



Meeting Minutes
City Council

Thursday, February 20, 2020

4:30 PM

City Council Chambers

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 4:35 p.m. Thursday, February 20, 2020 in the City Council Chambers, 630 E. Hopkins, San Marcos, Texas 78666.

II. Roll Call

- Present:** 5 - Mayor Jane Hughson, Mayor Pro Tem Ed Mihalkanin, Deputy Mayor Pro Tem Mark Rockeymoore, Council Member Maxfield Baker and Council Member Saul Gonzales
- Absent:** 2 - Council Member Melissa Derrick and Council Member Joca Marquez

PRESENTATIONS

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2020-2021 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

Bert Lumbreras, City Manager provided a brief introduction and explained that with this Budget Policy the City will be taking a very conservative approach and planning for a worst case scenario.

Mr. Lumbreras turned the presentation over to Heather Hurlbert, Director of Finance and Melissa Neal, Assistant Director of Finance.

Ms. Hurlbert reviewed the FY 2019 Year End Summary including the:

- General Fund – Revenues were lower than expected by \$108,000.
Expenses came in lower than budgeted by \$2,100,000**
- Electric Utility Fund – Revenues were lower than expected by \$4,000,000.
Expenses came in lower than budgeted by \$4,930,000**
- Water/Wastewater Utility Fund – Revenue was lower than expected by \$2,310,000.
Expenses came in higher than budgeted by \$3,624,000**
- Drainage Utility Fund – Expenses came in lower than budgeted by \$420,000**
- Airport Fund – Revenues were lower than expected by \$52,00.
Expenses came in lower than budgeted by \$27,400**

- **Hotel/Motel Fund – Revenues were higher than expected by \$480,700. Expenses came in lower than budgeted by \$158,200**

Ms. Neel continued the presentation and 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**

The budget timeline was outlined which included the budget policy workshop held this evening, budget policy adoption, budget work session and CIP update, budget workshops, Public Hearing and adoption of budget and tax rate, and finally the year end closeout and implementation of budget.

Ms. Neel stated the economic indicators include unemployment, wages, hourly rate, home prices, and consumer price index (CPI).

The 2020 21 Strategic Initiatives were discussed briefly, but will be brought back to discuss in further detail next week. These include:

- **Multi-Modal Transportation**
- **Workforce Development**
- **Workforce Housing**
- **Downtown Vitality**
- **Sustainability**

General Fund Revenue includes:

Property Tax – 24% (First year of SB2 Property Tax Cap @ 3.5%)

Sales Tax – 46% (Comptroller Sales Tax ruling: change in definition of place of business determining collection point) They include the following:

- **Base – 51% (7% average growth over last 12 months. Potential loss of \$1.8M pending Comptroller interpretation of ruling.)**
- **Outlet Malls – 24% (4% average growth over last 12 months. Positive growth since September 2017)**
- **Best Buy Call Center – 25% (FY20 budgeted revenue of \$8M, retained collections \$2M. Potential FY23 revenue loss pending Comptroller ruling)**

All Other – 30% (other fees forecasted using historical growth trends)

Ms. Neel provided the committed funding to the general fund:

- **Preliminary forecasted base budget could require \$4M increase of General Fund capacity**
- **Does not include any new or additional funding towards Animal Services Live Outcomes initiatives**
- **Budget requests last year for new personnel & operating expenses >\$8M with \$800K approved for funding (not including base increase)**

The General Fund Capacity Options include:

Reduce fund balance

- **Reducing required fund balance from 25 to 20% could reduce revenue requirements of \$1.2 \$1.5M**

Operating process

- **Identify potential cost savings through revised budget process**
- **Explore potential reduction in service levels**

Diversify revenues

- **Explore new revenue sources in General Fund to recover cost of services provided.**

Other

- **Capital Improvement Plan (CIP)**
- **Refinance TIRZ (Tax Increment Reinvestment Zone) #2 Blanco Vista**
- **TRZ (Transportation Reinvestment Zone) #1 – Loop 110**

Current operating process:

- **Zero based budget**
- **Federal/State mandate**
- **Operational necessity**
- **Core services**

When looking at General Fund Revenue Diversification we can look at the following:

- **Implementation of fees to achieve cost recovery**
- **Introduction of new fees**
- **Alternative funding sources such as paid parking, expenses to paid out of TIRZ, Redwood/Lantana projects to fund Workforce Housing in future years**
- **Restructure economic development incentive policy**

TIRZ #2 Refinance

- **Blanco Vista TIRZ was created in 2005 for the construction of a bridge over the railroad tracks at Yarrington Road**
- **Total amount owed developer was \$9.6M**
- **Interest equal to Prime rate plus ½% (currently 4.75%) paid on outstanding principal since completion in 2008**
- **Slower than expected growth in the early years lead to payments being applies to a total of \$5.67M in interest**
- **FY2020 payment of an estimated \$1.5M will pay down approximately \$945K of principal**

TIRZ #2 Refinance Recommendation:

- **Negotiate a payoff with developer**
- **Issue debt at a lower interest rate to pay off amount owed to developer**
- **Use proceeds from TIRZ increment to pay debt service – no effect on General**

Fund capacity

- **Dissolve or repurpose TIRZ**
- **Future growth will create capacity in General Fund and full capacity will move in General Fund when debt is paid**

Additional General Fund considerations that have been requested or discussed:

- **Emergency Medical Services (EMS) expansion of service**
- **Transition Municipal Court Judge from part time to full time**
- **Sustainability**
- **Youth Services Funding**
- **Historic Preservation**

Ms. Neel discussed the Enterprise Fund Revenue. Model rates over a multi year period will be utilized to determine required adjustments:

Operations & Maintenance

Capital Needs & Existing debt Obligations

Current and future infrastructure needs

Increase rates in small increments over time to meet future needs

Other forecasting assumptions:

- **Hotel Occupancy rates show favorable growth**
- **Stormwater rate study**
- **Transit cost per hour**

Upon completion of the Presentation, Council provided direction on the

following items:

- **Tax Rate Not to exceed voter approval tax rate – Council consensus is to not exceed voter approved tax rate.**
- **Fund Balance – Council consensus is to maintain the 25% fund balance but decrease this to 20% if absolutely necessary. Council asked that staff bring back the amounts if this balance was 24%, 23%, 22%**
- **Social Services & Other (General Fund Committed Funding Slide) Social Service Funding – Council consensus is to keep these funding amounts**

Youth Initiatives Funding Council consensus is to not release the (\$56,000) youth funding that was placed on hold last Fiscal Year

Museum Funding – Mayor Pro Tem Mihalkanin recused himself during the discussion on museum funding due to his affiliation with the LBJ Museum. Council consensus is to maintain the \$100,000 funding.

Other funds – Council consensus is to keep the \$5000 funding for Veterans Day, \$15,000 for Summer Fest, and \$30,000 for Special Events. Council will discuss Sights and Sounds funding at a later date. Council did not reach a consensus on the homebuyer's incentives, so this will be brought back next week for further discussion.

- **Merit Increase – This will be discussed further into the budget process to determine capacity.**
- **Revenue Diversification Staff will bring this back for further discussion**
- **TIRZ Refinancing – Council consensus is to refinance TIRZ #2**

Additional Considerations:

- **EMS Expansion of Services David Smith, Chief of Hays County EMS, provided a brief update on their services and what communities they serve. There is a need for more ambulances to provide adequate services in San Marcos. The Fire Department is first response, but EMS will transport to a hospital. If services are not expanded this will create a longer wait time for the Fire Department while treating on the scene. They are asking for 1 additional power truck and staffing, approximately \$600,000. Matt Weinberg, provided the response time of EMS within the City of San Marcos. Council consensus is to fund this request.**
- **Municipal Court Judge to Full Time – Council would like to receive justification on why this is necessary, but many of the Council Members are in support and a decision will be made at the next meeting. Would like to receive**

an amount of this funding request.

- **Sustainability – consensus is to talk with committee to further discussions on sustainability, but no additional funding request at this time.**
- **Historic Preservation – No additional funding at this time.**

III. Adjournment.

Mayor Hughson adjourned the budget policy workshop meeting of the City Council at 7:48 p.m. Thursday, February 20, 2020. The motion carried by the following vote:

Tammy K. Cook, Interim City Clerk

Jane Hughson, Mayor