



City of San Marcos

Budget Workshop

Fiscal Year 2027

May 19, 2026



Agenda

- **Budget Calendar**
- **Economic Development**
- **Economic Indicators**
- **General Fund**
 - Sales Tax and Property Tax
 - Forecast
 - Considerations
- **Community Benefit Charge Update**
- **Destination Services Update**

Fiscal Year 2027 Budget Calendar



BUDGET EVENT	DATE	DONE
Council Visioning & Strategic Planning Work Session	January 29 – 30	✓
Budget Policy Workshop	February 26	✓
Budget Policy Adoption	March 31	✓
Neighborhood Commission Presentation	April 15	✓
Budget Workshop & Preliminary CIP	May 19	✓
Budget Workshop	June 25	✓
Budget/CIP Submitted to Council & Maximum Tax Rate Set	August 18	✓
Neighborhood Commission Presentation	August TBD	
Public Hearings on Budget, Tax Rate & Fee Changes	September 1 & 15	
Budget, Tax Rate & CIP Adoption	September 15	

**PRELIMINARY
TAX ROLL:
APRIL 30th** ✓

We are here

**CERTIFIED
TAX ROLL:
JULY 25th**



Economic Development



Strategic Goal: *Economic Vitality*

What is the role of Economic & Local Business Development?



- Strengthen and diversify our City's economic foundation by supporting investment in long standing local businesses, while attracting new opportunities for growth.
- Create long-term sustainability and resiliency for generations to come by:
 - Providing a mix of residential and commercial opportunities to properly expand our current tax base, while expanding employment for residents.
 - Accelerating commercial and targeted industry that reduces the tax burden on residential property owners.
 - Ensuring incentive strategies are aligned with community values such as child care, health benefits, wages, workforce training, support small businesses citywide and downtown, all while improving overall quality of life.
- Revenues from new development take time to show up on the property tax roll.
 - Examples include Buc-ee's, HEB, Downtown Hotel & Carmax will show up in FY28

Why support Economic Development?



- Economic development:
 - Accelerates employment opportunities leading to more employment and better wages that increases the standard of living for our residents.
 - Diversifies and expands the tax base, thereby reducing the tax burden on residents.
 - New businesses require a supply chain of goods and services that promotes local businesses and their possible expansion thereby fostering the retention of current businesses.
 - Improves quality of life by bringing needed amenities to the City; from recreational, to tourism and family-friendly entertainment.

Why support Economic Development?



- Economic development, continued:
 - Supports community values including affordable housing, fire stations, parks, infrastructure, childcare, health benefits, wages, workforce training, entrepreneurship and small business/micro-businesses.
 - Introduces diverse target industries that provide for diversification of our economy and intergenerational workforce and employment.
- Diverse Economic Development Toolbox:
 - Tax Increment Financing (TIF)
 - Public Improvement District (PID)
 - Chapter 380 Agreements
 - Entitlements
 - (Zoning, Development Agreements, etc.)



Tax Increment Financing Overview



- Tax increment financing (TIF) – is a financing method local cities and counties can use to pay for improvements including beautification, infrastructure, transit, lighting, historic preservation, parking amenities, etc. that will spur economic development in a geographical area that is important to a community such as Downtown.
- City has two types:
 - Transportation Reinvestment Zone (TRZ): 1 active zone
 - Tax Increment Reinvestment Zone (TIRZ): 3 active zones

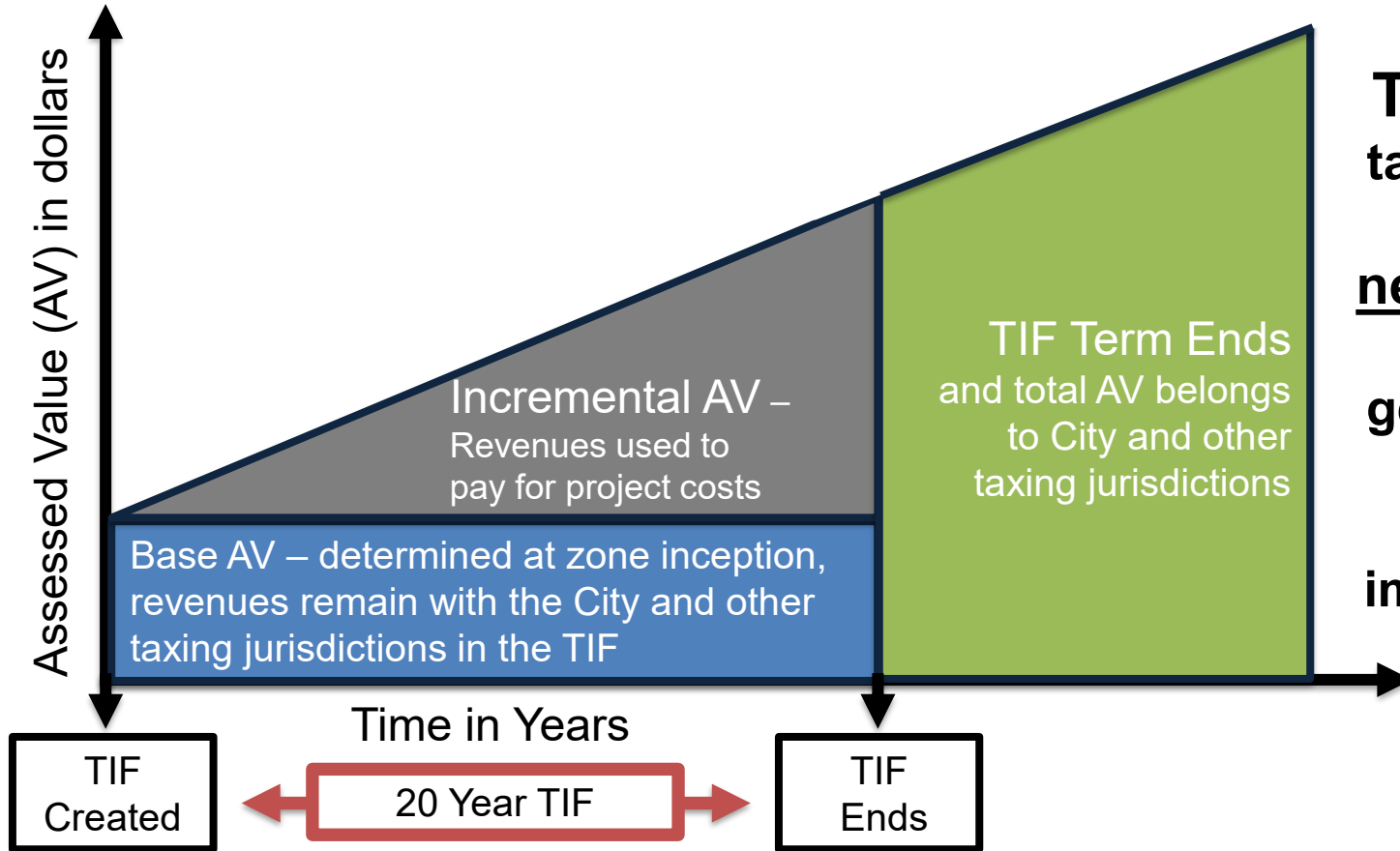


Tax Increment Financing Overview



- TIF benefits:
 - Boosts development that grows property values and increases overall property tax revenue to fund much needed city services.
 - Provides funding for Capital Improvements and public infrastructure in areas experiencing deferred maintenance and difficulty attracting and/or retaining existing businesses.
 - Decreases the cost of private development by providing reimbursement for qualified public improvements that spurs new development and reduces risk.

Tax Increment Financing Overview



TIF is not a new tax, it redirects a portion of the new property tax revenue generated within a geographical area to pay for improvements in the zone

Chapter 380 Agreements

- Chapter 380 of the Local Government Code authorizes municipalities to offer incentives designed to promote economic development
 - City's economic development policy permits **performance-based** incentives in the form of sales or property tax rebates, job-based grants, or waivers.
 - 14 active Chapter 380 agreements
 - [\(Link to Texas Comptroller Public Database\)](#)



Chapter 380 Agreements

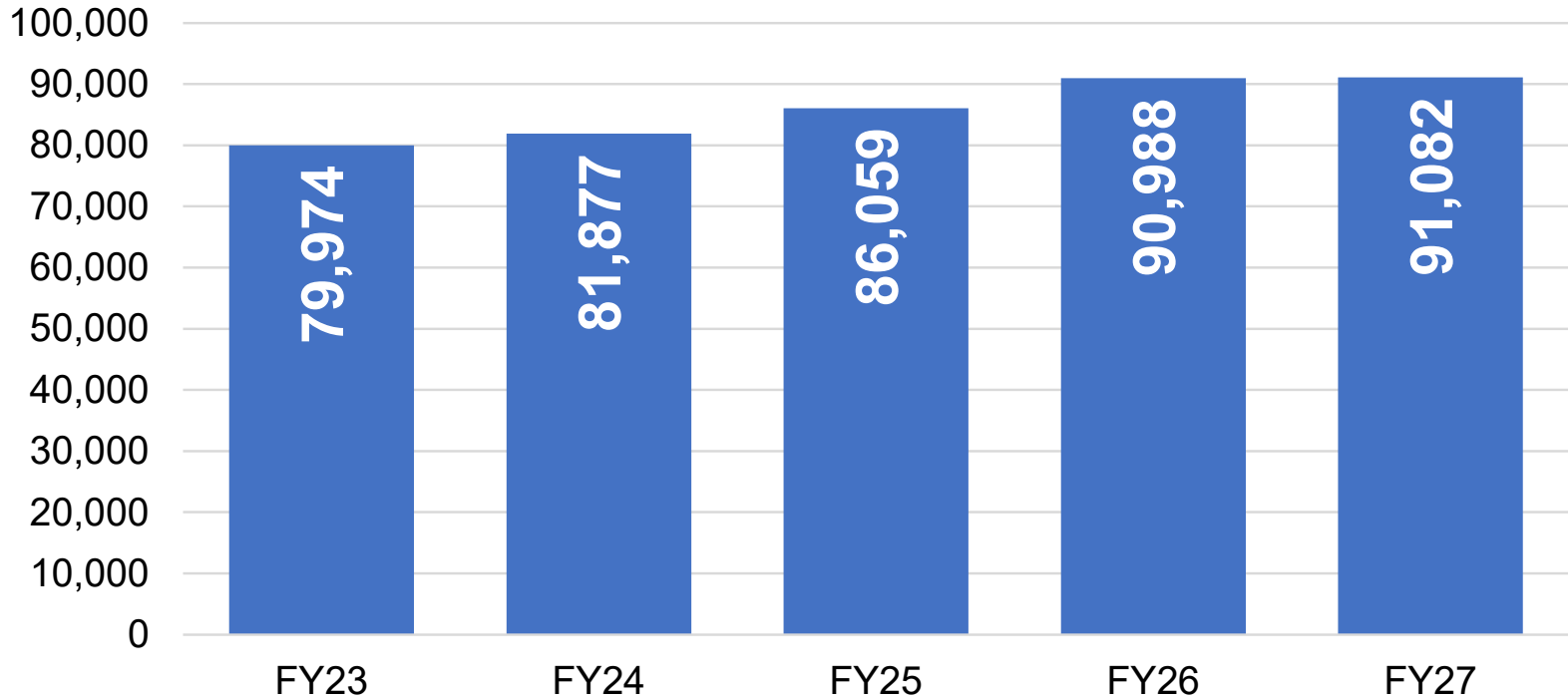


- Eligibility is based upon net benefits measured by jobs, wages, contracting opportunities for local businesses (small and disadvantaged), environmental sustainability, workforce training, cultural and charitable programs in our community.
- Provides the opportunity to offer incentives to attract targeted industry, leading edge technology, and capital investment.
- Supports small, medium, and large sized business.
- Enables the City to bring in desirable businesses that enhances the community's quality of life.
- Cultivates a thriving community and environment for current and future generations to thrive and succeed.



Economic Indicators

City Population

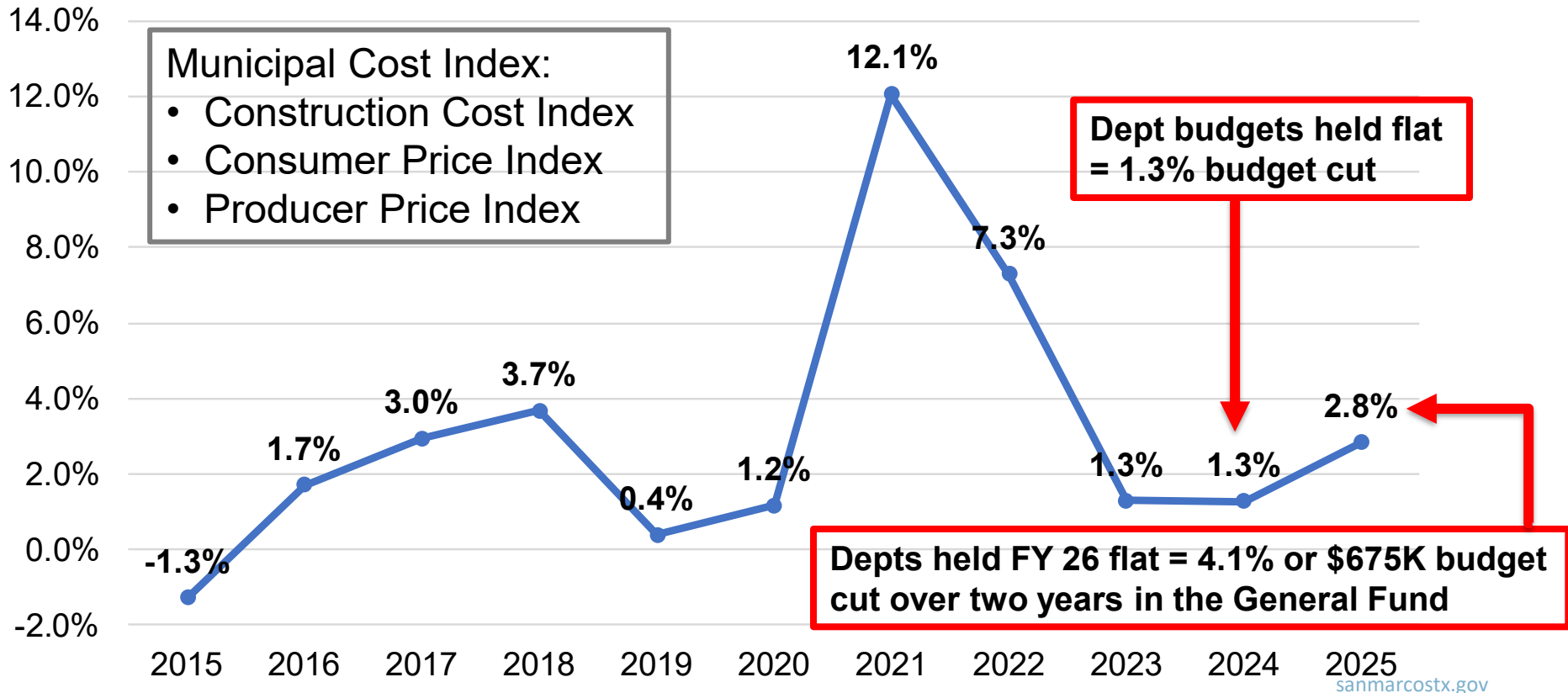


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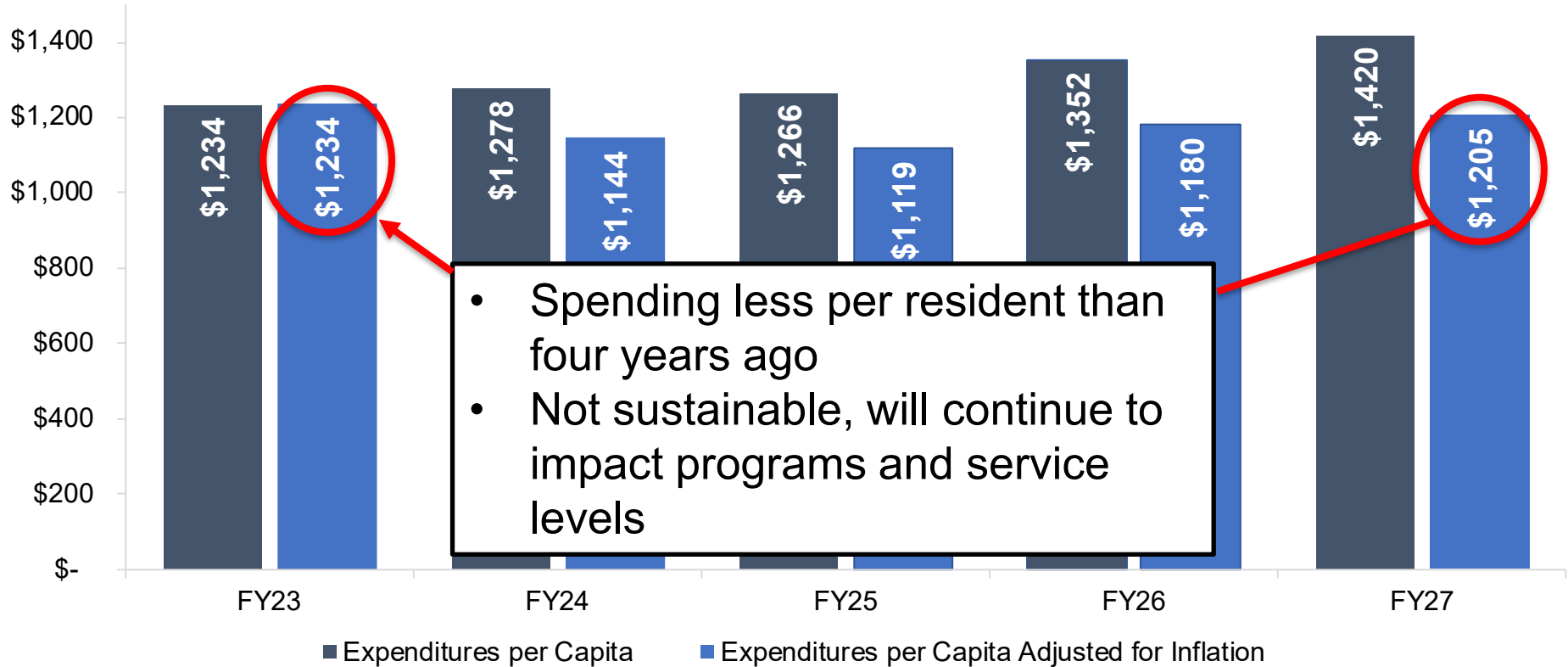
Source: City of San Marcos Planning & Development as of January 1st (ex. FY27 = Jan. 1, 2026)



Inflation – Municipal Cost Index



General Fund Expenses Per Capita



Note: Adjusted for transfers to capital improvement project fund (i.e. City Hall, Municipal Court)



General Fund Major Revenues

1. **Sales Tax**
2. **Property Tax**

Sales Tax – Rolling 12-Month Average



- The City's rolling 12-month average sales tax change was negative for 17 consecutive months, from April 2024 through August 2025.
- The rolling average was declining all of FY24 and was negative almost all of FY25.



Sales Tax – Peer Cities Comparison



Peer Cities	FY26 YTD Totals	PY % change	FY25 YTD Totals
San Marcos	\$ 23,442,368	3.9%	\$ 22,567,986
Austin	\$ 220,965,693	7.0%	\$ 206,600,247
Seguin	\$ 9,844,325	21.3%	\$ 8,115,945
New Braunfels	\$ 30,425,428	13.9%	\$ 26,716,907
Kyle	\$ 12,168,245	8.3%	\$ 11,235,729
Buda	\$ 8,440,112	6.7%	\$ 7,908,260
Regional Averages		10.2%	
Denton	\$ 34,232,611	4.0%	\$ 32,902,123
College Station	\$ 24,618,482	4.2%	\$ 23,615,277
Round Rock	\$ 74,753,990	2.7%	\$ 72,816,934
Bryan	\$ 18,851,144	5.5%	\$ 17,864,432
Garland	\$ 30,632,496	22.0%	\$ 25,103,373
Georgetown	\$ 32,404,118	0.1%	\$ 32,375,929
Sugar Land	\$ 49,207,382	8.3%	\$ 45,441,506
Cedar Park	\$ 29,998,797	4.5%	\$ 28,694,209
Peer City Averages		8.0%	

Through
April 2026
Collections



Sales Tax Considerations

- Sales tax collections have rebounded in FY26.
- Sales tax collections through April 2026 are up 3.9% compared to last year and are up 3.4% compared to the budget.
- The City's financial policy caps budgeted sales tax growth at the same percentage realized in the most recent year with actual growth.
- FY25 saw sales tax growth of 0.2%. Staff is recommending a budgeted sales tax growth of 1.8% due to known contributing factors.
- Sales taxes received from one of the City's largest sales taxpayers decreased \$3M from FY23 to FY25. Removing this sales taxpayer from the past two years would result in sales tax growth of 3% instead of 0.2%.



General Fund Major Revenues

1. Sales Tax

2. Property Tax



Property Value Definitions

- **Market Value** = determined by the appraisal district in each county.
- **Assessed Value** = a property's market value minus any applicable state caps (i.e. 10% homestead cap and 20% circuit breaker cap – applies to commercial).
- **Taxable Value** = a property's assessed value minus any applicable exemptions (i.e. disabled veteran, homestead, personal property, over 65, etc.).
 - Used to calculate property tax due.

Determining Protest Allowance

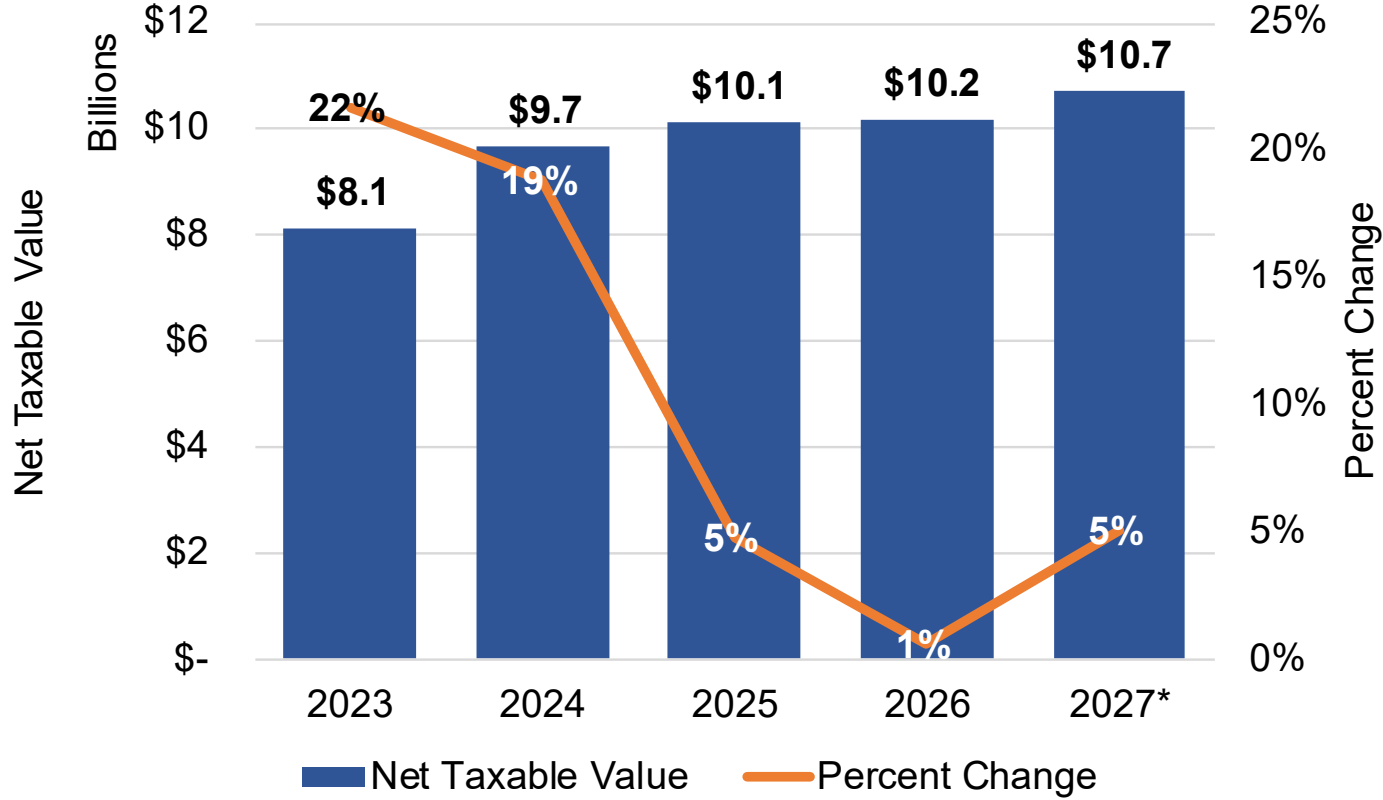


Fiscal Year	Preliminary	Certified	% Change
2023	\$ 8,995,085,000	\$ 8,139,829,920	-10%
2024	10,632,249,991	9,704,346,687	-9%
2025	11,415,635,759	10,148,049,237	-11%
2026	11,138,455,745	10,303,247,222	-7%
2027*	11,762,849,827	10,704,193,343	-9%

3-year average = -9%
5-year average = -9%

*9% allowance for protests

Taxable Value History



Taxable values include the 2 Housing Finance Corporation owned properties. \$82M in FY26 and \$99M in FY27.

Note: 2023-2026 Certified Tax Roll, 2027 Preliminary Tax Roll less 9% for protests

New Property Taxable Value



Fiscal Year	Total New Property Taxable Value Added	New Property Revenue
2023	\$ 388,488,031	\$ 2,295,731
2024	553,105,667	3,268,523
2025	576,134,538	3,404,609
2026	290,865,265	1,857,087
2027*	367,114,483	2,343,916

3-year average = \$411M
5-year average = \$435M

FY 27 New Taxable Value			
Type	Count	Value	Average
Residential	596	\$201,311,928	\$337,772
Commercial/ Industrial	26	\$131,115,869	\$5,042,918
% Complete	<u>13</u>	<u>\$34,686,686</u>	
Totals	635	\$367,114,483	



1 Commercial / Industrial = 15 Houses

3 Commercial / Industrial = 1 Employee

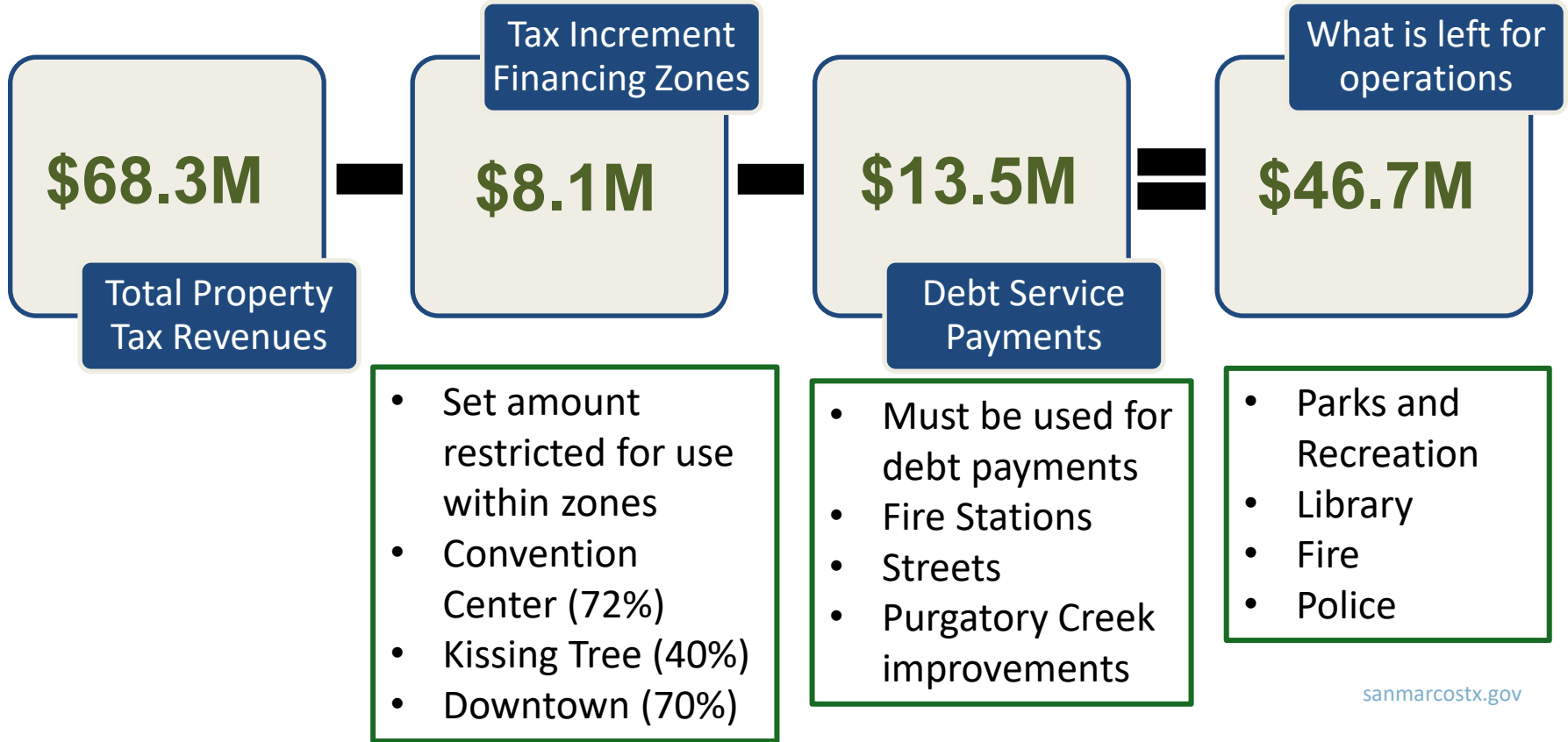
Note: 2023-2026 Certified Tax Roll, 2027 Preliminary Tax Roll



What does this mean for San Marcos residents?



City Property Tax for Operations





Property Tax Rate Definitions

- **No-New-Revenue Rate (NNR)** = the rate that will generate the same amount of property tax revenue in FY27 as in FY26 on properties taxed in both FY26 and FY27.
- **Current Rate** = the rate used in FY26.
- **Voter-Approval Rate** = the rate that increases the operations component of the No-New-Revenue rate by 3.5%, plus the debt rate, plus any unused increment from the prior 3 years (State proposing to reduce as low as 0%).
 - Exceeding this rate triggers an automatic election.



City Estimated Tax Rates

Current Rate

- Rate = 65.15¢
- Annual operations revenue = \$46.7M
- Difference from current rate = \$0

No-New-Revenue Rate (NNR)

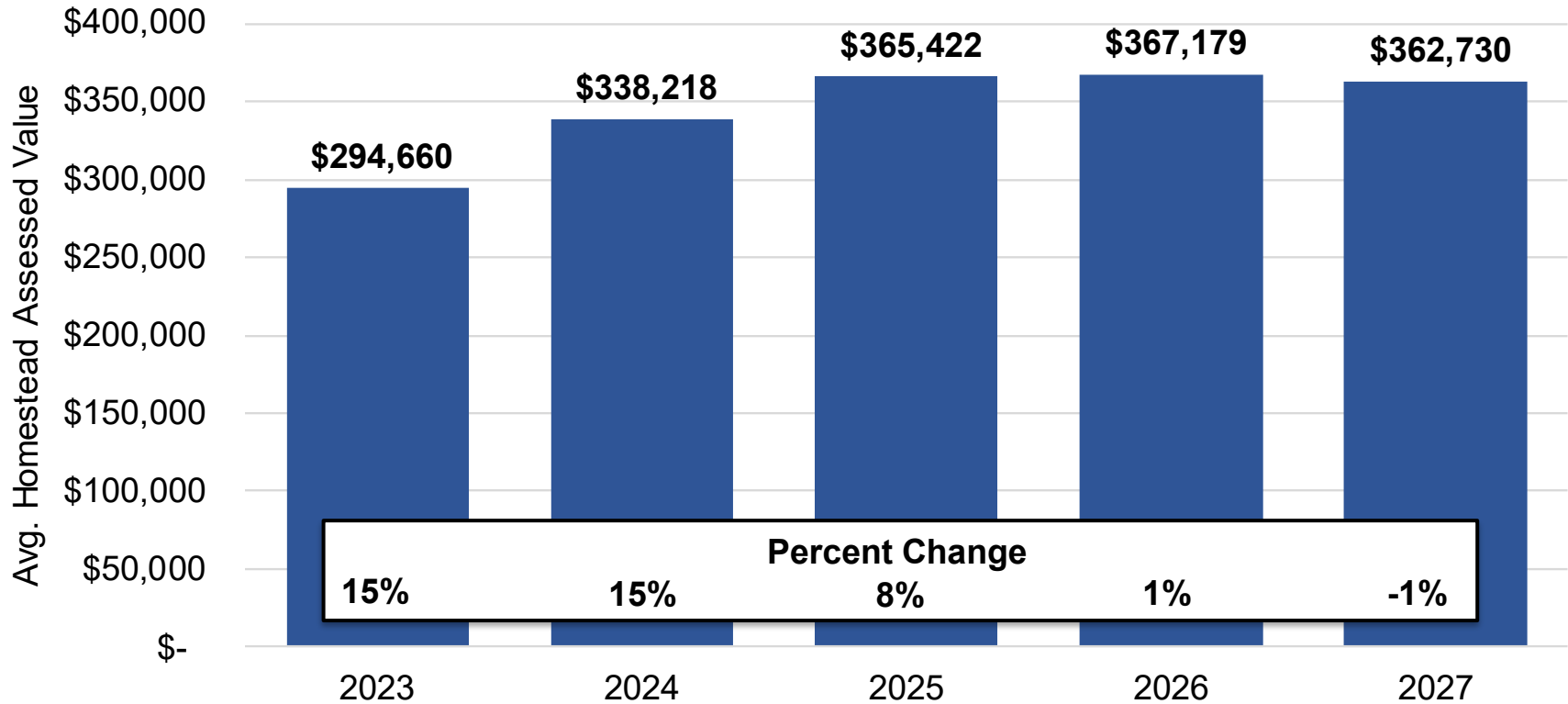
- Rate = 65.60¢
- Annual operations revenue = \$47.2M
- Difference from current rate = \$500K

Voter-Approval Rate

- Rate = 70.32¢
- Annual operations revenue = \$52M
- Difference from current rate = \$5.3M



Average Homestead Assessed Value



Note: 2023-2026 Certified Tax Roll, 2027 Preliminary Tax Roll less 2% for protests

Existing Home: City Annual Tax Bill



FY 2026



Average Taxable Value = \$330,993
City Tax Rate = 65.15¢

City Annual Tax = \$2,059

FY 2027



Average Taxable Value = \$323,623
City Current Tax Rate = 65.15¢

City Current Annual Tax = \$2,011

At 65.60¢ (NNR) City Annual tax = \$2,025



General Fund Forecast Update

Budget Policy Assumptions



• Revenues

- Property Tax – new growth offsets declining existing values; revenue remains flat.
 - New personal property tax law affecting commercial values applied.
 - Includes revenue & offsetting expense from 3 Housing Finance Corporations.
- Sales Tax – average growth of 1.8%, includes estimated growth from Buc-ee's and HEB.
- Other revenues – fees adjusted 3% annually in accordance with Council direction and evaluated independently based on current trends.

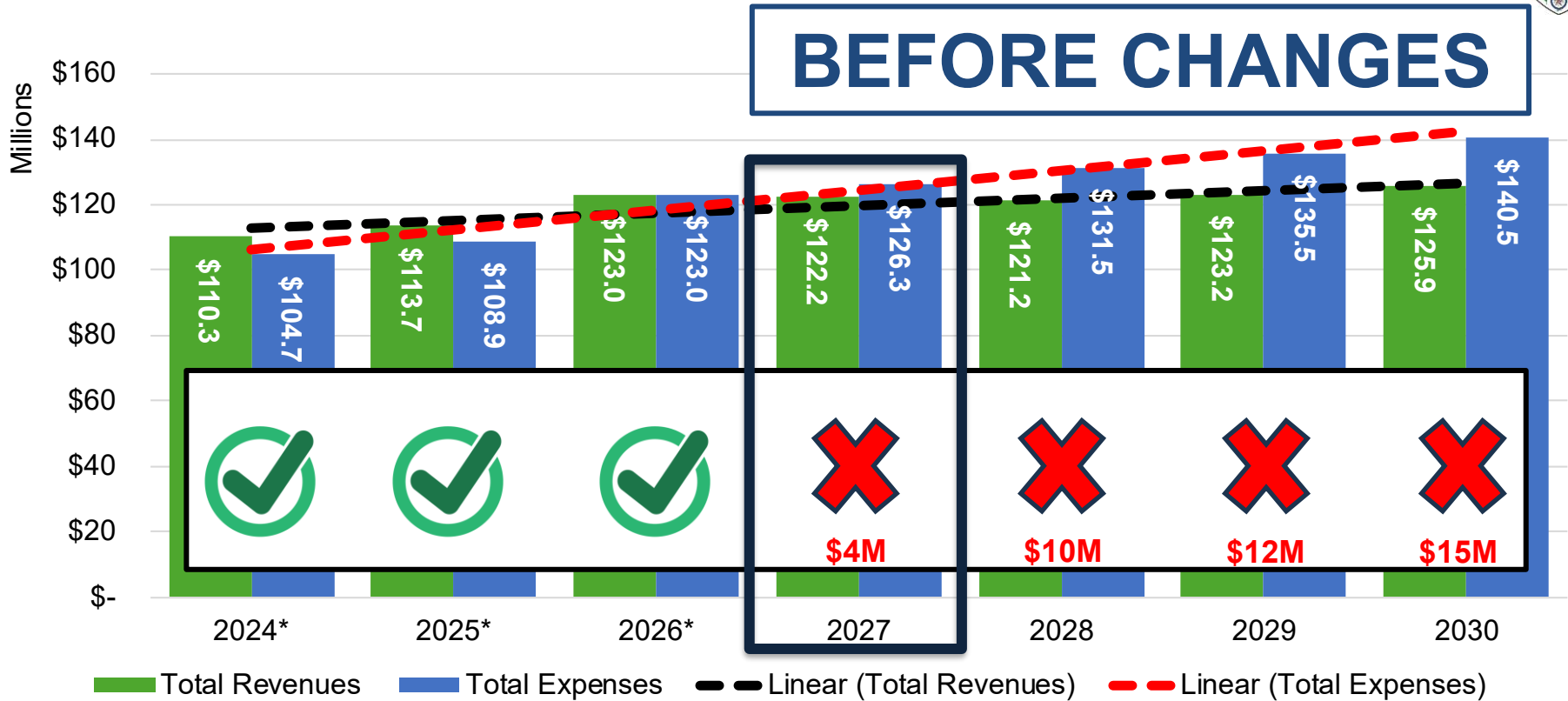
Budget Policy Assumptions



- **Expenses**

- Average 3% (non civil) - 5% (civil for meet & confer) increase to personnel costs (salary + benefits).
- Expiring Federal funding (2 positions and operational expenses).
- Removed City's match for the Staffing for Adequate Fire and Emergency Response (SAFER) Grant.
- Other (equipment replacement, legacy software allocation).
- Does NOT account for retirement incentive program outcomes.
- Does NOT account for any additional funding for Emergency Medical Services or personnel adjustments for the Police staffing study.

Budget Policy General Fund Forecast



*Does not include one-time expenses covered by fund balance more than policy. FY24 = \$5.1M, FY25 = \$9.2M, FY26 = \$3.0M

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X = Not Balanced

✓ = Balanced



What Has Been Done To Address The Forecasted Shortfall?



Budget Cuts Made to Date

- Retirement Incentive Program - \$2M
- Managed Hiring Program - Contributed to YTD Salary Savings of over \$1M
- Department holding budgets flat - \$540K

Ongoing Items to Review

- Staffing Levels as Turnover Occurs
- Fleet Inventory (Will be savings, not as significant as originally expected)
- Vehicle Take-Home Policy
- Reviewing Library and Parks Fees

Emergency Medical Services Update



Resources =
\$8.9M

- Patient revenue = \$3.2M
- City Contribution = \$5.7M

Expenses =
\$8.9M

- Personnel = \$6.6M
- Operating = \$2.3M

What Has Changed Since Budget Policy?

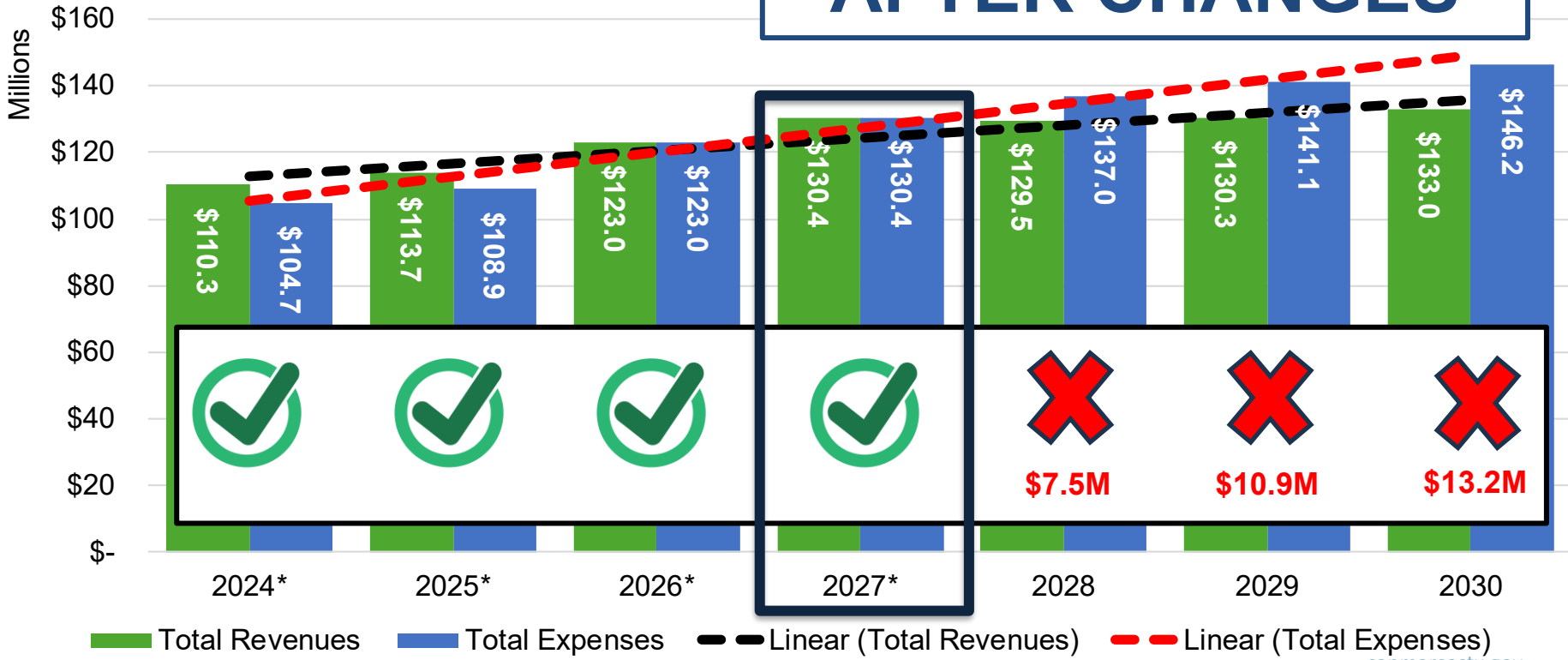


- Revenues
 - Preliminary tax roll higher than expected - \$3M
 - Includes revenue & offsetting expense from 2 Housing Finance Corporations.
 - Added back \$217K for Pecos Housing Finance Corporation property.
 - EMS revenues included - \$3M
- Expenses
 - EMS operating budget - Added \$2M
 - IT infrastructure financing - Added \$700K
 - Retirement incentive program - Reduced \$2M

Revised Forecast – Current Rate 65.15¢



AFTER CHANGES



*Does not include one-time expenses covered by fund balance more than policy.

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FY24 = \$5.1M, FY25 = \$9.2M, FY26 = \$3.0M, FY27 = \$3.0M

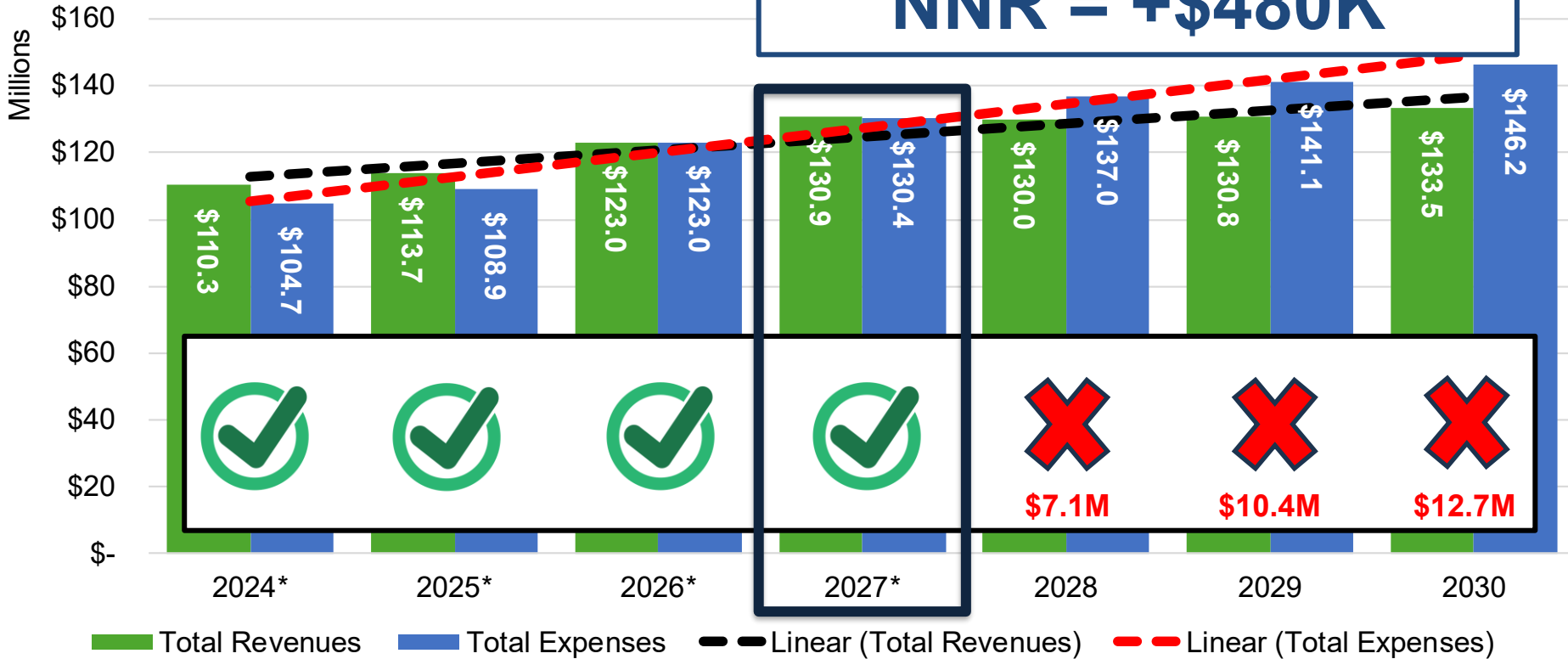
X = Not Balanced

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Revised Forecast – NNR 65.60¢



NNR = +\$480K



*Does not include one-time expenses covered by fund balance more than policy.

FY24 = \$5.1M, FY25 = \$9.2M, FY26 = \$3.0M, FY27 = \$3.0M

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Estimated Excess Fund Balance



Recommended Uses for \$3.2M:

- \$1M City Hall,
- \$1M Transfer to Health Insurance Fund
- \$1M Capital Outlay
- \$200K Participatory Budgeting

What's not in the budget?



Description	Count	Amount
Budget Supplemental Requests: Personnel	82	\$10,264,001
Budget Supplemental Requests: Operating	9	\$76,500
Budget Supplemental Requests: Capital	19	\$1,321,057
Grand Total All Requests	110	\$11,661,558



Fees Being Reviewed in FY27

- Police
- Animal Shelter

Department's Operational Impacts

- Departments were asked to provide service level impacts based on not receiving increases to their operational budgets in FY27 and positions not being filled due to the managed hiring program.
- Departments are preparing their responses, which will be shared at the June 25th Budget Workshop.



FY 2027 Considerations

FY27 Considerations



- The City will present a structurally balanced budget, proposing a tax rate equal to the greater of the current rate or NNR rate.
 - The budget includes absorbing \$1M of expiring federal funding and standing up a new EMS Department.
 - The budget also reflects the impact of House Bill 9 that reduced revenues by \$786K.
- The City is evaluating potential impacts the Pac-12 will have on City revenues and services.
- The City has taken decisive actions to reduce costs and operate more efficiently, such as managed hiring and retirement incentive programs.

FY27 Considerations



- During FY27 the meet and confer process will begin for Police and Fire.
- HR is in the process of doing a classification and compensation study for non-civil employees.
- CIP funding remains flat, limiting capacity for new projects.
- The City is not the only municipality facing financial challenges, many other cities across the state and the nation are in a similar situation.
- In January 2027, a new legislative session will begin and there have been numerous proposals already for property tax reform and City spending changes that may result in reduced revenues and expenditure caps.

FY27 Considerations



- Utility rate modeling in process.
 - Continue incremental rate increase approach when rate increases are required for all utilities.
- Citizens Utility Advisory Board will make recommendations to Council related to rate structure, rate adjustments, and other fee adjustments (Electric & Water-Wastewater).



Community Benefit Charge Update



Community Benefit Charge

The Community Benefit Charge provides greater transparency on the services utility customers are paying for and receiving. It provides customers an itemized receipt; it's not a new fee.

- Franchise Fee- compensates the City for use of its rights-of-way.
- Utility Assistance Program- helps customers experiencing financial hardship pay their utility bill and avoid service disruption.
- Roadway Lighting- installation and maintenance of streetlights for safety and livability.
- Conservation Program- initiatives that promote efficient use of water and energy.



Community Benefit Charge

- The Citizens Utility Advisory Board (CUAB) recommended, and City Council approved implementing the Community Benefit Charge.
- The Community Benefit Charge is not a new fee.
- The purpose of the charge is to provide greater transparency on the services utility customers are paying for and receiving.

Billing Statement Comparison



- Below is the summary that would appear on the front of the billing statement.

Before

CURRENT CHARGES	
Service Description	Charge
Electric	122.70
Water	51.67
Sewer	75.42
Drainage	9.14
Garbage	33.84
Community Enhancement	2.35
TOTAL CURRENT CHARGES	295.12

After

CURRENT CHARGES	
Service Description	Charge
Electric	114.74
Water	48.03
Sewer	71.09
Community Benefit	15.93
Drainage	9.14
Garbage	33.84
Community Enhancement	2.35
TOTAL CURRENT CHARGES	295.12



Billing Statement Comparison

- Below is the detail that would appear following the first page.

Before

CHARGE DETAILS			
Service Description	Rate	Usage	Charge
ELECTRIC CHARGES:			
Basic Charge, Residential			14.31
kWh Charge, Res	0.04029	918	36.99
Power Cost Recovery Fact, Res	0.07580	918	69.59
Electric Taxes			1.81
TOTAL ELECTRIC CHARGES			122.70
WATER CHARGES: (Per Gallon)			
Water Basic Charge			32.76
Water Block 1	0.005480	3451	18.91
TOTAL WATER CHARGES			51.67
SEWER CHARGES: (Per Gallon)			
Sewer Basic Charge			33.73
Sewer Block 2	0.009710	4294	41.69
TOTAL SEWER CHARGES			75.42
DRAINAGE CHARGES:			
Small Residential			9.14
TOTAL DRAINAGE CHARGES			9.14
GARBAGE CHARGES:			
Recycle Center Services			1.01
Solid Waste Services			30.25
Garbage Tax			2.58
TOTAL GARBAGE CHARGES			33.84
COMMUNITY ENHANCEMENT:			
Community Enhancement Fee - R			2.35
TOTAL COMMUNITY CHARGES			2.35

After

CHARGE DETAILS			
Service Description	Rate	Usage	Charge
ELECTRIC CHARGES:			
Basic Charge, Residential			12.50
kWh Charge, Res	0.03801	918	34.89
Power Cost Recovery Fact, Res	0.07151	918	65.65
Electric Taxes			1.70
TOTAL ELECTRIC CHARGES			114.74
WATER CHARGES: (Per Gallon)			
Water Basic Charge			30.19
Water Block 1	0.005170	3451	17.84
TOTAL WATER CHARGES			48.03
SEWER CHARGES: (Per Gallon)			
Sewer Basic Charge			31.76
Sewer Block 2	0.009160	4294	39.33
TOTAL SEWER CHARGES			71.09
COMMUNITY BENEFIT CHARGES:			
Utility Assistance Programs			0.24
Roadway Lighting			0.59
Conservation Programs			1.05
Elec Franchise (6% Base, kWh, PCRF)			6.78
Wtr/Swr Franchise (6% Base, Gal)			7.15
Taxes (Electric Only)			0.12
TOTAL COMMUNITY BENEFIT CHARGES			15.93
DRAINAGE CHARGES:			
Small Residential			9.14
TOTAL DRAINAGE CHARGES			9.14
GARBAGE CHARGES:			
Recycle Center Services			1.01
Solid Waste Services			30.25
Garbage Tax			2.58
TOTAL GARBAGE CHARGES			33.84
COMMUNITY ENHANCEMENT:			
Community Enhancement Fee - R			2.35
TOTAL COMMUNITY CHARGES			2.35

Community Benefit Charge Outreach



- May 7th - Council updated
- May 12th - Utility bill inserts
- May 20th
 - Press release
 - Website and social media
 - Cable channel notices
 - FAQs
 - News hub write up
 - Newsletter mention(s)
- Mid June 2026 - Customers will start to see this show up on their bill.

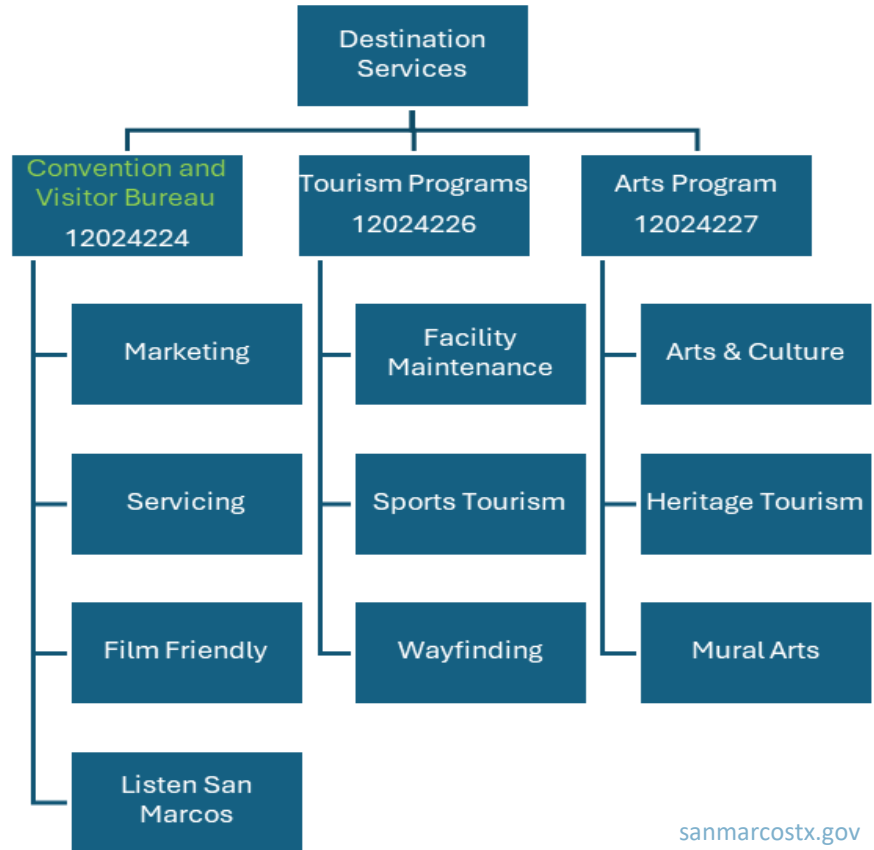


Destination Services Update



Destination Services Update

- The “San Marcos Convention and Visitor Bureau” is one of three divisions within Destination Services.
- “Convention and Visitor Bureau” has served as the standard name for destination marketing organizations (DMOs) for over 50 years.



Destination Services Update (continued)



- Over the last 20 years, DMOs have strategically rebranded to “Visit [Destination]” to reflect their broader role in destination marketing and tourism management.
- Using “Visit” provides a direct call to action; making the organization’s purpose transparent and inviting to visitors and meeting planners.
- The division name “Visit San Marcos” will be effective October 1, 2026.

Next Steps



- Budget Workshop: June 25th
- Budget submitted to City Council and Maximum Proposed Tax Rate Set: August 18th
- Opportunities for Community Input
 - Community Town Halls: May 26, June 3, and June 8
 - Neighborhood Commission Presentation: TBD
 - 2 Budget & Tax Rate Public Hearings: September 1st and 15th
 - Proposed Fee Changes Public Hearing: September 1st and 15th
- Council considers Budget and Tax Rate Adoption: September 15th



Stephanie Reyes

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Questions

