



City of San Marcos

Budget Workshop Meeting Minutes City Council

Tuesday, June 29, 2021

5:00 PM

Virtual Meeting

Budget Workshop

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

I. Call To Order

With a quorum present, the budget workshop meeting of the San Marcos City Council was called to order by Mayor Hughson at 5:00 p.m. Tuesday, June 29, 2021. This meeting was held online.

II. Roll Call

Present: 6 - Mayor Pro Tem Melissa Derrick, Mayor Jane Hughson, Council Member Maxfield Baker, Council Member Saul Gonzales, Council Member Alyssa Garza and Council Member Mark Gleason

PRESENTATIONS

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2020-2021 Financial Update and preliminary Fiscal Year 2021-2022 Budget, and provide direction to Staff.

Bert Lumbreras, City Manager, provided an introduction. Mr. Lumbreras stated the status of the current fiscal year, noting that assumptions that have been made as next year's budget is developed. He also noted the challenges the City is facing will be presented this evening. He stated that due to the timing of today's budget workshop and when the City receives financial information, the budget picture for next year is still unclear. The certified tax roll and a couple more months of sales tax data will be provided soon which will make the budget picture clearer in the coming months. It is looking better than expected in the areas of hotel occupancy and business income, although we are not where we were prior to the pandemic. Our budget will be balanced as required.

The assumptions remain conservative, but are still realistic so that we can fund core services. He stated next year's budget is going to be tight due to the loss of a key revenue source due to the Comptroller's rule regarding the sourcing of sales tax and implementation of Senate Bill 2 that limits the amount of property tax rate increase. Department Directors submitted a number of requests for their departments,

in the form of additional employees, capital, and facility needs. Although a portion of this is due to holding off on requests last year due to being in the middle of responding to the pandemic, a significant percentage are requests for resources to continue providing service to our rapidly growing community.

Mr. Lumbreras stated the City now has a better idea of the impact of the potential increase in the senior tax exemption or implementation of a homestead tax exemption which Council discussed recently. As a reminder, an Ordinance is needed to implement either one of these measures and they would not take effect until the Fiscal Year 2022-2023 budget year. Either one of these would create an additional constraint on the General Fund revenue that will also need to be addressed.

Direction is needed from Council on the tax rate, the proposed stormwater rate increase, whether to move forward with the exemptions, and additional considerations.

Mr. Lumbreras expressed his appreciation to the Finance Team and the Department Directors for their hard work on the budget.

Mayor Hughson expressed her appreciation to all Staff that have assisted with the budget.

Marie Kalka, Finance Director provided the presentation and began with an update to the Fiscal Year 2021 Budget.

The General Fund has a budgeted use of Fund Balance in the amount of \$2,794,633. There is anticipation of no use of fund balance and we are beginning 2022 at 29% of 2022 operating costs.

The Electric Fund has a budgeted use of Fund Balance in the amount of \$472,406. A budget amendment for winter storm in the amount of \$600K will be needed. The Water/Wastewater Fund has a budgeted use of Fund Balance in the amount of \$217,507 and there is anticipation of no use of fund balance.

The Stormwater Fund has a budgeted use of Fund Balance in the amount of \$80,522. The estimated maximum use of \$450K of fund balance is projected which brings the fund balance down to 20.8%.

The Resource Recovery Fund has a budgeted fund balance of \$61,338 and the projection is no use of fund balance.

The Airport has a budgeted fund balance of \$58,906. The projection is an estimated maximum transfer from the General Fund of \$59K.

The Hotel Tax has a budgeted fund balance of \$276,841. The projection is an estimated maximum use of fund balance of \$220K.

Ms. Kalka provided the Hotel Occupancy Tax over the last 5 years to show the impact that Covid 19 had on them. There is a projected increase this year over last year.

Ms. Kalka discussed and provided information on the General Fund drivers, including tax rates, adopted tax rate, average home value, assessed value, no new revenue tax rate, current ad valorem collected, and sales tax.

Ms. Kalka provided the FY22 Budget Policy Update. The Stormwater Rate includes a planned increase of 6.5%; the updated rate models shows 8% is needed. Non-civil service employees include a pay increase of 4%, based on general fund numbers, this may need to be reduced. Health Insurance will be evaluated, but costs are increasing; rates will be finalized in July. Transit operations funding to be presented at later date, funding needed is \$800K.

The FY22 Budget Update includes the following:

- Continue to work on finalizing numbers and balancing budget**
- Finalize property tax numbers**
 - Potential increase in debt rate**
 - Potential lower tax rate depending on tax roll**
- Continue to monitor sales tax**
- Net revenues are currently anticipated approximately flat**
- Analyzing elimination of TIRZ #2**
- Reviewing Chapter 380 agreements**
- Finalize increase in benefit costs**

As the budget is prepared assumptions are made and Ms. Kalka presented the following Revenue Assumptions:

- Property tax: flat tax rate with increase from new property**
- Sales tax: 2% increase over the last 12 months pre-pandemic**
- Franchise fees: based on anticipated utility revenue from COSM and trend for others**
- Permit fees: average of prior three years' revenue**
- Fines: average of FY19 and FY20**

- **Parks: primarily based on FY19 with review of historical trend**
- **Community Enhancement Fee: 2% growth**
- **Investments and other: current year trend**

Ms. Kalka presented the cost drivers for the General Fund:

- **Increases in personnel costs = \$3.015M (4% salary adjustment = \$1.9M, 1.4% increase in Texas Municipal Retirement System = \$850K, 60% increase in workers compensation = \$265K)**
- **Restoration of support of transit operations = \$650K**
- **Increased operational costs = \$1.29M (Facilities and utilities = \$600K, Equipment repairs = \$200K, Transportation (asphalt, concrete, signalization) = \$250K, Transportation Indirect Cost Chargeback = \$140K, Irrigation maintenance program = \$100K)**

Ms. Kalka stated there is currently a \$2.8M Gap in the budget. She presented potential ways to decrease this gap and balance the budget. These include the use of additional ARP funds, reduction or delay of non-civil service employees pay increase, finalize property tax reduction in operating costs, refine revenues, not fund all new personnel or capital outlay requests, reduce fund balance %, increase property tax rate, and reduce outside agency and event funding.

53 personnel requests were made for a total of \$4,765,459. These positions were requested to address the challenges faced with the increased demand of providing core services for our growing community.

64 capital outlay requests were made for a total of \$5,276,490. These requests are to address the challenges faced with the increased demand of providing core services for our growing community as well replace necessary vehicles and equipment.

The FY22 General Fund Agency Funding Requests were presented.

Organization Submitted Amount

Mermaid Society - No

LBJ Museum - Yes, \$25,000

Calaboose African American Museum - Yes, \$20,000

Greater San Marcos Area Senior. Center - Yes, \$25,000

Centro Cultural De Hispano - Yes, \$25,000

Go Wheels Up - Yes, \$95,000

Sights and Sounds - Yes, \$100,000

Human Services Advisory Board - N/A, \$650,000

Ms. Kalka provided the Rate Study Update. A rate increase of 8% is needed for Stormwater Fund, the Water/Wastewater and Electric rate models are scheduled to go to the Citizen's Utility Advisory Board in July, and Development Services is working on a Request for Proposal (RFP) to complete the fee study.

Ms. Kalka provided the Property Tax Senior Exemption and Homestead Exemption update. This includes the Current and New structure. (See Exhibit A - Attached)

Ms. Kalka stated the Certified Tax Rolls will be received on July 25th, a record vote by the City Council on the Tax Rate and setting the date of the Public Hearing will be on August 3rd, a budget workshop will be held on August 12th, and the public hearing and adoption of the budget and tax rate will be held in September.

Ms. Kalka is seeking direction on the following items in order to finalize the budget:

- Tax Rate: Current tax rate or lower**
- Stormwater Rate Increase: 8% or reduce costs \$107K to keep at original 6.5%**
- Ad Valorem Tax Exemptions**
- Any Additional Considerations**

Mayor Pro Tem Derrick inquired about Go Wheels Up event. She asked if the Convention and Visitor Bureau (CVB) has done a study on the increase for the hotel occupancy including sales tax? Mr. Lumbreras stated it is important to get the economic impact and staff is compiling the report. Mayor Pro Tem Derrick expressed concern with increasing rates to citizens but is pleased to have a stormwater drainage fee for property owners that have vacant properties. She asked how much revenue from the stormwater drainage fee will be received and if it will help with the budget. She would also like staff to look into an increase for the following year. Ms. Moyer stated next year rates for the vacant properties are being charged and still have a shortfall. Ms. Moyer mentioned that it is with limited expenses and it is not CIP debt projects due to limitations from Council. Ms. Moyer stated staff will do research and bring back to Council.

Mayor Hughson asked about the rate and would like to see a chart before approving the rates. Mrs. Moyer stated it is less than a dollar a month.

Council Member Baker inquired regarding salaries and would like to see it flat across the board. Mrs. Reyes stated a change occurred by Council direction by giving staff a 2% increase and a one time percent that equals the 2% dollar amount to employees at the lower end of the salary range. The budget request is for the total amount of all raises. How it's allocated will be discussed at a future date.

Council Member Garza would like to receive the economic impact on Sights and Sounds. Mr. Lumbreras will provide the information to Council.

**Council provided direction on the following items:
Stormwater Rate increase to 8%**

Ad Valorem Tax Exemptions Homestead: \$15,000

Ad Valorem Tax Exemptions Over 65: Increase to \$35,000

Tax Rate: Keep current tax rate but lower if possible

Council held discussion regarding FY22 General Fund Agency Funding Requests and approved \$25,000 to Centro Cultural de Hispano and approved the funding to LBJ Museum, Calaboose African American Museum and GSM Area Senior Center.

Discussion was held regarding the Mermaid Society who has indicated they do not plan to apply. Mr. Baker questioned the policy of returning 30% of the funding if certain parameters are not met, which is the current policy. Council also discussed the need for an application process and rules regarding funding. Mr. Lumbreras will review the application and the policies and inform council.

Mayor Hughson would like to know how long has the 30% been in place? Mr. Lumbreras stated staff will reach out to Mermaid Society to discuss concern.

Council Member Garza suggested to have a placeholder for \$25,000 allocated to Mermaid Society. Council agreed on the placeholder to the Mermaid Society.

III. Adjournment.

A motion was made by Mayor Pro Tem Derrick, seconded by Council Member Derrick to adjourn the budget workshop meeting of the City Council at 6:49 p.m. The motion carried by the following vote:

For: 7 - Mayor Pro Tem Derrick, Mayor Hughson, Council Member Baker, Council Member Gonzales, Deputy Mayor Pro Tem Scott, Council Member Garza and Council Member Gleason

Against: 0

Tammy K. Cook, Interim City Clerk

Jane Hughson, Mayor

EXHIBIT A

	Current	New
Senior Exemption		
Number of over 65 exemptions	1,982	1,982
Exempt Amount	\$ 25,000	\$ 35,000
Tax Rate	\$ 0.5930	\$ 0.5930
Total tax forfeited due to exemption	\$293,832	\$411,364
Additional tax forfeited due to exemption		\$117,533
Savings per household	\$ 148.25	\$ 207.55
Additional savings per household		\$ 59.30
Homestead Exemption		
Number of properties		4,959
Exemption Amount		\$ 15,000
Tax Rate		\$ 0.5930
Savings Per resident		\$ 88.95
Total Reduction		\$441,103
Total Estimated General Fund Impact		\$558,636