services provided through General Fund Departments.

Property Tax Rate Definitions



- Current Rate = 60.30¢ per \$100 of property value: the tax rate used for the current fiscal year and three previous fiscal years
- No-New-Revenue Rate (NNR) = 62.78¢: this tax rate provides enough ongoing revenues to be structurally balanced and will produce the same amount of money as last year on the same properties, even with property value changes; does not provide funding for current and future needs
 - Exceeding this rate requires approval from 5 Council members
 - This was rate used to prepare the FY 2026 Proposed Budget
- Tax Rate Option #1 = 64.96¢: this rate provides enough ongoing revenues to be structurally balanced and goes a step further by providing some funding for current and future needs; rate shared with City Council as the estimated NNR at the time of the June Budget Workshop
 - **Requires approval from 5 Council members**

Property Tax Rate Definitions



- Tax Rate Option #2 = 67.69¢: **Staff recommends this tax rate** to provide more funding for current and future needs; this rate was set by City Council as the maximum proposed tax rate on August 16th
 - **Requires approval from 5 Council members**
 - **This is the maximum tax rate Council can adopt for FY 2026**
- If City Council does not adopt a tax rate, the tax rate for FY 2026 will be the lower of the NNR (62.78¢) or current rate (60.30¢)
 - **Tax rate would be 60.30¢, requiring a \$2.2M cut from the proposed budget and \$0 funding for current and future needs**
- Voter-Approval Rate = 69.41¢: Tax rate any higher than this rate requires an automatic election. Council cannot adopt this rate since the maximum tax rate was set at 67.69¢
- Note: Senate Bill 10 stalled during the second special session, unknown if and/or when a third session would be called

Tax Rate Summary



Description	No-New- Revenue Rate	Option #1	Option #2
	62.78¢	64.96¢	67.69¢
Structurally balanced budget	✓	✓	✓
HSAB increased by \$200K	✓	✓	✓
Office of Community Support & Resource Navigation	✓	✓	✓
FY 2026 funding for EMS	\$0	\$0	Up to \$2M
Department Supplemental Requests	\$100K	\$100K	\$100K
FY 2026 shortfall	\$0	\$0	\$0
Available to address current & future needs	\$0	\$1.9M	\$2.3M
Available for one-time expenses in FY 2026	\$0	\$0	\$1.3M
FY 2026 annual city tax for average taxable value	\$2,087	\$2,159	\$2,250
Change in annual city tax from FY 2025 at 60.30¢	(\$25)	\$47	\$138

Source: FY 25 (Hays Central Appraisal District - Certified Roll) - \$365,297;

FY 26 = FY 25 values reduced by 4.9% (Zillow Single-Family Home Value Index – values between 35-65% range) - \$347,398



**If Tax Rate is
Set at 67.69¢**



On-Going Current and Future Needs	Amount	Federal Funding Expiring
Emergency Medical Services (EMS) operating expenses (pending study)	\$ 2,000,000	
Staffing for Engine #7 (Year 1 of 3)	743,623	
2 Cybersecurity Analysts	208,460	✓
1 Downtown Grounds Specialist	69,947	✓
Transit Federal funding expiring	350,000	✓
Citywide software allocation (Year 1 of 4)	250,000	
Intrusion Prevention System for IT	30,188	✓
Internet connection improvements at Police building	10,091	✓
Public Service Center Emergency Operations Data Services	7,711	✓
Chatbot tool for Communications	6,469	✓
Access to Candid Directory for Library	3,450	✓
Eviction Prevention Services	60,375	✓
Mental Health Clinician	60,375	✓
Diversion Beds (Evoke Wellness)	43,125	✓
Prevent a Litter Central Texas Partnership	38,813	✓
Total	\$ 3,882,627	

With a tax rate of 67.69¢ a total of \$3,573,132 is available to fund current and future needs:

- \$2,252,465 is available for on-going needs
- \$1,320,667 is available for one-time needs

Priority Community Need

Pending award of SAFER grant

On-going staffing previously approved

On-going operations previously approved

Shift to HSAB funding process?



One-Time Funding for Current and Future Needs	Amount
EMS start up capital outlay expenses	Unknown
Other needs not listed	Unknown
Radio replacement	Up to \$4M
Home repair (Mission Able and Operation Triage)	\$ 400,000
Participatory Budget Process	250,000
Commemorative Air Force Hangar doors rehabilitation	200,000
Replastering Rio Vista Pool	207,000
Parks Equipment	192,218
Erosion control and foundation stabilization at Price Center	180,000
Generator match for Dunbar & Activity Center	150,000
Grant Harris Entryway ADA repair	125,000
Traffic signal battery backup	120,000
Modernization/Upgrade of building 3 elevator (ADA/Life Safety)	110,000
Tree removal assistance program	100,000
Laserfiche upgrade implementation	98,000
Stripping and repainting natatorium ceiling	60,000
Heirship and legal assistance	25,000

For tax rate option #2 (67.69¢), Council can fund \$1,320,667 toward one-time funding for current and future needs

Is Council comfortable with staff prioritizing this list?
Should anything be added and/or removed?

Discussed at last meeting, should it be added to the list?

Recommended Tax Rate Forecast - 67.69¢

- General Fund Forecast Assumptions for FY 2027 – FY 2036



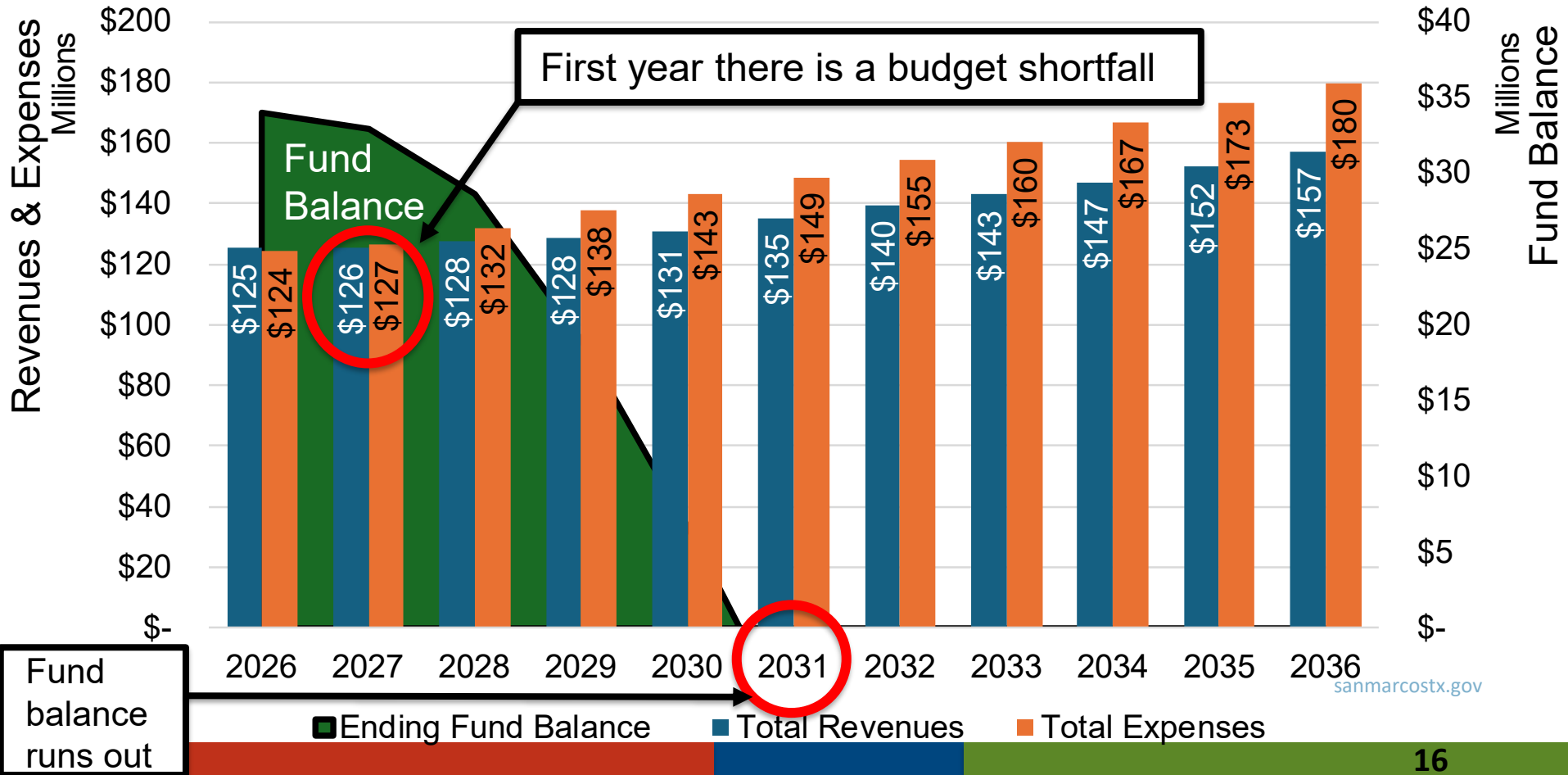
Revenues

- Annual property tax valuation change – 2.5% (tax rate = 67.69¢)
- Average sales tax growth – 1.8%

Expenses

- Annual personnel – 3-5% (contractual increases for Meet & Confer)
- No new positions
- Annual operations – 3% for inflation
- No operational budget for paying for a new City Hall
- Expiring Federal funding – \$1.1M (FY27 \$928K, FY28 \$201K)
- Engine #7 staffing – \$2.2M (1/3 over FY27-FY29)
- Citywide software allocation – \$1.0M (1/4 over FY27-FY30)
- Emergency Medical Services – \$2.0M annually beginning in FY26

Recommended Tax Rate 67.69¢



Major Takeaways



- Service delivery and infrastructure costs, which are needed to support our growing community, are outpacing forecasted property and sales tax revenues.
- Setting the tax rate at 67.69¢ will better align the forecasted rate of property tax revenues to address current and future needs.
 - With the EMS service delivery model changing, it is unknown what the operating expense impact will be (estimating \$2 million)
 - Previously approved expenses for expiring federal funding of \$1.1 million
- The State Legislature is signaling their intent to further restrict the Council's local authority to adjust the property tax rate.
 - There is a compounding effect in the rate set for FY26 on future years (higher rate set now = more capacity in future)

Budget Public Hearing and Vote



- Hold a public hearing on the budget
- Record vote on budget

Fund Summary



Consolidated Fund Balance Statement FY 2026 Proposed Budget	FY 2026 <i>Beginning*</i> Fund Balance	FY 2026 PROPOSED Revenues	FY 2026 PROPOSED Expenses	FY 2026 <i>Ending</i> Fund Balance
General Fund	\$ 34,311,185	\$ 125,459,590	\$ 127,131,778	\$ 32,638,997
Electric Utility Fund	32,963,378	85,103,463	84,430,378	33,636,463
Water & Wastewater Utility Fund	32,942,474	77,004,022	76,066,884	33,879,612
Debt Service Fund	16,195,687	19,002,541	19,112,406	16,085,822
Health Insurance Fund	4,875,065	13,514,824	12,581,457	5,808,432
Stormwater Utility Fund	3,091,626	9,997,840	10,347,840	2,741,626
Tax Increment Financing	5,498,757	10,286,426	8,852,991	6,932,192
Resource Recovery Fund	3,765,751	8,753,438	8,381,833	4,137,356
Information Technology ISF	-	7,695,466	7,546,297	149,169
Hotel Occupancy Tax Fund	4,189,115	4,759,207	5,634,207	3,314,115
Transit Fund	693,947	4,722,760	4,872,760	543,947
All Other Funds	2,390,101	4,158,329	4,496,278	2,052,152
Community Enhancement Fund	754,346	1,304,696	1,002,323	1,056,719
Regional Airport Fund	138,027	937,305	882,503	192,829
ALL FUNDS	\$ 141,809,459	\$ 372,699,907	\$ 371,339,935	\$ 143,169,431

*FY 2026 Beginning Fund Balance is an estimation of FY 2025 Ending Fund Balance



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Thank You