



# City of San Marcos FY 2027 Proposed Budget Policy Statement

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## **I. FUND BALANCE**

- General Fund: Maintain 25% of recurring operating expenses.
- Electric Utility Fund: Maintain 150 days of recurring operating expenses, work towards 180 days.
- Water/Wastewater Utility Fund: Maintain 150 days of recurring operating expenses.
- Stormwater Utility Fund: Maintain 90 days of recurring operating expenses.
- Resource Recovery Fund: Maintain 90 days of recurring operating expenses with leeway of implementation due to construction of new Resource Recovery facility.
- Transit Fund: Maintain 60 days of recurring operating expenses.
- Hotel Occupancy Tax Fund: Maintain 25% of recurring operating expenses.
- Community Enhancement Fund: Maintain 25% of recurring operating expenses.
- Airport Fund: Maintain 60 days of recurring operating expenses.
- All Funds: Fund balance in excess of established thresholds will be used to fund capital improvement projects (CIP) and/or other non-recurring expenditures.

## **II. DEBT MANAGEMENT**

- General Fund: Debt component of property tax rate must be 30% or less of total tax rate.
- Debt Service Coverage Ratios:
  - Electric Utility Fund: Maintain the legal minimum debt service coverage ratio of 1.2, work towards 1.4.
  - Water/Wastewater Utility Fund: Maintain the legal minimum debt service coverage ratio of 1.2, work towards 1.4.
- Stormwater Utility Fund: Use hybrid approach for funding CIP by covering up to \$5 million with Stormwater and remainder with General Fund.

## **III. REVENUES**

- Continue budgeting revenues using historical trends. Each revenue source will be independently evaluated to take into consideration recent changes impacting trends.

- For all utilities, continue incremental rate increase approach when rate increases are required, and do not include late penalties in rate models.
- Maintain a schedule to regularly review fees. Impact fees will be revised based on master plan updates.

## **GENERAL FUND**

- 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.

## **ELECTRIC FUND**

- Continue annual rate study to determine possible rate adjustments and/or structure changes. Citizens Utility Advisory Board will make recommendations to Council related to future rate adjustments and rate structure.
- Explore identifying community-based charges separate from the electric utility rate component (i.e., customer assistance programs, service area street lighting, and energy efficiency programs).

## **WATER/WASTEWATER FUND**

- Continue annual rate study to determine possible rate adjustments and/or structure changes. Citizens Utility Advisory Board will make recommendations to Council related to rate structure and future rate adjustments.

## **STORMWATER MANAGEMENT FUND**

- Continue using the rate model to determine possible rate adjustments and minimize rate adjustments through use of the General Fund's capacity to fund capital improvement projects for stormwater management.

## **HOTEL OCCUPANCY TAX FUND**

- Continue to budget revenues based on conservative historical trends and the impact that COVID-19 has had on the hospitality and tourism industry.

## **AIRPORT FUND**

- Identify the appropriate time for utilizing property tax revenues generated at the airport for airport operations in FY 2028.

#### **IV. EXPENDITURES**

- Departments will follow a zero-based budget format, incorporating necessary inflation adjustments as applicable by industry and based on available capacity.
- All budgets must be justified and ranked by priority.
- If capacity allows, include an increase of 3% of total personnel costs for non-civil service employees to continue investing in staff by implementing employee pay for performance and benefits that support the Employee Compensation Philosophy, evaluating recruitment and retention strategies, and increasing personnel to adequately support City Council's strategic goals. Increases for civil service employees will be based on the respective Meet and Confer agreements.
- Health insurance will be evaluated and presented to Council during the budget process based on plan needs.
- Enhance City's grant program to maximize funding from other sources.

#### **GENERAL FUND**

- Focus Human Services Advisory Board and Community Development Block Grant allocations toward meeting City Council's strategic goals. Continue the annual funding level for the Human Services Advisory Board (HSAB) at \$750,000.
  - Beginning in Fiscal Year 2027, the funding level for the Human Services Advisory Board will increase by the inflation adjustment permitted for operating budgets of departments within the General Fund for the preceding year, not to exceed 2.5%. (e.g., The HSAB budget for Fiscal Year 2027 applies the Fiscal Year 2026 departmental inflation rates.)
- If capacity allows, continue budgeting for Fiscal Year 2027 fiscal planning considerations:
  - Include expenses from expiring federal funding for the following items:
    - Transit funding
    - 2 City positions – Cybersecurity Analyst and Downtown Grounds Specialist
    - Mental Health Clinician
    - Eviction Prevention Services
    - Diversion Beds (Evoke Wellness)
    - PALS

- Intrusion Prevention System for IT
- Internet connection improvements at Police building
- PSC Emergency Operations Data Services
- Access to Candid Directory for Library
  - Transition one-fourth of the cost for legacy software allocation
  - Transition 7 vehicles into leasing program
  - Debt obligations are permissible for equipment replacement plan
- Annual allocation for Transit Fund will be to be presented later in the budget process.
- Animal Shelter will continue with current goal of higher live outcome rate with continued funding from all partner agencies.
- Continue to allocate funding for City Council’s strategic goals.
- Use General Fund capacity for stormwater capital improvement projects over \$5 million.
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## **WATER/WASTEWATER FUND**

- Utility fund transfers to the General Fund budgeted at amount determined by Cost Allocation Plan.

## **ELECTRIC UTILITY FUND**

- Utility fund transfers to the General Fund budgeted at amount determined by Cost Allocation Plan.

## **HOTEL OCCUPANCY TAX FUND**

- Continue to allocate funding for historical restoration and preservation projects based on capacity, up to \$500K.
- Review how other cities use Hotel Occupancy Tax revenue to financially support City Council policy objectives without solely relying on the General Fund.
- Create policy recommendations for allocating Hotel Occupancy Tax revenue by specific percentages to support City Council policy objectives.

## **COMMUNITY ENHANCEMENT**

- Continue to budget funds to address community enhancement items that come up during the fiscal year.
- Increase operating expenses for contracted services up to \$250K annually to take over maintaining HWY 123 & I-35 plantings.

- Budget one-time uses of fund balance for sprucing up along I-35 at approximately \$75K and fencing Sunset Acres at approximately \$250K-\$300K.
- Use the Community Enhancement Fund to support new intersection plantings and gateway monuments.