City of San Marcos

630 East Hopkins
San Marcos, TX 78666

Budget Workshop Minutes
City Council

Thursday, June 25, 2026 | **5:30 PM** | **City Council Chambers**

630 E. Hopkins St. - Budget Workshop

I. Call To Order

With a quorum present, the regular meeting of the San Marcos City Council was called to order by Mayor Hughson at 5:30 p.m. Thursday , June 25, 2026. This meeting was held both in person and online.

II. Roll Call

Council Member Lorenzo Gonzalez joined the meeting at 6:49 PM

Present: 5 - Mayor Pro Tem Shane Scott, Council Member Amanda Rodriguez, Mayor Jane Hughson, Council Member Lorenzo Gonzalez and Council Member Matthew Mendoza

Absent: 2 - Deputy Mayor Pro Tem Alyssa Garza and Council Member Josh Paselk

III. Citizen Comment Period

There were no citizens signed up for citizen comment.

PRESENTATIONS

1. Receive a staff presentation and hold discussion regarding the Fiscal Year 2025-2026 Financial Update and preliminary Fiscal Year 2026-2027 Budget; and provide direction to the City Manager.

City Manager Stephanie Reyes opened by providing context for the budget process, noting that it had begun in January with a city council visioning session focused on strategic planning, continued through a budget policy workshop in February, and culminated in the Council's formal adoption of budget policy in March. City Manager Reyes described the extensive internal collaboration that had taken place across departments to critically examine operational needs and identify challenges. She highlighted the expansion of public engagement in the budget process, noting that three town halls had been held prior to the council visioning session and three more had been held at the end of May and in early June. She further outlined upcoming opportunities for community input, including a Neighborhood Commission presentation, two

budget public hearings, two tax rate public hearings, and public hearings for any potential fee increases.

City Manager Reyes emphasized that the city's deliberate and thoughtful approach throughout the process had allowed staff to develop a structurally balanced budget despite significant fiscal pressures. She summarized the cost reduction measures implemented over the past year: managing staffing levels by holding over 20 positions vacant, offering a retirement incentive that resulted in 20 positions being eliminated and approximately $2,000,000 in savings, bringing recruitment services in house to reduce executive search costs, and reviewing motor pool and take home vehicle policies. City Manager Reyes acknowledged that even with these changes, community expectations for service delivery had remained the same, and that the city was striving to provide the same level of service with a leaner workforce. She further recognized that the same cost drivers and inflation affecting city operations were also affecting residents, and expressed appreciation for the Council's consideration of the tax rate scenarios to be presented. She noted that the rate would be formally set at the August meeting . City Manager Reyes concluded her introductory remarks by thanking Director Jon Locke and the budget team, headed by Trisha Patek, for their diligent preparation of the budget materials.

Budget Process and Community Engagement
Director of Finance Jon Locke emphasized this was the final workshop before the proposed budget is submitted August 18th, making it the last major opportunity for Council to provide direction on the proposed budget. After submission, changes can still be made, but the framework will be set. Director Locke outlined the remaining schedule: Council sets the maximum tax rate on August 18th, the Neighborhood Commission reviews the budget on August 19th, and public hearings on the budget and tax rate will occur on September 1st and 15th, with adoption also on September 15th of the budget, tax rate, and Capital Improvements Plan. The certified tax roll will arrive on July 25th, which determines key general fund revenue assumptions. He reiterated that the budget is structured around the Council’s five strategic goals: Quality of Life & Sense of Place; Economic Vitality; Public Safety, Core Services & Fiscal Excellence; Mobility & Connectivity; And Environmental Protection.

Mr. Locke next noted that it is staff’s intention is to submit a budget in August that reflects Council’s direction and priorities, noting there were multiple town hall meetings held for input.

Director Locke summarized the ongoing managed hiring program (24 positions frozen) and the retirement incentive that permanently eliminated 28 positions, saving $2.7M. Executive recruitments are now handled in house. Vacancies are evaluated for reallocation opportunities, as seen with the parking manager position being moved to the City Marshal's Office. The workforce will remain lean as EMS is added, but this is achievable without a tax increase. Compensation challenges were reviewed: COLA increases have not fully kept pace with inflation, though the proposed 3% COLA aligns with peer cities' averages.

In addition to the town hall meetings focusing on the general budget, there was opportunity for input for the Participatory Budgeting section with 103 submissions from 87 individuals. For the Participatory Budget there were 5 project proposals submitted and community voting was conducted online and in-person.

In the next section, Mr. Locke showed the impact of inflation on staff salaries. He also provided information on what other nearby cities plan to do this year regarding salaries. Several cities do not include a Cost of Living Adjustment this year. Others will offer 2-3%. The city has worked hard over the last few years on the Compensation Philosophy and does not want to lose ground.
Compensation Philosophy: The City of San Marcos is committed to attracting, engaging, and rewarding a diverse and multigenerational workforce. By offering career progression opportunities and a total rewards package including competitive compensation and benefits and a purposeful work life, the City will regularly survey the market to ensure we are an employer of excellence focused on serving our community and accomplishing our core values of Integrity, Teamwork, Professionalism, Customer Experience, and Innovation.

Responding to the Changing Economy and City Council Direction
Department operating budgets have been flat since FY 2025 which is effectively a reduction in buying power for everything from fuel to supplies.
We have reduced our contract amount with the Hays Caldwell Economic Development Partnership by a substantial amount to allow us to focus on local businesses in addition to other economic development efforts.
Departments were asked to describe how programs, services, or abilities to meet community expectations will change due to:
• Not increasing operational budgets.
• Not filling positions due to managed hiring.
Department service level impacts have been combined and were listed in detail

in the packet.

Mr. Locke's next section was Looking At Metrics Differently
He noted that the council has expressed an interest in having more meaningful data and performance metrics. The departments have been asked to re-evaluate and rewrite annual indicators for better measures of performance.
• Key Performance Indicators (KPIs) will be submitted with the Proposed Budget on August 19, 2026.
• The steps and considerations that are involved in the implementation of KPIs include: Strategic Plan alignment, Departmental collaboration, KPI data sourcing for selection, Budget integration, Ongoing monitoring

Mr. Locke then covered Council Direction per Budget Policy:
Fund Balance must be maintained at 25% of recurring operating expenses.
Debt Management includes a debt component of property tax rate must be 30% or less of total tax rate.
Regarding revenues:
Property tax rate to be kept at the current rate of 65.15¢.
Amend budget during fiscal year if revenue deviates from budget.
Potential revenue from alternative funding sources including fees will be evaluated and proposed to Council during the budget process.

General Fund Property Tax Rates
Tax rates remain preliminary until we receive the certified appraisal rolls. Once those are available, the tax-assessor collector completes the final calculations for the both the No-New-Revenue (NNR) tax rate and the Voter-Approval tax rate.
• Using the preliminary appraisal rolls, our estimated NNR is 65.50¢, which would generate approximately $480K in additional revenue. This estimated NNR is slightly higher than our current tax rate of 65.15¢.
• Because the NNR is very close to the current tax rate, it is possible that the final NNR may end up lower than the current rate once the certified rolls are received.
• After receiving the certified numbers, staff will bring back a proposed budget that uses the higher of the two tax rates (current tax rate or final NNR) to Council.

Mr. Locke continued with New to General Fund On-Going Expenses Included in FY27 Budget
This included items that expire Dec 31, 2026 with American Rescue Plan Act (ARPA) funds.

FY27 Revenues are expected to be about $130.6 million dollars. This includes property taxes, sales taxes, franchise fees, and other smaller fees.
Director Locke described fiscal challenges including declining sales tax revenue, particularly a $3 million decrease from the largest contributor—post-COVID corrections in property values, and federal funds expiring. The city responded by freezing hiring, implementing the retirement incentive, and holding operating budgets flat since FY25. Departments have absorbed about $1 million in inflation-adjusted reductions over three years. This has contributed to heavier workloads, burnout, slower service delivery, and reduced programs such as decreased pool hours and smaller community event offerings. Departments also face rising operating costs while budgets remain flat. Locke noted the Council's interest in more meaningful performance data and shared that new KPIs aligned with the strategic plan will accompany the proposed budget.

General Fund Overview
Council policy guidance includes maintaining a 25% fund balance, keeping the debt tax rate portion below 30%, and maintaining the current tax rate unless the no-new-revenue rate is higher. Preliminary estimates put the no-new-revenue rate at $0.6560 compared to the current $0.6515. Property tax comprises 36% of general fund revenue and sales tax 31%. Locke reviewed per-capita sales tax trends, noting the city's strong performance relative to peer cities when the Outlets are included. The general fund budget is structurally balanced, with personnel making up most expenses and a projected 26% ending fund balance. Major cost drivers include COLA increases, costs to stand up EMS, absorption of previously federally funded expenses, social services, and rising appraisal district costs.

Multi Year Forecast and Fund Balance in Excess of 25%
Future forecasts show shortfalls in FY28–FY30 under minimal growth assumptions, with moderate growth improving outcomes. Approximately $3.8M in fund balance above policy is available, with staff proposing allocations for City Hall, health insurance, capital outlay, and participatory budgeting.

General Fund Decision Points — Council Discussion and Direction
1. involved the tax rate. Mayor Hughson opened discussion, and Council agreed to direct staff to prepare the budget using the higher of the current rate or the certified no-new-revenue rate. Council Member Rodriguez noted that political hesitation to raise rates has had visible impacts on services and

supported incremental adjustments similar to utility rate philosophy.

Decision Point 2.
This involved allocating the excess fund balance. The Council consensus was to reduce the City Hall allocation by $200,000, from $1,200,000 to $1,000,000 and that shifting that amount to capital outlay from $1,321,057 , would nearly meet all departmental requests of $1,531,057.
Council Member Rodriguez also sought clarification on the City Hall line item, confirming with Director Locke that last year's City Hall contribution had ultimately been redirected toward the land purchase.

3. Mr. Locke asked whether the Council had any additional direction on the general fund. Mayor Hughson noted that in stronger fiscal years there would be more room to discuss spending priorities, but given current constraints the city needed to work within available resources. No further direction was provided, pending the receipt of the certified tax roll on July 25th.

Hotel Occupancy Tax (HOT) Fund
Mr. Locke reviewed the Council direction through the Budget Policy meeting and document.
Maintain 25% of recurring operating expenses in the fund balance.
Continue to budget revenues based on conservative historical trends and the impact that COVID-19 has had on the hospitality and tourism industry.
For expenses, continue to allocate funding for historical restoration and preservation projects based on capacity, up to $500K.
Also review how other cities use HOT revenue to financially support City Council policy objectives without solely relying on the General Fund and create policy recommendations for allocating HOT revenue by specific percentages to support City Council policy objectives.

Mr. Locke outlined the projected 3% revenue increase related to the university's joining of the PAC-12 and the plan to track revenues and associated costs separately. Council Member Amanda Rodriguez asked about reporting timelines, and Assistant City Manager Rodney Gonzales stated that hotel tax data would begin arriving after the season starts in July, with a full analysis expected early next year. City Manager Stephanie Reyes added that Texas State had contracted for additional security and traffic management and that the city would experience increased downtown activity. She emphasized the need to track costs so any overtime or operational impacts could be funded through HOT rather than the general fund.

Mr. Locke noted a $100,000 one-time allocation for PAC-12 marketing. Council Member Rodriguez questioned whether this benefited Texas State or the city. Director of Destination Services Rebecca Ybarra clarified it was a San Marcos-focused campaign. .
Cost Drivers include:
3% increase in personnel costs = $45K; One-time funding for Wayfinding = $500K; Heritage Tourism = $399K; VisitSanMarcos.com Redesign = $70K; PAC12 TXST Marketing = $100K; Tourist Information Center Parking Lot = $200K.
There is a 3% growth assumption set aside for potential PAC12 impacts = $140K.
Mayor Hughson asked whether the tourism information center parking lot project was an expansion or resurfacing. Director Ybarra confirmed it was a resurfacing. Mayor Hughson also asked about increasing funding for cultural and museum organizations. Director Ybarra explained that HOT funds cannot support general operations but may support eligible marketing or programming activities. City Manager Reyes added that promotional uses may qualify, and Ybarra noted the upcoming historic tourism grant program. Mayor Hughson suggested further discussion with organizations to identify potential HOT-eligible uses. Director Locke noted that new recurring HOT commitments cannot be made until PAC-12 revenue impacts are confirmed, though one-time options remain. Mayor Hughson and Council Members Rodriguez, Scott, and Mendoza expressed willingness to explore the issue, and Council Member Rodriguez suggested revisiting it at a future HOT workshop.

Community Enhancement Fund
Mr. Locke noted the policy guidance to maintain a 25 percent fund balance, expand contracted services up to $250K annually for Highway 123 and I-35 plantings, and budget one-time uses for I-35 beautification and fencing at Sunset Acres for $250,000-300,000 and support new intersection plantings and gateway monuments. He reported FY27 revenues of $1.3 million and expenses of $1.7 million, with higher expenses driven by just over $376,000 in one-time projects. The fund is structurally balanced with an estimated ending balance of $1.4 million, well above the required reserve and allowing capacity for additional one-time needs. Major cost drivers included a 3 percent personnel increase, expanded contracted maintenance, carryover funding for unsafe structures, and one-time beautification projects. Director Locke stated there were no decision points for this fund. Mayor Hughson commented that she hoped the inherited plantings along the corridors would be low-maintenance. Council Member Mendoza noted that although there was initial hesitation when the Community Enhancement Fee was created, it has proven beneficial.

No further direction was provided.

Electric and Water/Wastewater Utility Funds

Mr. Locke presented the Electric and Water/Wastewater Utility Funds, noting policy requirements to maintain 150 days of fund balance for both funds, working toward 180 days for electric, and to meet a minimum debt service coverage ratio of 1.2 while while working toward 1.4. He reported that rate modeling was underway for the upcoming Citizens Utility Advisory Board meeting and that preliminary estimates indicate a likely water rate increase of 5 to 8 percent, which would keep the combined water/wastewater coverage ratio above 1.2. Wastewater rates are also expected to increase 2 to 5%, and electric rates are projected to rise by 1 to 2 percent to approach the recommended coverage level. There were no decision points for these funds, and the Council offered no discussion.

Storm Water Utility Fund

Mr. Locke presented the Storm Water Utility Fund, noting the requirement to maintain 90 days of reserves and the hybrid funding approach for capital projects to include dollars from the general fund. He explained that each 1 percent rate increase generates about $100,000, meaning an 8 percent increase would be needed to support a typical $10 million stormwater project, which would raise the typical monthly residential rate from $14.90 to $15.05. The FY27 budget is structurally balanced with an estimated ending fund balance of just over $3 million, above policy. Cost drivers include personnel, MS4 compliance, and increased debt service. A requested increase for a mowing contract was not funded.

Council Discussion

Mayor Hughson noted that stormwater projects were very much understood by our community and asked what would be the monthly cost to fully fund these projects to reduce reliance on the general fund and noted that a small adjustment, such as 1 percent, could help make the fund more sustainable. Council Member Mendoza asked about adding stormwater rates to the Citizens Utility Advisory Board's responsibilities, and staff confirmed this could be done with an agenda item. A consensus of Council Members supported a rate increase.. Council member Rodriguez asked about rising construction costs. Director of Engineering Shaun Condor explained that stormwater project costs have nearly doubled since pre-COVID, forcing phased work and delaying project completion, and that the upcoming master plan will add more priority projects. He stated that increased funding would allow projects to proceed more efficiently. Mayor Hughson and Council

Members Scott, Rodriguez, Scott, and Gonzalez expressed support, and staff was directed to return with stormwater rate options.

Resource Recovery Fund
Director of Finance Jon Locke reported that the FY27 Resource Recovery Fund is balanced with $9.1 million in revenues and $9 million in expenses. Most revenue comes from residential refuse and recycling collection fees, and operating contracts make up the majority of expenses. The fund is projected to end with a $4 million balance, well above the 90-day reserve requirement, with much of the excess reserved for a future facility. Locke recommended a 1 percent rate increase to keep pace with contractual 3 percent annual increases for garbage and recycling services. Council consensus is to include the 1 percent rate increase.

Airport Fund
Director Locke presented the FY27 Airport Fund, which is balanced at approximately $1 million in revenues and expenses, with most revenue coming from rentals and fuel sales. The fund is projected to end with 64 days of reserves, slightly above the 60-day requirement. Cost increases include the 2 percent annual adjustment to the airport operations contract, the loss of federal funding for one staff position, and higher indirect costs for facility maintenance and IT needs. Several supplemental requests totaling $210,000 remain unfunded. There were no decision points or Council discussion.

Transit Fund
Director Locke reported the FY27 Transit Fund is balanced at $3 million in revenues and expenses, with nearly half of its revenue coming from the general fund and 41 percent from federal sources. As CARES and ARPA funds expire, the general fund contribution increases by $213,000 in FY27 and is expected to rise again in FY28. The fund maintains a healthy reserve of approximately 109 days. No decision points or discussion followed.
Mr. Locke concluded with the upcoming schedule: the proposed budget will be submitted on August 18th, followed by a Neighborhood Commission presentation on August 19th, and public hearings on September 1st and 15th. Final budget and tax rate adoption is scheduled for September 15th. He invited any final questions.

Mayor Hughson thanked all staff, directors, and assistant city managers for their work and acknowledged the difficulty of the choices made, noting for the public that departmental impact reports begin on page 92 of the packet.

City Manager Reyes echoed this appreciation, stating she was proud of how well staff managed the budget during challenging times and noting that careful, real-time monitoring had helped the city avoid the severe deficits faced by many other Texas cities.

IV. Question and Answer Session with Press and Public.

No members of the press or public signed up for the Question and Answer session.

V. Adjournment.

There being no further items on the agenda, Mayor Hughson adjourned the meeting at 7:13 PM.

Elizabeth Trevino, City Clerk **Jane Hughson, Mayor**