



City of San Marcos

Budget Workshop

Fiscal Year 2026

May 20, 2025

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Agenda

- **Budget Calendar and Process**
- **Key Takeaways**
- **Economic Indicators**
- **Sales Tax**
- **Property Tax**
- **General Fund Forecast Update**
- **FY 2026 Revenue and Expense Considerations**
- **Public Engagement Received to Date**
- **Decision Point**
- **Next Steps**

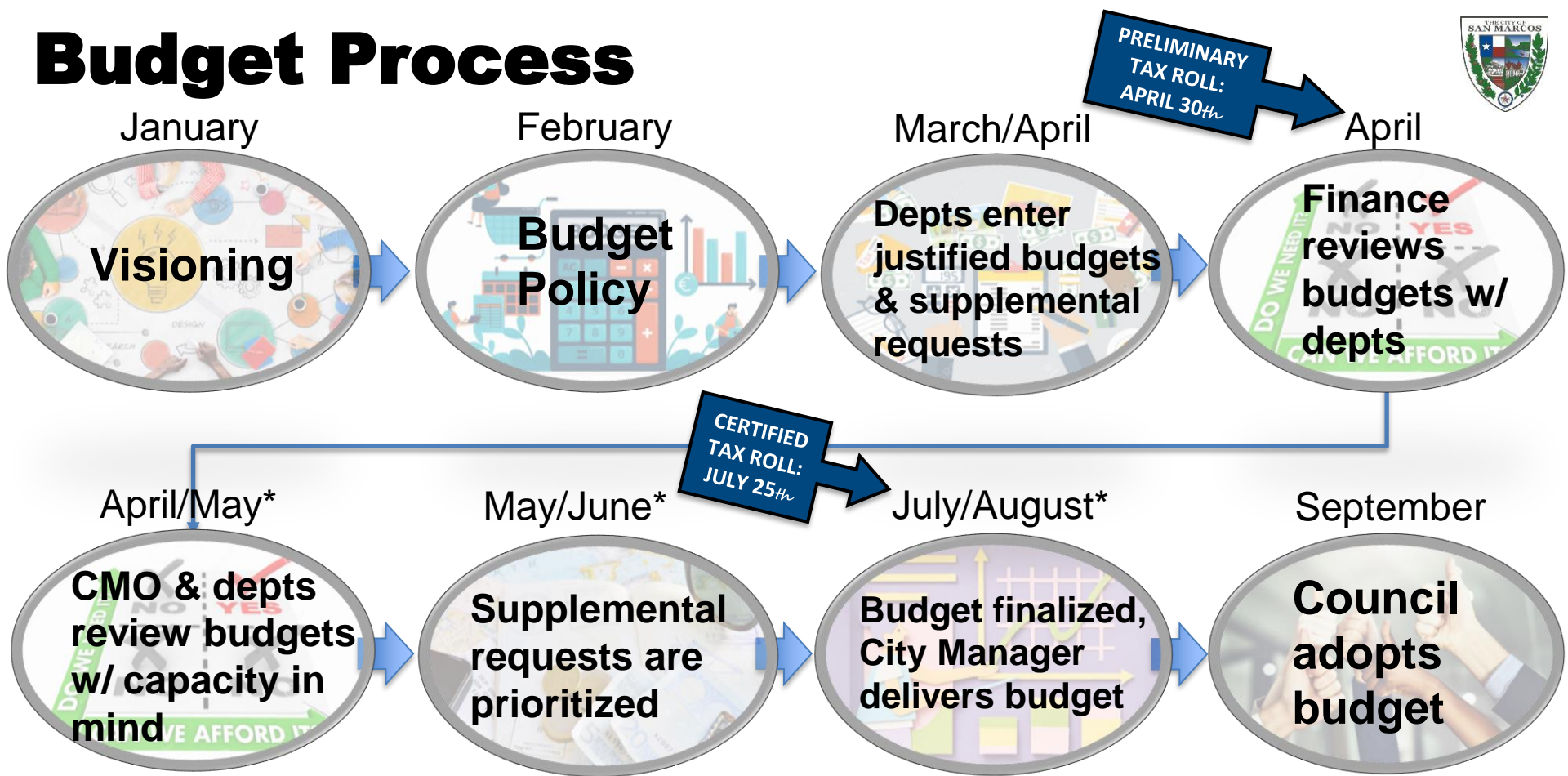
Fiscal Year 2026 Budget Calendar



BUDGET EVENT	DATE	DONE
Council Visioning & Strategic Planning Work Session	January 30 – 31	✓
Budget Policy Workshop	February 27	✓
Budget Policy Adoption	March 18	✓
Neighborhood Commission Presentation	April 16	✓
Budget Workshop & Preliminary CIP	May 20	PRELIMINARY TAX ROLL: APRIL 30 th ✓
Budget Workshop	June 26	CERTIFIED TAX ROLL: JULY 25 th
Budget/CIP Submitted to Council & Maximum Tax Rate Set	August 19	
Neighborhood Commission Presentation	August 20	
Public Hearings on Budget, Tax Rate & Fee Changes	September 2 & 16	
Budget, Tax Rate & CIP Adoption	September 16	

We are here

Budget Process



*Budget Workshops





What's needed for a thriving City economy?



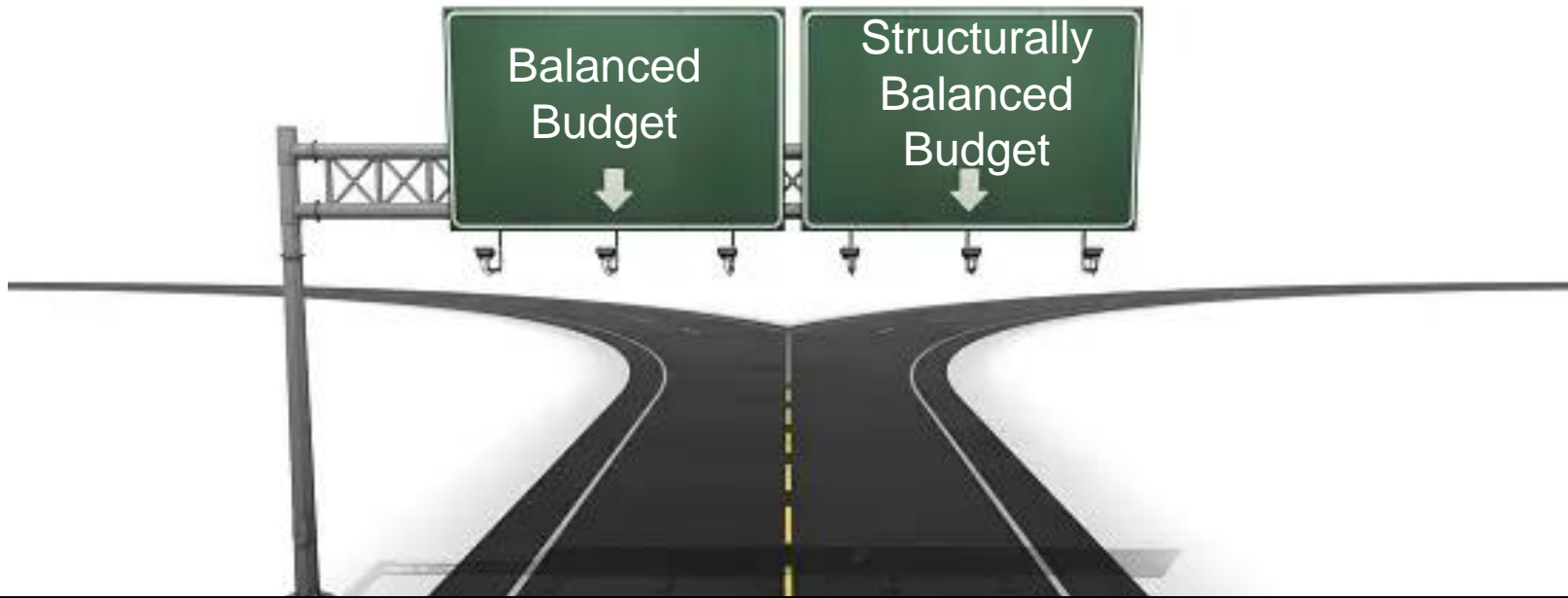
- A structurally balanced budget
 - When ongoing revenues are equal to or greater than ongoing expenses within a fiscal year
 - The focus is on long-term sustainability, not short-term balancing
 - The City has historically had a structurally balanced budget
- The City Charter requires a balanced budget
 - A balanced budget can use one-time or ongoing revenues to cover ongoing expenses
 - The focus is on short-term balancing, not long-term sustainability

Personal Example: Structural vs Balanced Budget



When buying a new car, monthly paycheck can cover:	Structurally Balanced Budget	Balanced Budget
All monthly expenses + new car payment		
Monthly expenses + ½ of car payment, savings used to cover other ½ of car payment		
Monthly expenses + ½ of car payment, tax refund used to pay first 3 months		

What's happening in San Marcos?



For the first time, maintaining the current tax rate will result in a structurally unbalanced budget and will require adjustments to be made to either increase revenues or decrease expenses

What's changed in San Marcos?



- Property & sales taxes make up 2/3 of General Fund revenues
 - Currently not keeping pace with inflation and growth
 - FY26 property tax revenue, at current tax rate, is estimated to decline \$1.3M
 - FY26 new development added to the tax roll is the lowest in 4 years
 - FY26 sales tax revenue is estimated lower than FY23 actuals
- Inflation is eroding spending power and will eventually impact programs and service levels

What is development's role?

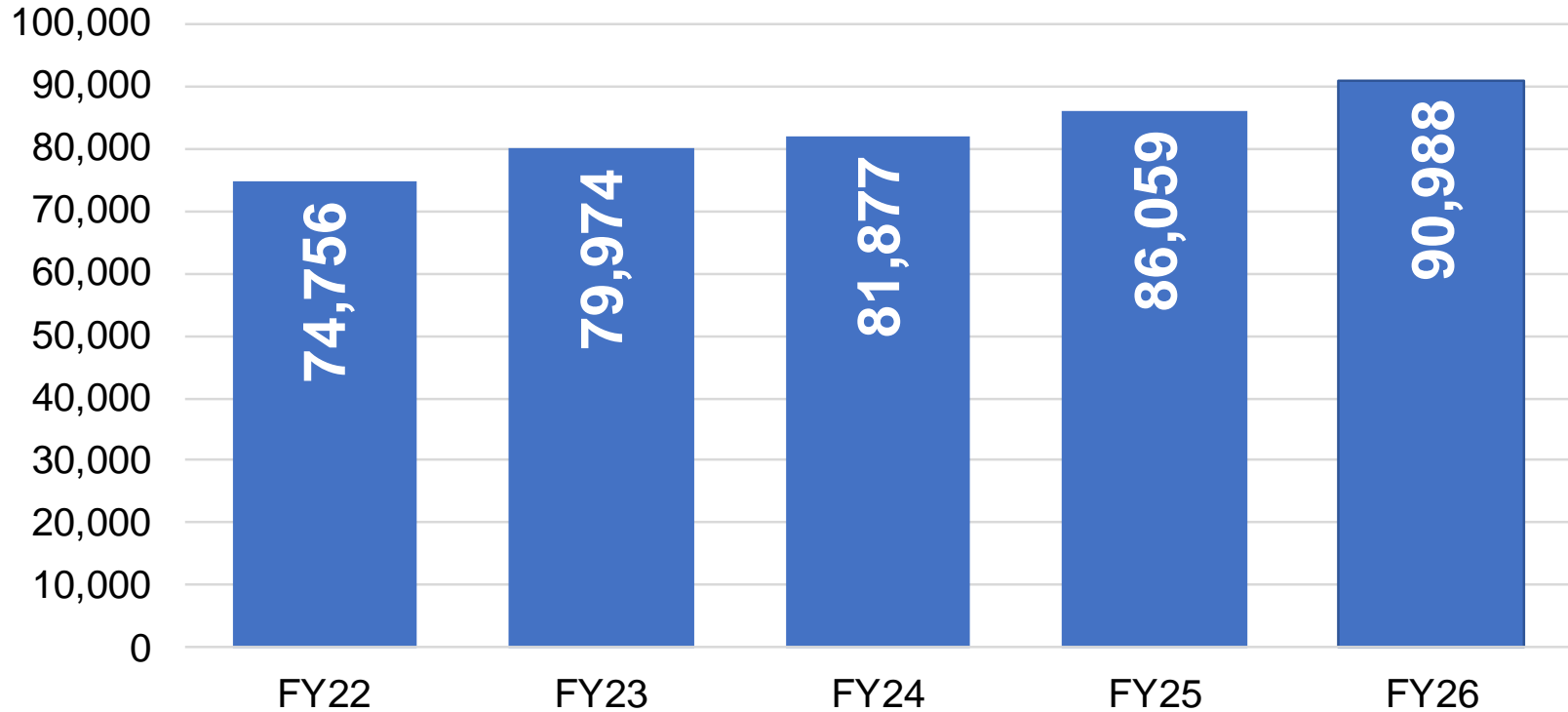


- Diverse development is crucial to foster economic growth and a resilient community
 - Need a mix of residential and commercial growth to properly expand the tax base
 - Commercial growth reduces the tax burden on residential
 - Economic development generates new revenues that help the City keep up with growth and creates new jobs for residents
 - Again, FY26 new development added to the tax roll is the lowest in 4 years



Economic Indicators

City Population



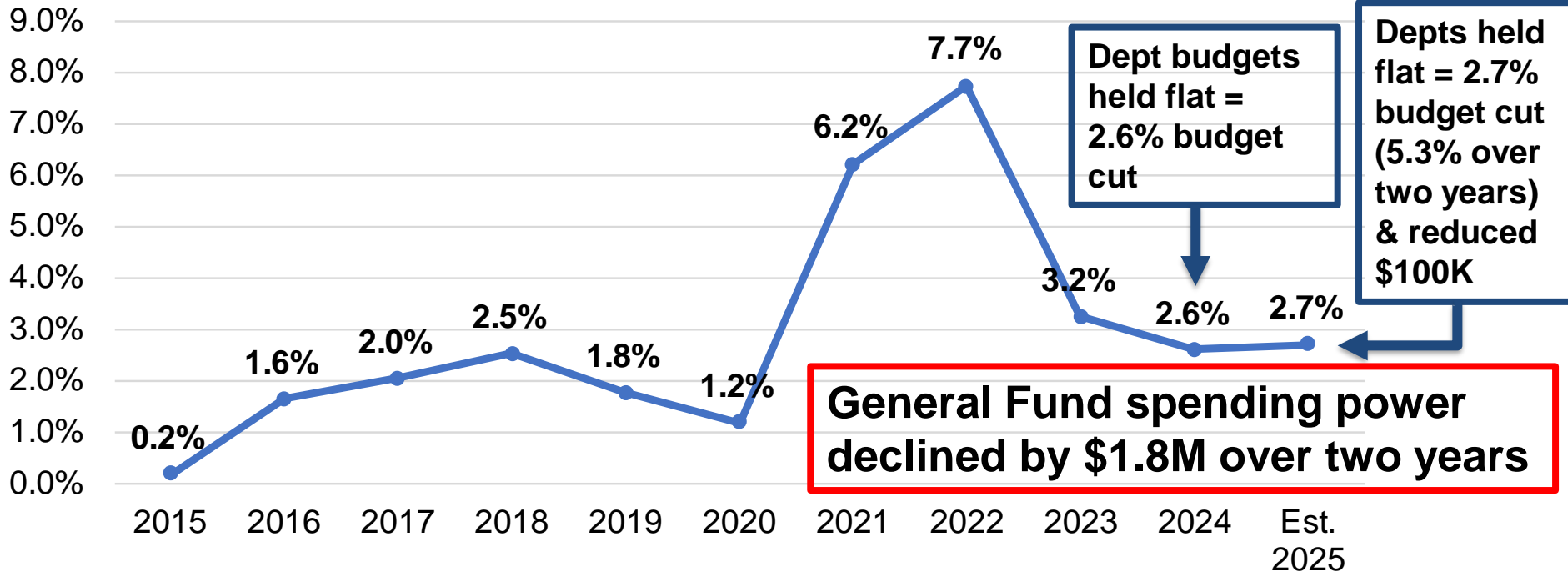
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Source: City of San Marcos Planning & Development as of January 1st (ex. FY26 = Jan. 1, 2025)

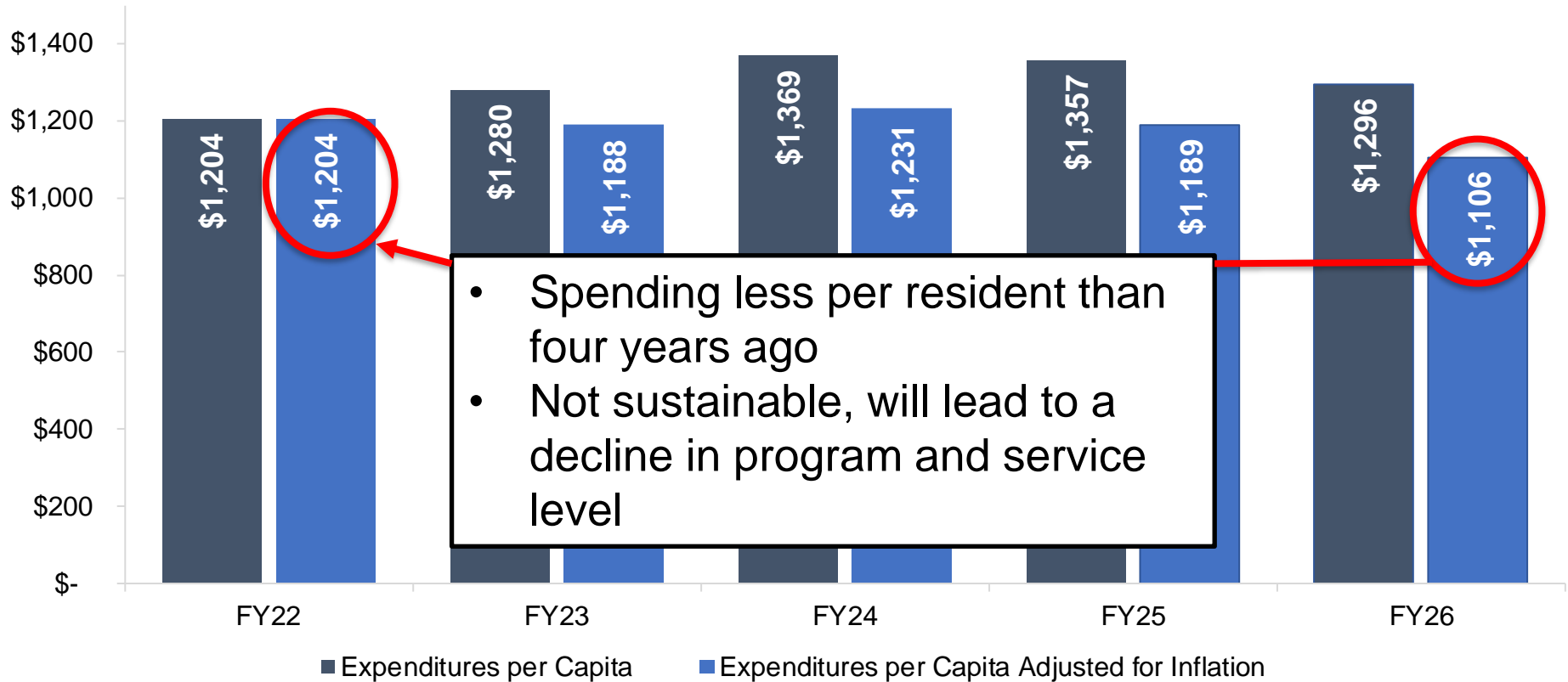
Inflation – Consumer Price Index



U.S. City Average CPI for All Urban Consumers



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

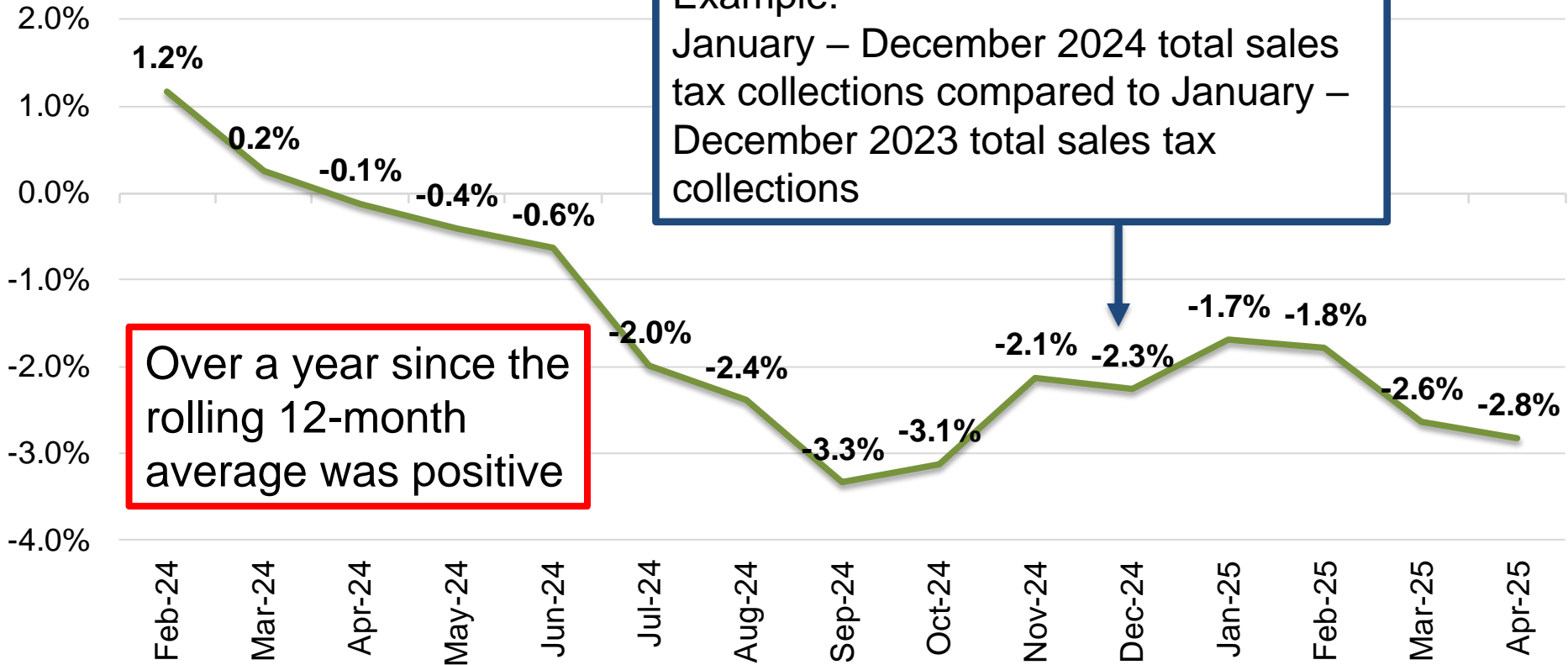


Example:

January – December 2024 total sales tax collections compared to January – December 2023 total sales tax collections



Over a year since the rolling 12-month average was positive



Sales Tax – Peer Cities Comparison



Peer Cities	FY25 YTD Totals	PY % change	FY24 YTD Totals
San Marcos	\$ 22,567,986	-1.2%	\$ 22,848,951
Austin	\$ 206,600,247	-0.3%	\$ 207,178,279
Seguin	\$ 8,115,945	5.5%	\$ 7,695,596
New Braunfels	\$ 26,716,907	3.5%	\$ 25,815,375
Kyle	\$ 11,235,729	8.8%	\$ 10,323,656
Buda	\$ 7,908,260	6.3%	\$ 7,440,845
Regional Averages		3.8%	
Denton	\$ 32,902,123	3.8%	\$ 31,703,215
College Station	\$ 23,615,277	3.6%	\$ 22,793,169
Round Rock	\$ 72,816,934	2.3%	\$ 71,182,309
Bryan	\$ 17,864,432	4.1%	\$ 17,162,602
Garland	\$ 25,103,373	-12.9%	\$ 28,826,384
Georgetown	\$ 32,375,929	8.8%	\$ 29,744,122
Sugar Land	\$ 45,441,506	10.5%	\$ 41,139,306
Cedar Park	\$ 28,694,209	8.1%	\$ 26,534,446
Peer City Averages		3.6%	

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*Through April 2025 Collections



Sales Tax – Top 10 Sales Taxpayers

Sales Tax Ranking	Business	Industry	Prior Fiscal YTD	Current Fiscal YTD	Change \$	Change %
1	Matheus Lumber Company Inc.	Wholesale Trade				
2	H-E-B LP	Retail Trade				
3	Lowe's Home Centers LLC	Retail Trade				
4	City of San Marcos	Public Admin				
5	Amazon.com Services Inc. (Marketplace)	Retail Trade				
6	Wal-Mart Stores Texas LLC	Retail Trade				
7	Target Corporation	Retail Trade				
8	Sam's East Inc.	Retail Trade				
9	Gucci America Inc.	Retail Trade				
10	Amazon.com Services LLC	Retail Trade				
			\$5,693,731	\$5,194,820	(\$498,911)	-9%

Confidential
Information

*Through April 2025 Collections

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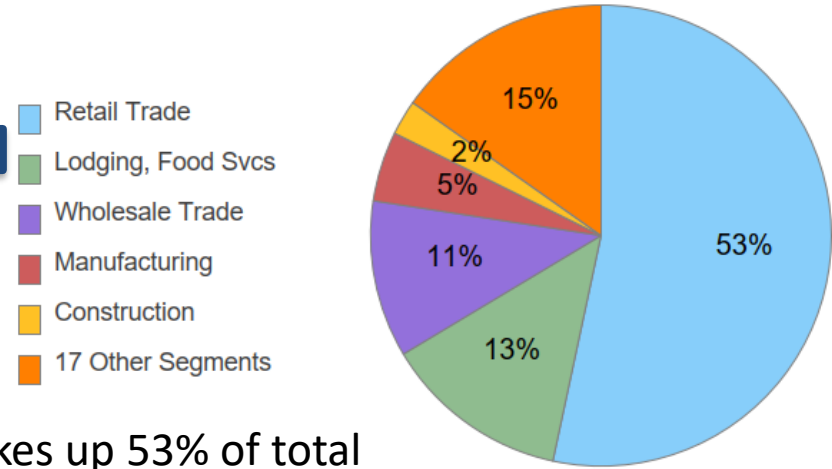


Sales Tax by Industry

Industry Segment Collections Trend - YoY % Chg

SEGMENT	Nov	Dec	Jan	Feb	Mar	Apr
Retail Trade	10.5%	-4.3%	7.9%	-3.0%	-15.0%	-6.6%
Lodging, Food Svcs	3.8%	6.6%	8.0%	-0.1%	-6.5%	3.5%
Wholesale Trade	-18.6%	-19.1%	-30.7%	-11.3%	-16.8%	-19.1%
Manufacturing	1.3%	-13.1%	29.1%	-24.1%	3.9%	14.8%
Construction	-7.9%	50.5%	-15.7%	28.1%	89.9%	29.1%
All Others	9.3%	-4.2%	23.0%	-8.8%	-11.4%	3.2%
Total Collections	4.2%	-4.2%	5.5%	-5.1%	-9.9%	-3.4%

Sales Tax Collections by Industry Segment



*Through April 2025 Collections

- Retail trade segment is the City's largest and makes up 53% of total sales tax collections. This segment is down slightly year-to-date.
- The outlet malls make up 43% of the retail trade segment and 22% of total sales tax collections.
- Wholesale trade segment makes up 11% of total sales tax collections. This segment has continued to decline, year-to-date down \$683K.



General Fund Major Revenues

1. Sales Tax

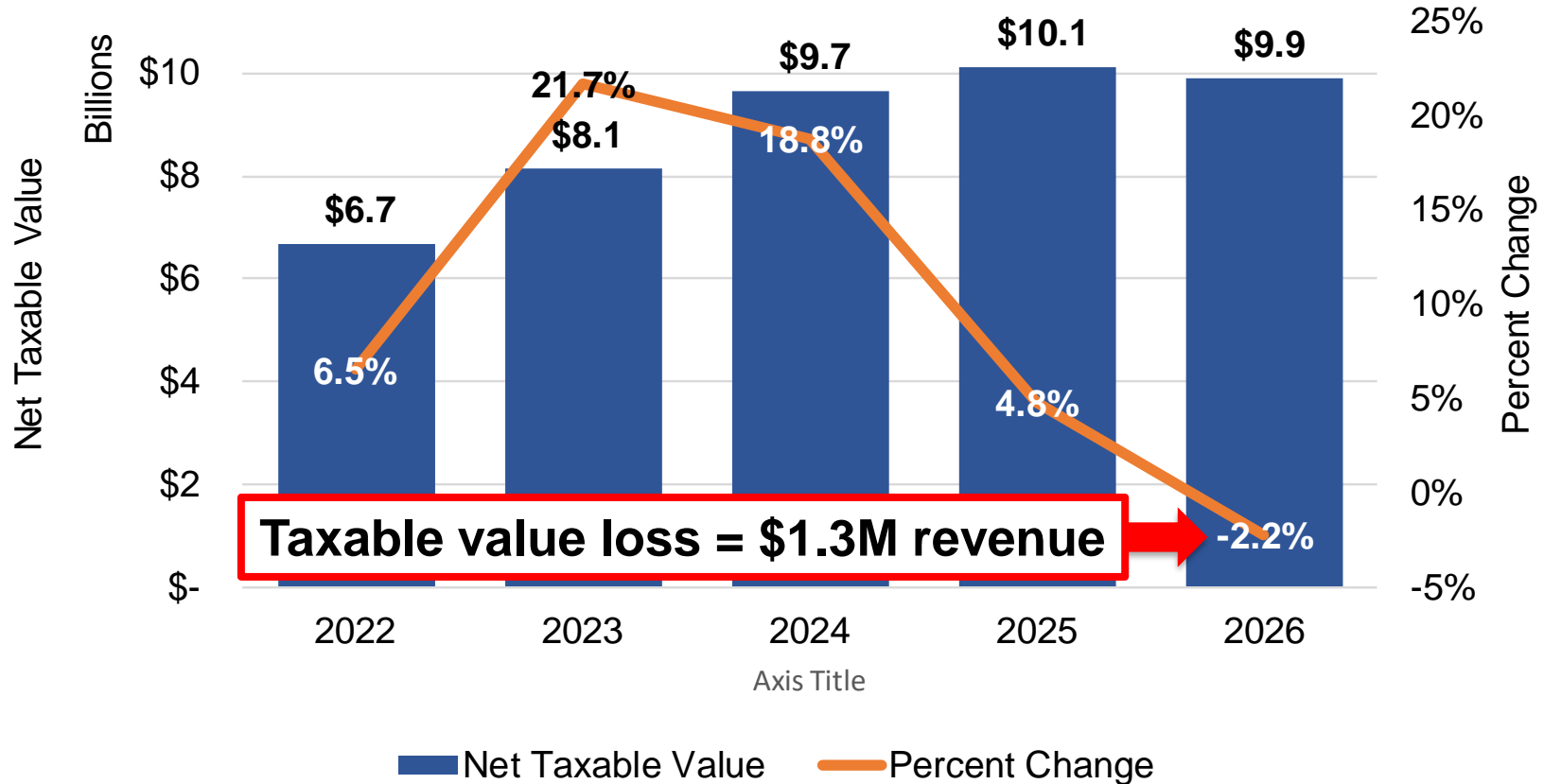
2. Property Tax



Property Value Definitions

- **Assessed Value** = a property's market value minus any applicable state caps (i.e. 10% homestead cap and 20% circuit breaker cap)
- **Taxable Value** = a property's assessed value minus any applicable exemptions (i.e. homestead exemption, over 65 exemption, etc.)
 - Used to calculate property tax due

Taxable Value History



Note: 2022-2025 Certified Tax Roll, 2026 Preliminary Tax Roll less 10% for protests

Preliminary vs Certified Taxable Value



Fiscal Year	Preliminary	Certified	% Change
2022	\$ 7,187,778,850	\$ 6,677,069,972	-7.1%
2023	8,995,085,000	8,139,829,920	-9.5%
2024	10,632,249,991	9,704,346,687	-8.7%
2025	11,415,635,759	10,148,049,237	-11.1%
2026*	11,138,455,745	9,905,330,611	-11.1%

3-year average = -10.3%
5-year average = -9.5%

*10% allowance for protests, also removes \$119M from 3 HFC purchases

New Property Taxable Value



Fiscal Year	Total New Property Taxable Value Added	New Property Revenue
2022	\$ 211,472,588	\$ 1,249,676
2023	388,488,031	2,295,731
2024	553,105,667	3,268,523
2025	576,134,538	3,404,609
2026	267,536,819	1,580,982

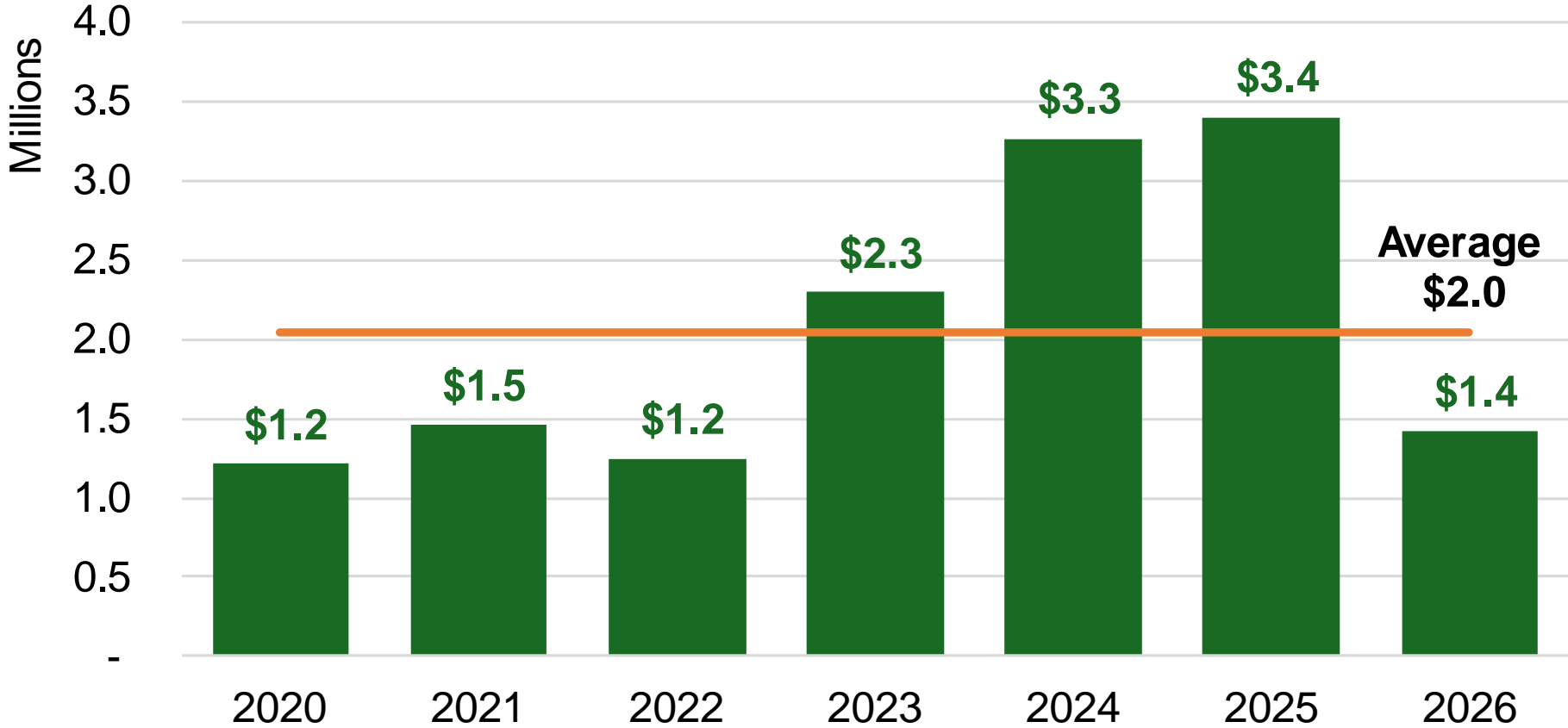
3-year average = \$466M
5-year average = \$399M

FY 26 New Taxable Value			
Type	Count	Value	Average
Residential	558	\$169,317,870	\$303,437
Commercial	24	\$72,943,807	\$3,039,325
% Complete	<u>80</u>	<u>\$25,275,143</u>	
Totals	662	\$267,536,820	

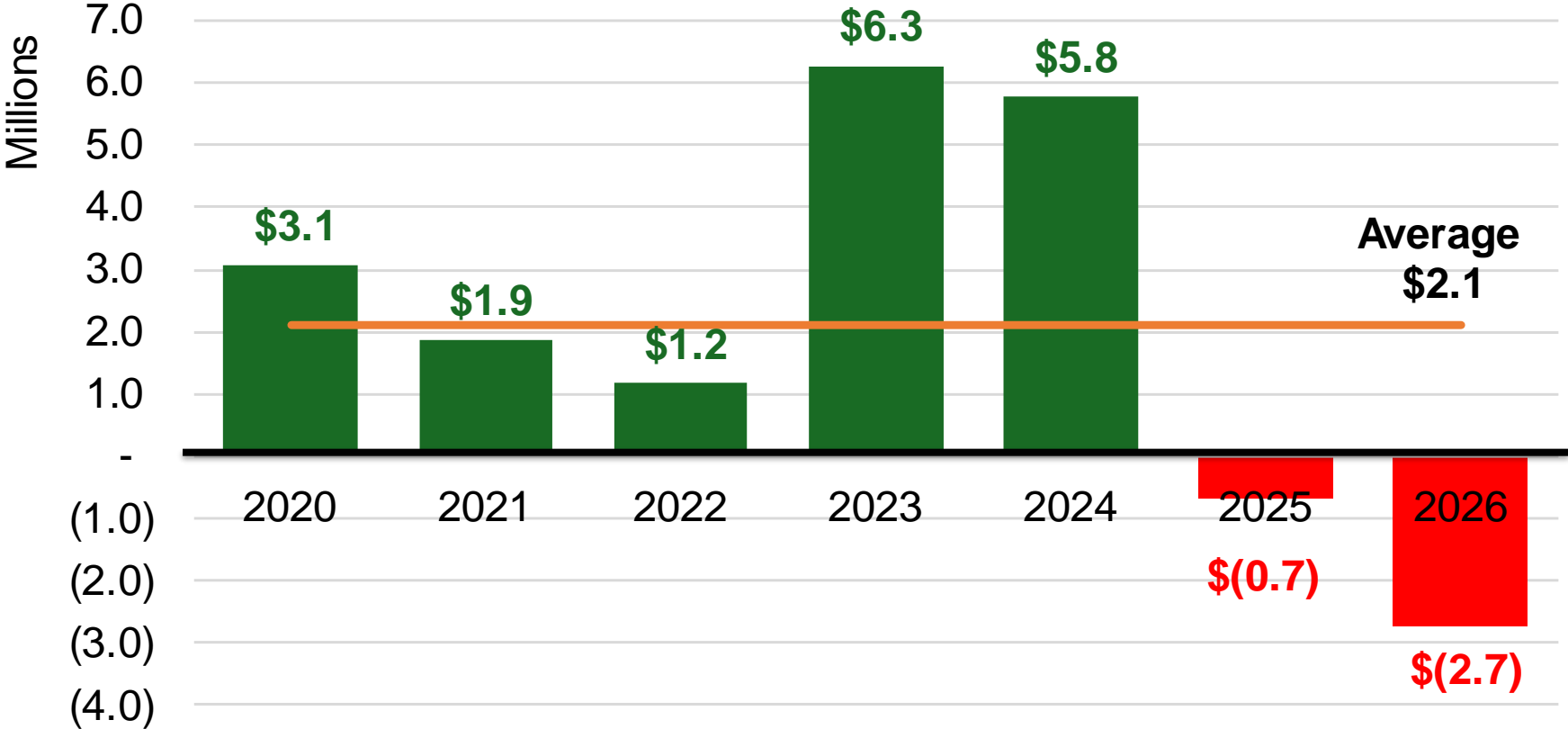


10 Houses = 1 Commercial

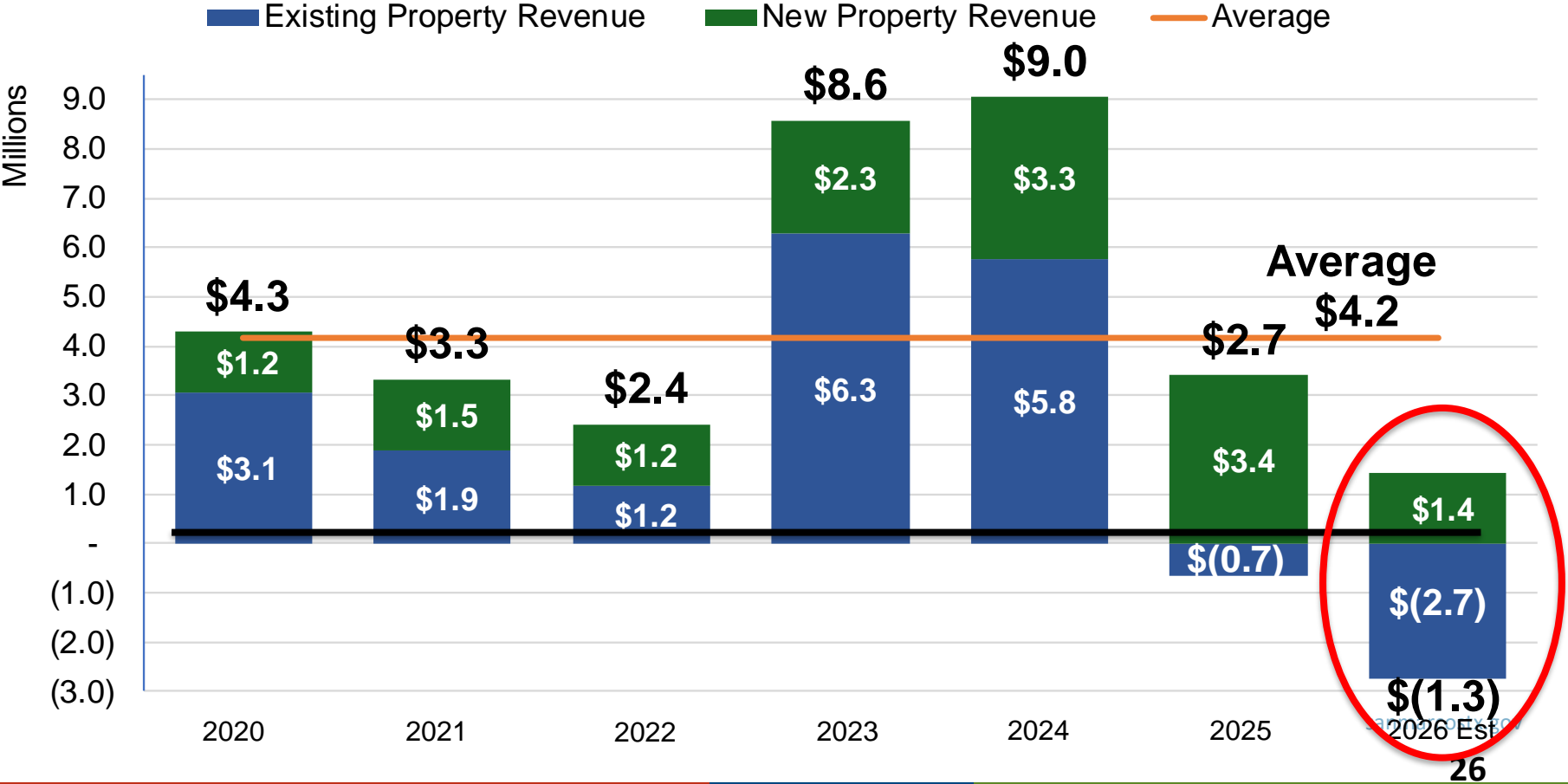
New Property - Revenue Changes



Existing Property - Revenue Changes



Combined Property - Revenue Changes

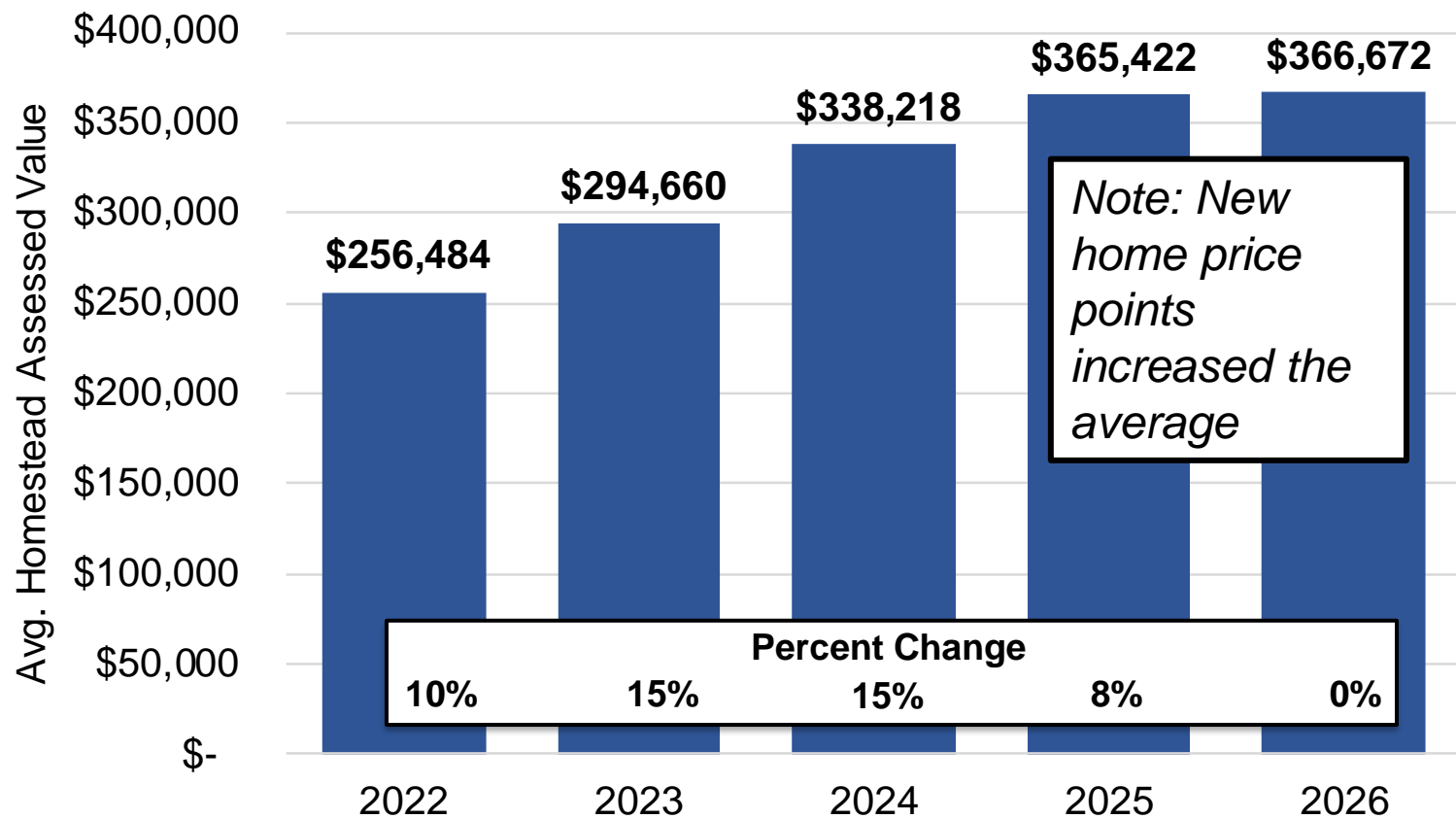




How are San Marcos residents impacted?



Average Homestead Assessed Value



Note: 2022-2025 Certified Tax Roll, 2026 Preliminary Tax Roll less 2% for protests



Property Tax Rate Definitions

- **No-New-Revenue Rate** = the rate that will generate the same amount of revenue in FY26 as in FY25 on properties taxed in both FY25 and FY26
- **Current Rate** = the rate used in FY25
- **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
 - Exceeding this rate triggers an automatic election



Existing Home: No-New-Revenue Tax Rate Scenario

	January 2024	January 2025	Difference
Average Home Value ⁽¹⁾	\$ 365,422	\$ 342,766	\$ (22,656)
Homestead Exemption	(15,000)	(15,000)	-
Taxable Value	\$ 350,422	\$ 327,766	\$ (22,656)
Tax Rate	60.30¢	64.47¢	4.17¢
Annual Tax Levy ⁽²⁾	\$ 2,113	\$ 2,113	\$ 0
Monthly Cost	\$ 176	\$ 176	\$ 0
Annual Savings:			
Homestead Exemption	\$ 90	\$ 97	\$ -

⁽¹⁾ Assuming 6.2% decrease in value from December 2023 to December 2024

Zillow typical home value for San Marcos, TX : -4.7% and Texas A&M Real Estate Center: -7.6%

⁽²⁾ Taxable Value / 100 x Tax Rate = City Taxes Paid



General Fund Forecast Update

Tax Increment Financing Updates



- **Transportation Reinvestment Zone (TRZ) #1 – FM 110**
 - City and County will meet their obligation in FY26 at which time the TRZ will close on Dec. 31st, 2026, according to State statute
 - State statute allows for excess funding collected by the TRZ to be used for other municipal purpose, allowing the City to transfer funds to the General Fund
 - The City will be able to move \$4.8M in FY26 from the TRZ to the General Fund

Tax Increment Financing Updates



- **Tax Increment Reinvestment Zone (TIRZ) #3 – Conference Center**
 - The Conference Center debt is repaid by the 2% Venue Tax, TIRZ #3, and the Hammons lease payment
 - The City has accumulated enough funds to defease all but two years of the Conference Center debt
 - A bond defeasance is the process of setting aside enough funds in escrow to cover future principal and interest payments, which legally removes the debt obligation from the City
 - The 2% Venue Tax generates enough revenue to make the final two payments in FY26 and FY27, eliminating the need for the aforementioned repayment sources
 - TIRZ #3 can be closed, directing \$653K to the General Fund



Budget Cuts Made to Date

- Pausing Public Safety Staffing Plan \$1,458,734
- Independent Review of Other Expenses \$1,141,931
- Use of one-time funding \$990,000
- Managed Hiring Program \$950,000
- Department Cuts \$711,583

Ongoing Items to Review

- Staffing Levels as Turnover Occurs
- Fleet Inventory
- Vehicle Take-Home Policy

Budget Challenges



	FY 2026 Starting Point	Changes for FY 2026	FY 2026 Preliminary	Changes for FY 2027	FY 2027 Forecast
Revenues	\$ 110,612,358				\$ 118,285,361
Tax Increment Zone Changes		4,992,951			
Independent Review of Other Revenues		658,948			
Total Revenues	\$ 110,612,358	\$ 5,651,899	\$ 116,264,257		\$ 118,285,361
Expenses	\$ 122,634,595				\$ 121,716,360
Pausing Public Safety Staffing Plan		(1,458,734)		1,458,734	
One-Time Funding Used in FY26 Preliminary		(1,940,000)		1,515,000	
Departmental Operating Reductions		(711,583)			
Independent Review of Other Expenses		(1,141,931)			
FY27 New Items				1,411,773	
Total Expenses	\$ 122,634,595	\$ (5,252,248)	\$ 117,382,347	\$ 4,385,507	\$ 126,101,867
Operating Results	\$ (12,022,237)		\$ (1,118,090)		\$ (7,816,506)

\$3M shifts to FY27

Tax Rate Example Scenarios



Scenario #	#1 60.30¢ Current	#2 60.30¢ Current	#3 63.41¢ Structurally Balanced	#4 64.47¢ No-New-Revenue
Structurally Balanced?	No	Yes	Yes	Yes
Funding Capacity (Cut)/Add	\$(1.1M)	\$(2.6M)	\$0	\$900K
Service Level Impacts	<ul style="list-style-type: none"> Eliminate programs & services Use of one-time funding for recurring 	<ul style="list-style-type: none"> Eliminate programs & services No use of one-time funding for recurring 	<u>Options:</u> <ul style="list-style-type: none"> Add \$800K set aside - year 1 of 3 (Engine 7) Add \$425K PD Staffing Plan Add \$150K for HSAB Prior \$100K service cuts reinstated Add programs & services (i.e. Tenant Services & Office of Community Support) 	

What Does a Penny in Property Tax Buy?



1¢ = \$850,000; that equals...



5 Police Officers including vehicle, uniforms, and equipment



Almost our entire Code Compliance Division



9.5 lane miles of paving (almost 2 neighborhood projects)



Almost half of the cost to run the Animal Shelter



1/3 of Library including salaries and books and materials



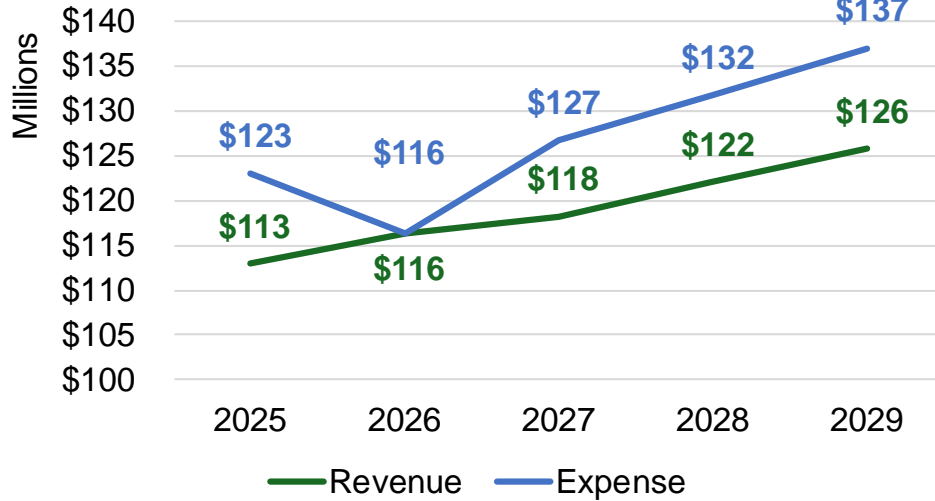
5 Firefighters including uniforms and equipment

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Tax Rate Example Scenarios

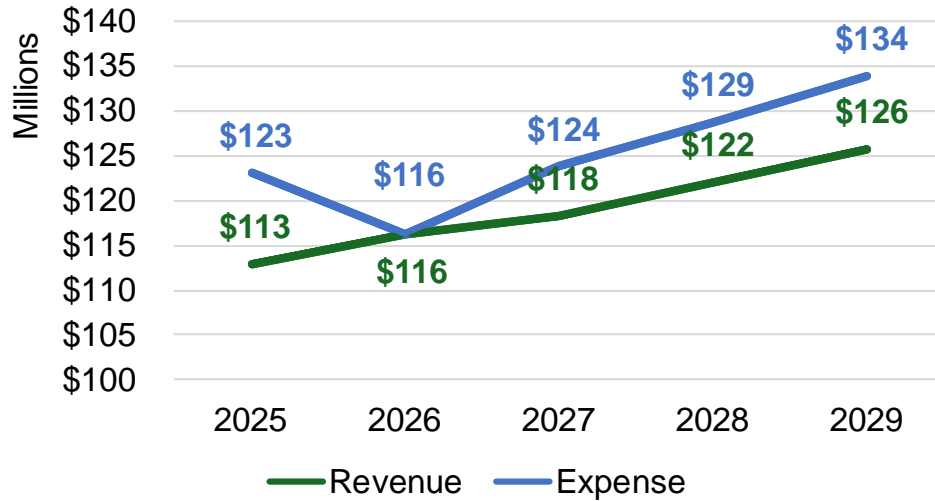


Tax Rate #1



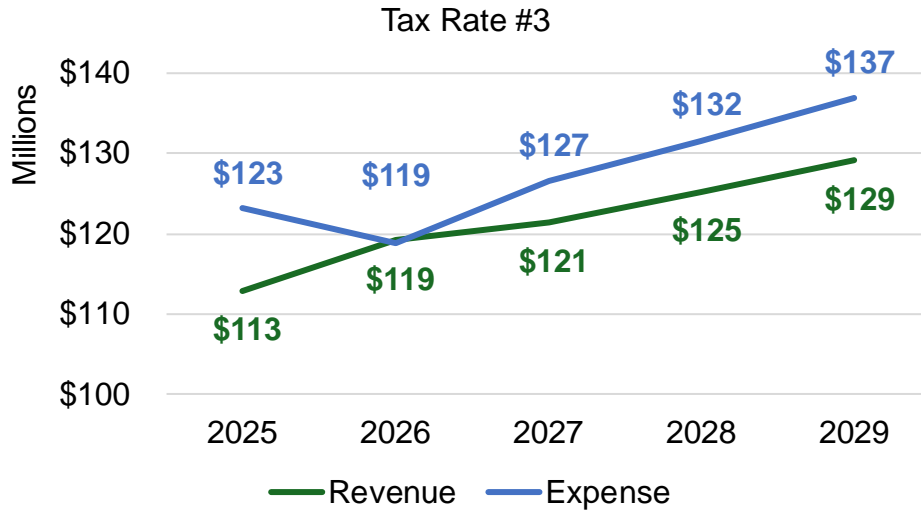
Current Tax Rate = 60.30¢
Funding Capacity= \$(1.1M)

Tax Rate #2

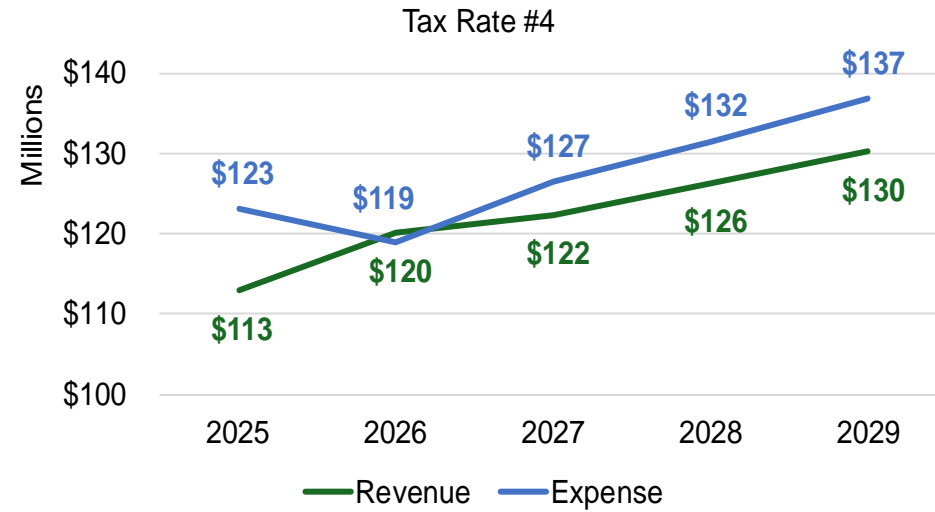


Current Tax Rate = 60.30¢
Funding Capacity = \$(2.6M)

Tax Rate Example Scenarios



Structurally Balanced Tax Rate = 63.41¢
Funding Capacity = \$0



No-New-Revenue Tax Rate = 64.47¢
Funding Capacity = \$900K



Property Tax Revenue Options for Structurally Balanced Budget

	Required Property Tax Revenue*	Required Tax Rate	Funding Capacity (Cut)/Add
Current Rate	\$ 51,106,311	60.30¢	\$ (2,633,090)
2017 Bond Election Rate	\$ 52,030,124	61.39¢	\$ (1,709,277)
Structurally Balanced Budget	\$ 53,739,401	63.41¢	\$ -
No-New-Revenue Rate	\$ 54,640,529	64.47¢	\$ 901,128
Voter-Approval Rate	\$ 61,759,816	72.87¢	\$ 8,020,415

Note: Any rate above No-New-Revenue Rate requires approval from 5 Councilmembers

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*Does not include tax increment financing zones

What's not in the budget?



Description	Count	Amount
Budget Reinstatement Requests	39	\$658,902
Budget Supplemental Requests: Personnel	40	\$6,079,260
Budget Supplemental Requests: Operating	8	\$436,411
Budget Supplemental Requests: Capital	23	\$1,436,742
Grand Total All Requests	110	\$8,611,315



FY26 Revenue & Expense Considerations

FY26 Revenue Considerations



General Fund

- A balanced budget and structurally balanced budget are not the same
 - Structurally balanced budget focuses on long-term sustainability not short-term balance
- The City is expanding programs and services despite reduced revenues and rising inflation
- Property & sales taxes make up 2/3 of General Fund revenues and are not keeping pace with inflation and growth
- Sales Tax – continue closely monitoring sales tax receipts

FY26 Revenue Considerations



General Fund

- Property Tax – Certified Roll will be received by July 25th
 - Due to declining values, estimated No-New-Revenue Rate is higher than Current Rate
 - Awaiting injunction hearing results on 3 properties purchased by Housing Finance Corporations
 - Bills in legislature could have further impacts
 - Example: House Bill 9 exempting \$125K of business personal property = \$(417K) in reduced tax revenue

FY26 Expense Considerations



General Fund

- Impact of the economy on inflation
- Continued erosion of spending power will negatively impact programs and service levels
- Departments held operating budgets flat for second straight year
- Departments collectively cut \$100K
- Not enough capacity for current programs and services
- Revenues need to increase or expenses need to decrease

FY26 Other Fund Considerations



Utility Funds

- Utility rate modeling in process
 - Continue incremental rate increase approach when rate increases are required for all utilities
 - Late penalties have been removed from models & budget
- Citizens Utility Advisory Board will make recommendations to Council related to rate structure, rate adjustments, and other fee adjustments (Electric & Water-Wastewater)
- Hybrid approach of Stormwater paying up to \$5M in CIP starting in FY25 due to General Fund shortfall



Public Engagement Received to Date

Public Engagement Feedback



- **Neighborhood Commission Meeting**
 - Expressed interest in ensuring Police and Fire have the staffing and adequate equipment to respond to emergencies
 - Community wants to support Fire, Police, EMS and First Responders
- **Meetings & Dream Sessions**
 - Reviewed all strategic goals, participant interests and feedback focused on:
 - Mobility & Connectivity
 - Sidewalks, Transit, Transportation
 - Environmental Protection
 - River, Family Friendly Spaces

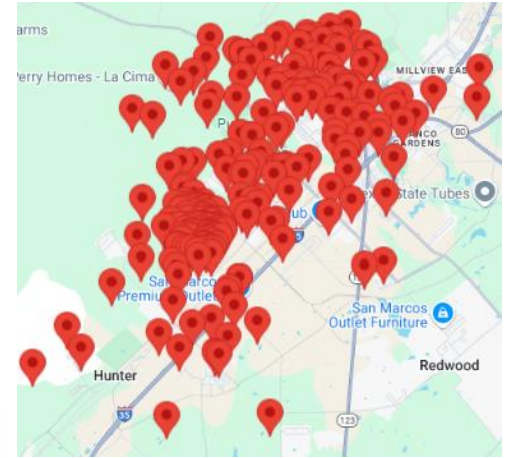
Public Engagement Feedback



- **Prioritize - Online Survey**

- 300+ Responses
- All Strategic Goals and Outcomes were ranked
- The outcomes that were ranked the highest fall under Public Safety, Core Services, and Fiscal Excellence:

- Community Safety (297 votes received)
- Financial Management (212 votes received)
- Core Government Services (212 votes received)
- Infrastructure Management (205 votes received)



**Approximate Residence
of Respondents**

Decision Point



- Council direction requested regarding example tax rate scenarios staff should use to develop FY26 Budget

Next Steps



- Budget Workshop: June 26th
 - Will include proposed department fee changes
- Budget submitted to City Council and Maximum Proposed Tax Rate Set: August 19th
- Opportunities for Community Input
 - Prioritizing supplemental requests: Runs through May 26th
 - Neighborhood Commission Presentation: August 20th
 - 2 Budget & Tax Rate Public Hearings: September 2nd and 16th
 - Proposed Fee Changes Public Hearing: September 2nd
- Council considers Budget and Tax Rate Adoption: September 16th



Stephanie Reyes
City Manager

Joe Pantalione
Assistant City Manager

Lonzo Anderson
Assistant City Manager

Rodney Gonzales
Assistant City Manager

Jon Locke
Finance Director/CFO

Trisha Patek
Budget Manager

Questions

