



City of San Marcos FY 2026 Adopted Budget Policy Statement

I. FUND BALANCE

- General Fund: Maintain 25% of recurring operating expenses.
 - Fund balance in excess of 25% to be split between non-recurring expenses and future City Hall/Hopkins City Center Project.
- 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.
- 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 between the current rate and the voter approval rate.
- Amend budget during fiscal year if revenue deviates from budget.
- Consider impact of American Rescue Plan (ARP) funding ending.
- 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 2027.

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 3-5% of total personnel costs 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.
- Health insurance will be evaluated and presented to Council during the budget process based on plan needs. Staff anticipates any additional funding needed is included as part of the 3-5% increase in personnel costs stated above.
- 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. Explore increasing the annual funding level for the Human Services Advisory Board from \$550,000 to \$750,000. In Fiscal Year 2026, the funding level will be increased by a minimum of \$50,000 and a maximum of \$200,000, depending on available capacity.
 - 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, not to exceed 2.5%.
- If capacity allows, continue budgeting for Fiscal Year 2026 fiscal planning considerations:
 - Add 6.5 full-time equivalents for the following:
 - 2.0 FTEs for Police
 - 1.0 FTE for 911-Telecommunicator
 - 1.5 FTEs for bailiffs at the new municipal court
 - 1.0 FTE for position funded with ARP

- 1.0 FTE for Community Enhancement position moving to General Fund
 - Allocate one-third of the cost of staffing Engine #7, with the goal of hiring all 15 firefighters in Fiscal Year 2028, or sooner if the City receives the SAFER grant
 - Transition one-fourth of the cost for legacy software allocation
 - Transition 7 vehicles into leasing program
 - Debt obligations are permissible for equipment replacement plan
 - Note: The implementation of the public safety staffing plan will be paused until the staffing studies are completed.
- Annual allocation for Transit Fund will be to be presented later in the budget process.
- Continue using the final year of ARP funding to meet community needs.
- 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.
- Explore policies that will provide funding for non-recurring expenses while protecting the City from revenue volatility.

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 and explore how we can meet the 51% of tourism function requirement.
- Use hotel tax funding for the City’s branding plans and incorporate a community input component.

COMMUNITY ENHANCEMENT

- Continue to budget funds to address community enhancement items that come up during the fiscal year.

- Transfer the final code enforcement officer to the General Fund, if capacity permits, after considering the other General Fund priorities.
- Use the Community Enhancement Fund to support new intersection plantings and gateway monuments.