



BUDGET POLICY WORKSHOP FY 2018-2019

February 22, 2018 **Bert Lumbreras**, City Manager
Steve Parker, Assistant City Manager/CFO
Collette Jamison, Assistant City Manager
Heather Hurlbert, Finance Director



CITY MANAGER INTRODUCTION

CITY MANAGER INTRODUCTION | **AGENDA**

- City Manager Introduction
- Economic Forecast
- Strategic Initiatives
- Break and Dinner
- Key Policy Considerations and Assumptions
- FY18 Budget Amendment
- Budget Timeline and Process



CITY MANAGER INTRODUCTION

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APPROACH

- Goal of today's workshop is for Council to provide high level direction to staff to build the FY 2019 budget framework.
- The strategic initiatives are the first key step in building the upcoming budget.
- Work on initiatives will begin once Council reviews, provides feedback and approves.
- Staff will take a holistic approach in reviewing department budget requests.
- Debt discussion at a later Council work session.





ECONOMIC FORECAST

2018 Economic and Sales Tax Forecast



February 2018



Macroeconomy

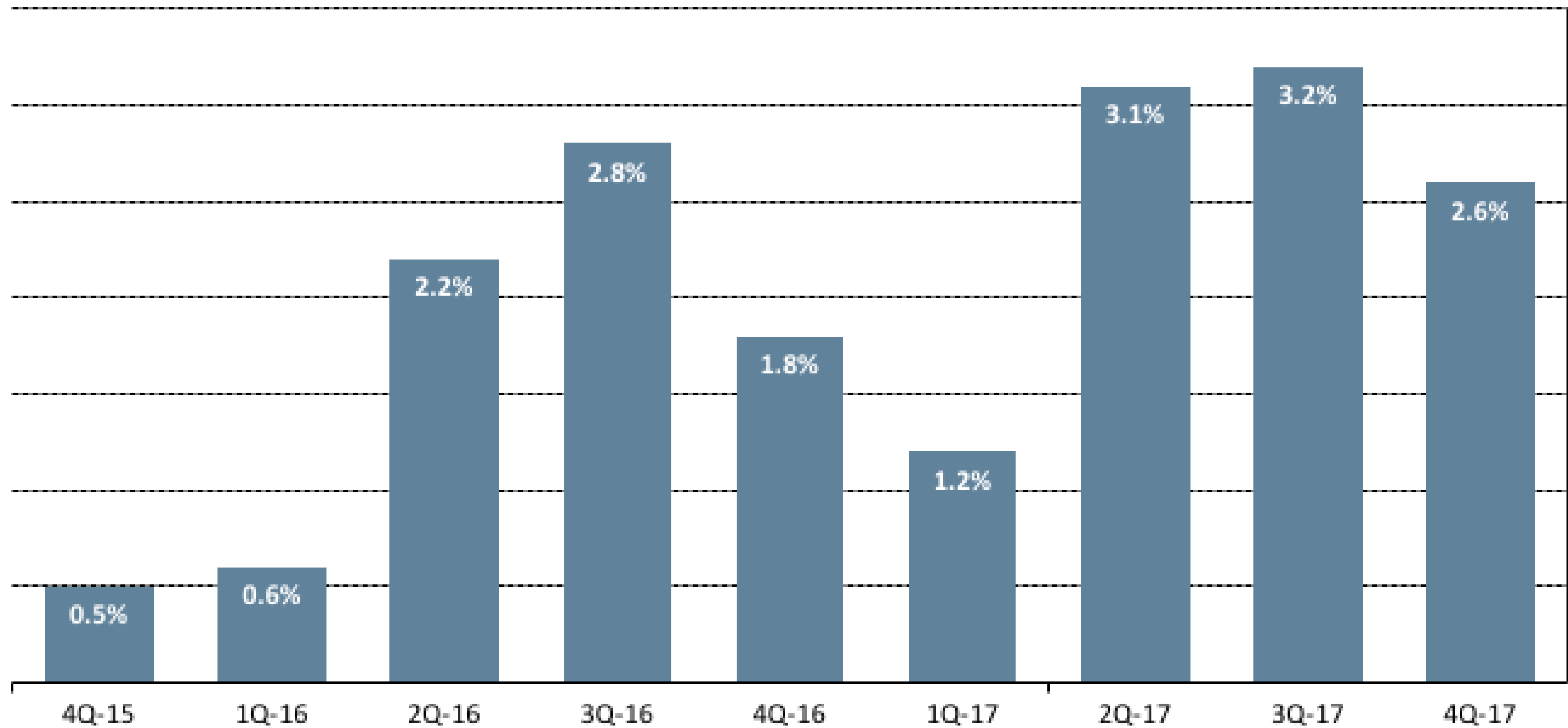
Overview

- Consumer spending has propped up overall economy, a factor likely bolstered by the tax cut. However, disposable income is rising more slowly than spending, causing the savings rate to drop. In the near term, lower tax bills and repatriation of business profits (which can translate to consumption) will provide short-term stimulus.
- For businesses, the tax plan delivers not only lower rates, but ability to immediately deduct investment spending from tax payments for the next five years. Higher profitability will also provide more resources for companies to invest, although rising wage costs could partially offset.
- Tension around inflation fears and higher federal deficits (which will tend to increase interest rates) set against tax cuts and strong current economic growth. Fed is moving toward tightening (thought to be 3 times this year).



Macroeconomy

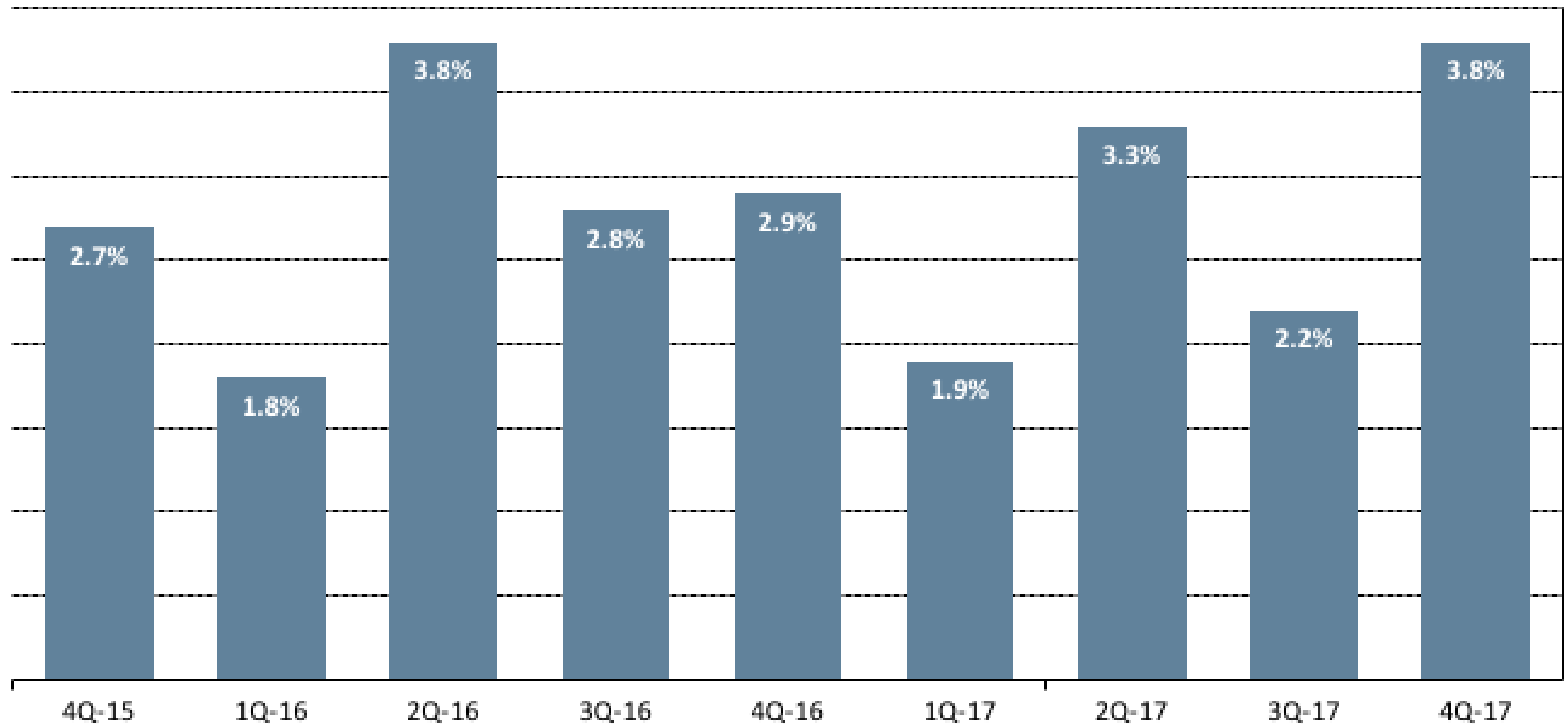
GDP Growth



Source: Bureau of Economic Analysis, TXP

Macroeconomy

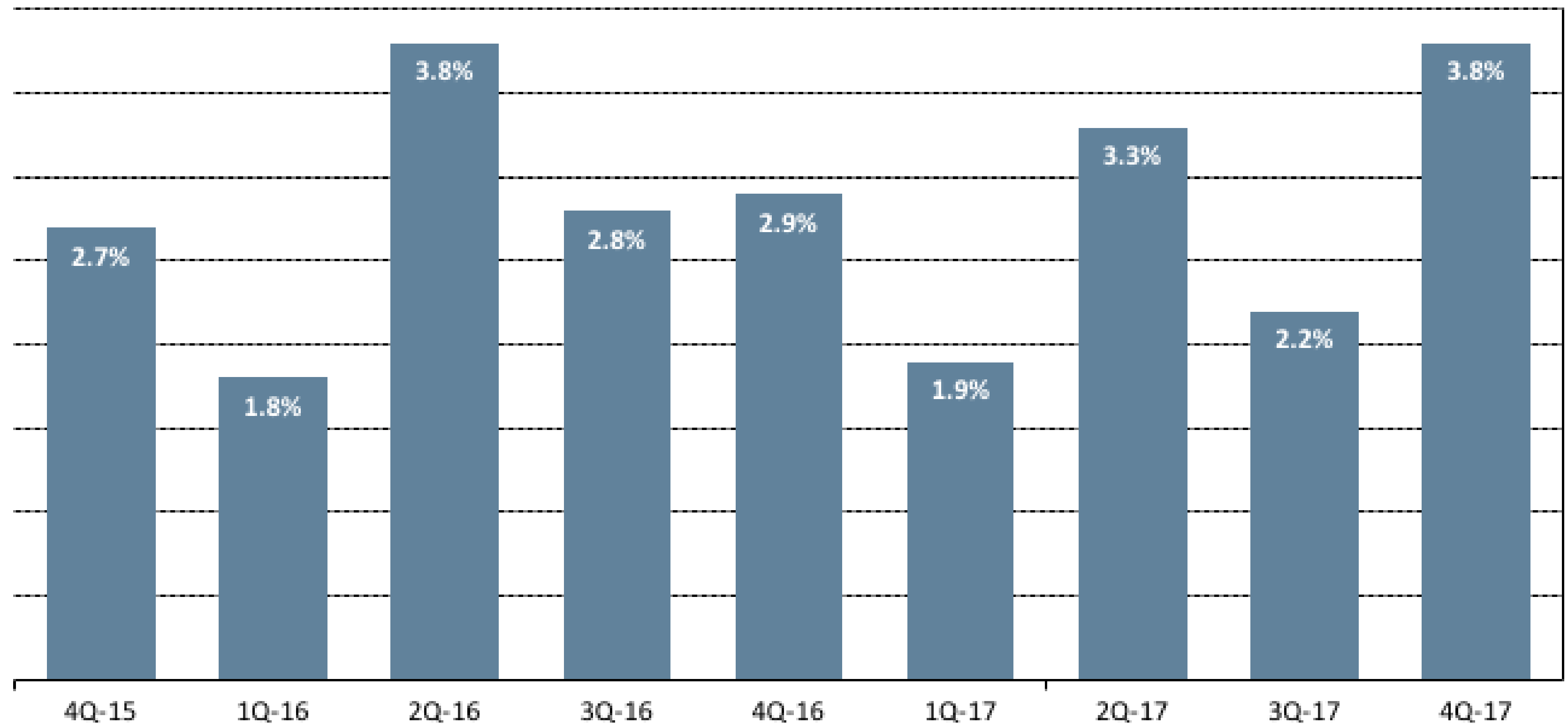
Personal Consumption Expenditures Growth



Source: Bureau of Economic Analysis, TXP

Macroeconomy

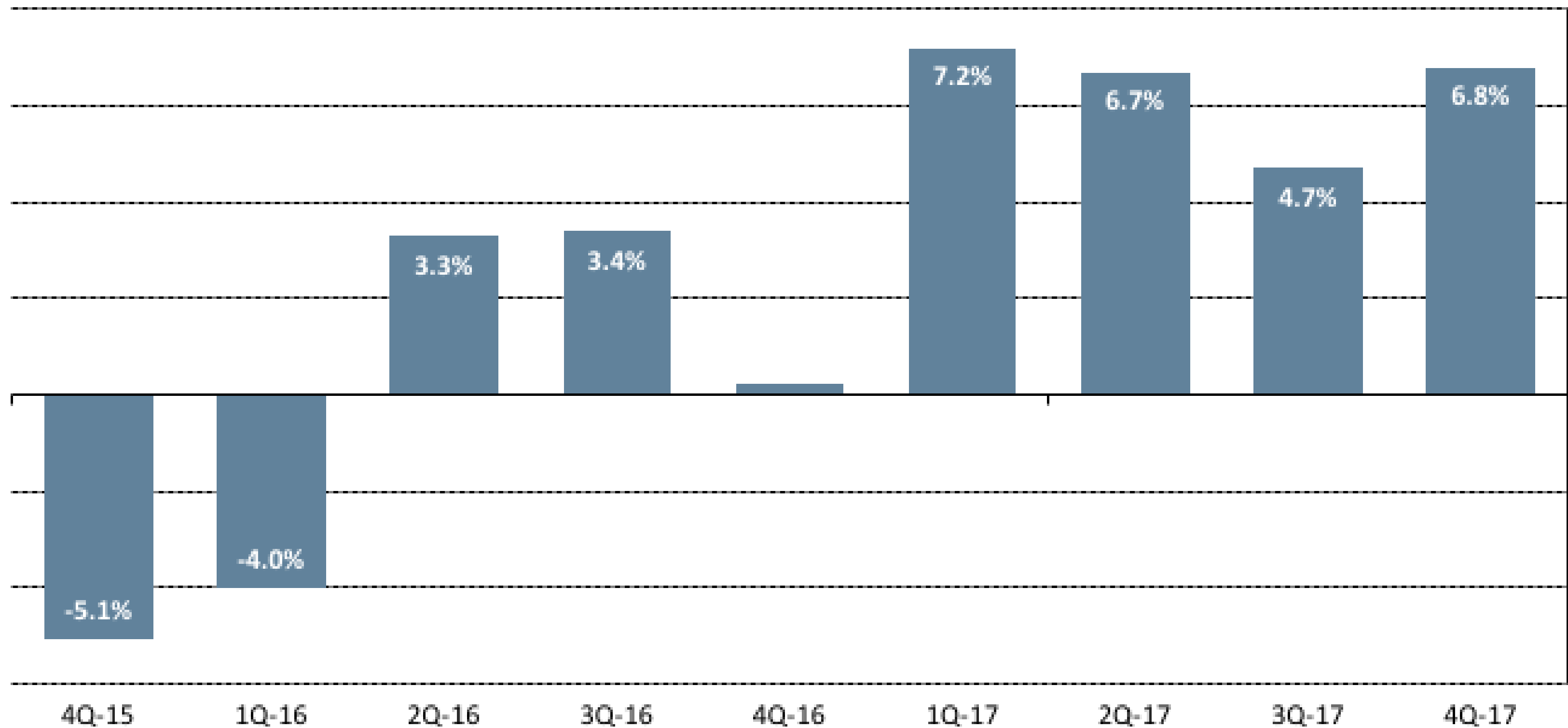
Personal Consumption Expenditures Growth



Source: Bureau of Economic Analysis, TXP

Macroeconomy

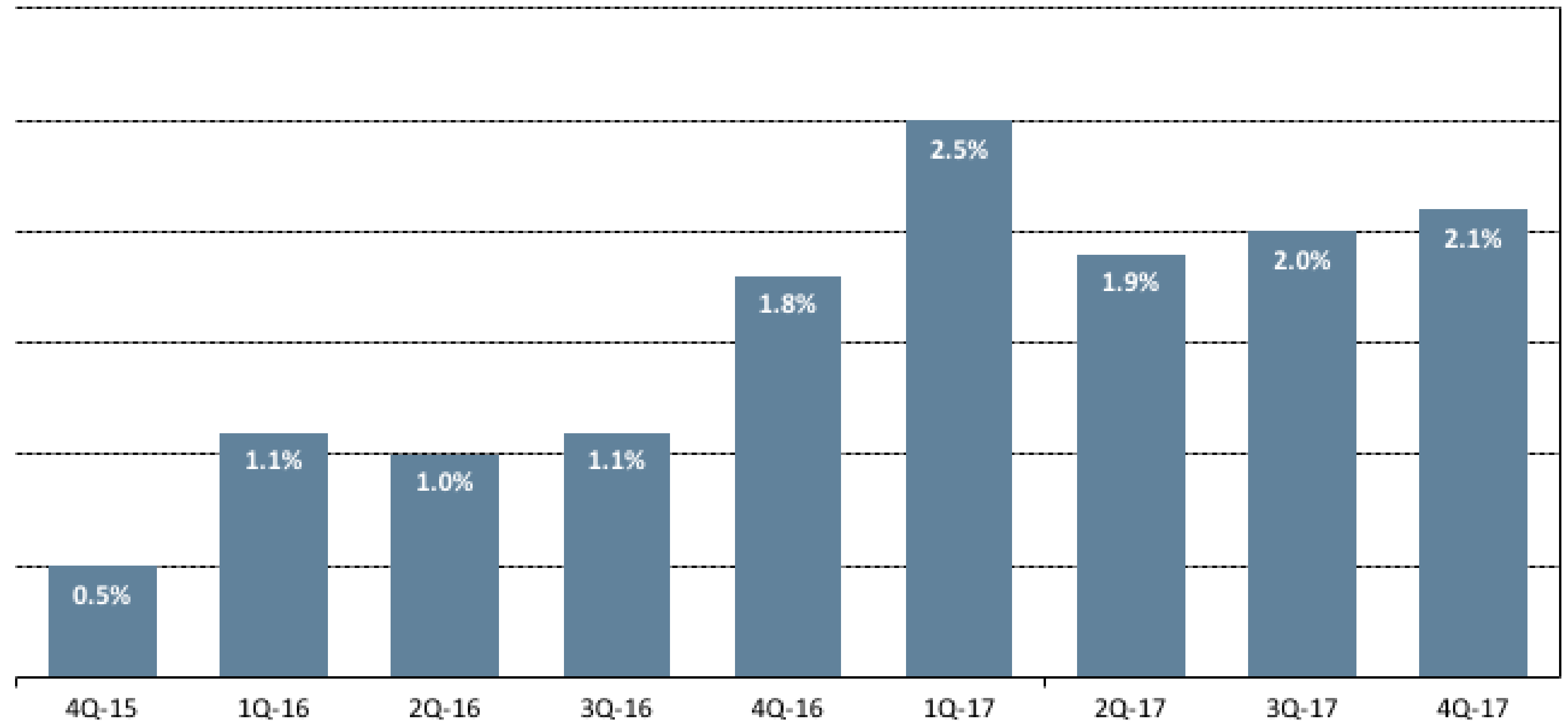
Non-Residential Investment



Source: Bureau of Economic Analysis, TXP

Macroeconomy

Consumer Price Index (12-Month Change)

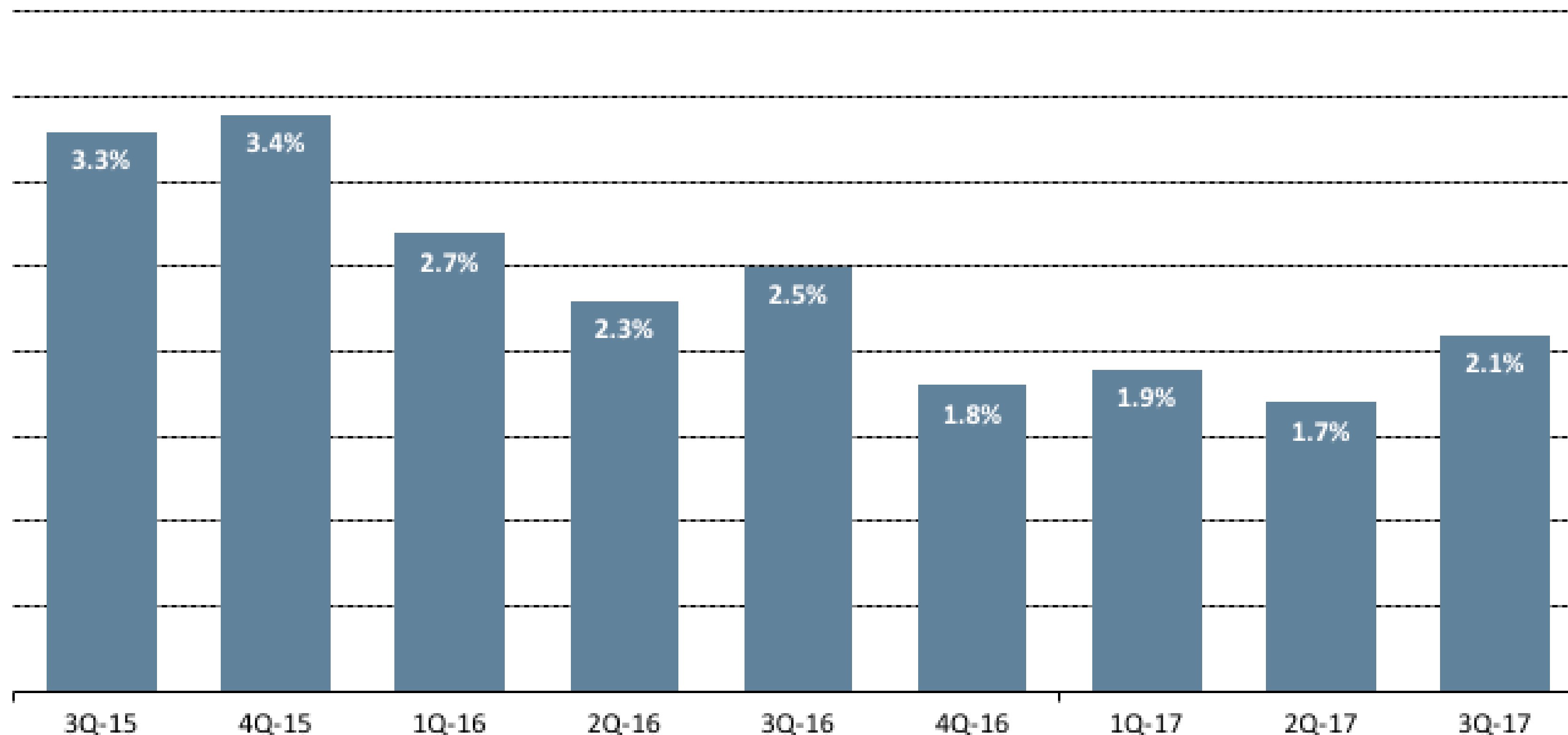


Source: BLS, TXP



Macroeconomy

Net Household Saving Rate



Source: Bureau of Labor Statistics, TXP



Macroeconomy Outlook

- **Baseline Forecast (most likely):**
 - Consumer spending continues to grow, and businesses add capacity in response. Stronger overseas growth puts downward pressure on the dollar and increases demand for US exports. With the economy near full employment, the faster GDP growth creates some inflationary pressures. Annual growth is in the 2 percent range but gradually falls below that level as the economy reaches capacity and slow labor force growth becomes a constraining factor.
- **Slower growth (less likely):**
 - Inaction on the budget and debt ceiling. dampens growth in the first two quarters of 2018, and the financial system's response limits growth beyond the short term. Meanwhile, the administration places significant restrictions on US imports, raising costs and disrupting supply chains. In spite of the tax cut, businesses hold back on investments to restructure their supply chains because of uncertainty about future policy. GDP growth falls to less than 1.5 percent over the forecast period, and the unemployment rate rises to about 6 percent.



Macroeconomy Outlook

- **Successful Policy (unlikely):**

- The administration takes only symbolic action on trade. Congress compromises on appropriations and passes a large rise in the debt ceiling. With financial and supply chain disruptions off the table, businesses focus on the tax cuts designed to increase investment spending and the opportunities available from an effective infrastructure plan. Growth remains above 2 percent for the next five years.

- **Recession (unlikely):**

- Policy mistakes and risky financial market decisions in the United States, Europe, and China trigger a global financial crisis. The Fed and the European Central Bank act to ease financial conditions, and the financial system recovers relatively rapidly. GDP falls temporarily during 2018, but subsequently recovers.



San Marcos/Hays County

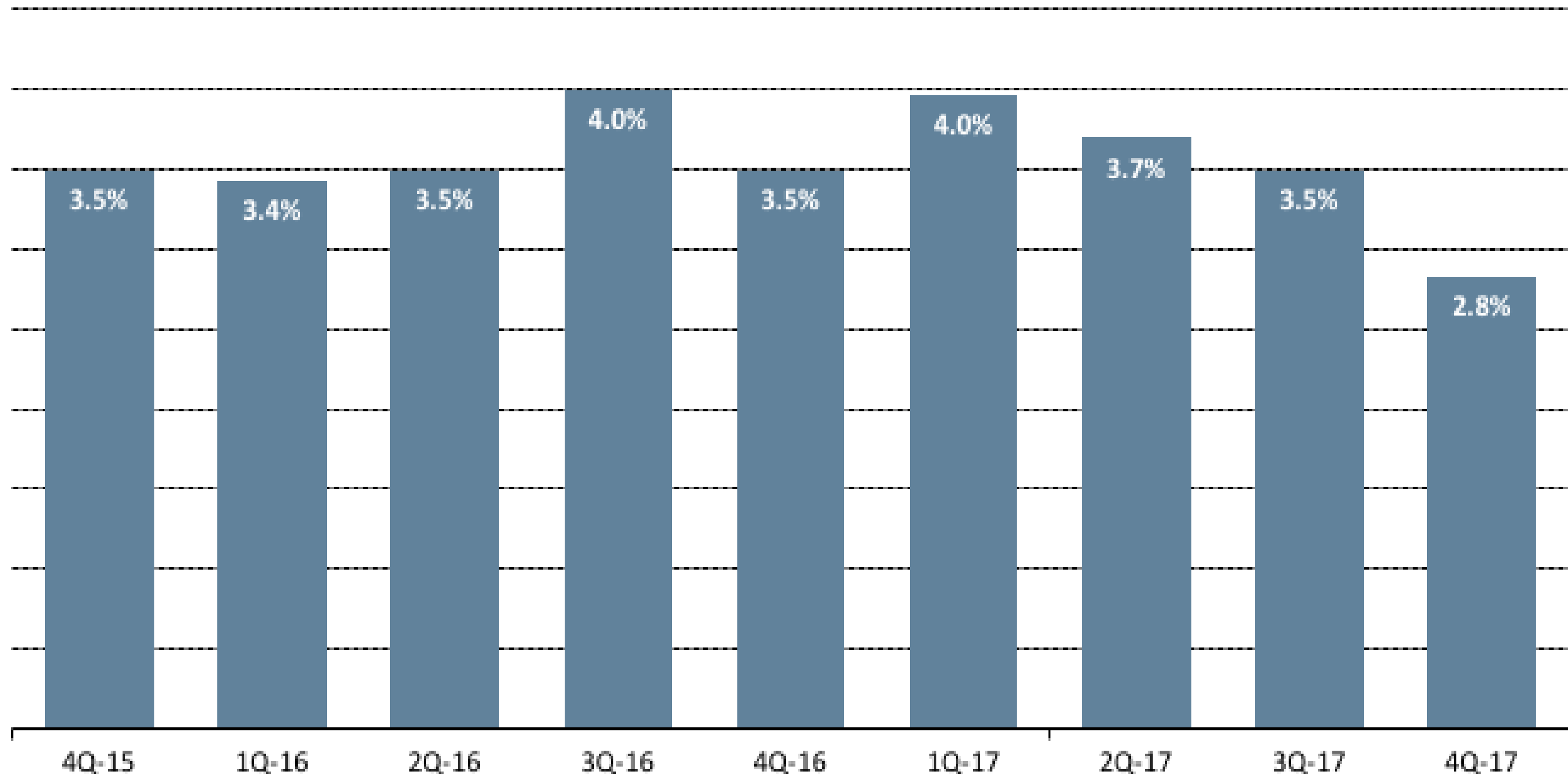
Economic Overview

- Job growth has been strong in recent years in Hays County, as activity spills over from Central Texas, and new businesses find Hays County/San Marcos attractive for relocation/expansion. Unemployment rate has fallen in the City of San Marcos, while job growth in the City remains positive.
- Housing activity also remains solid, with growth in overall units permitted, homes sold, and the average price of a single-family house.
- Visitor activity has picked up, as City lodging taxes rose from \$1.55m in 2014 to \$2.19m last year.
- Sales tax rebates have largely been below year-ago figures, although some signs of leveling out. Peer communities and those nearby in Central Texas have generally grown more rapidly.



San Marcos

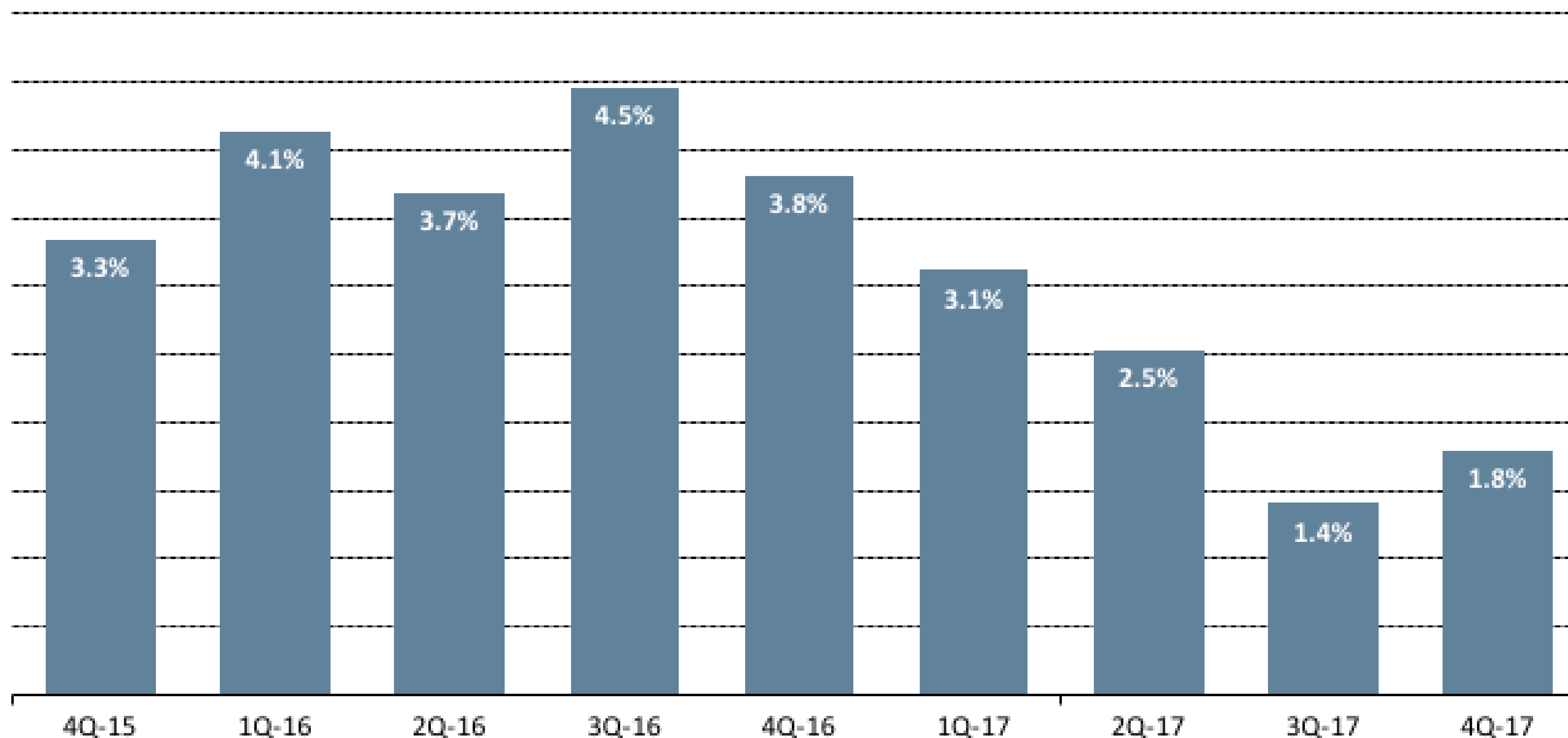
Unemployment Rate – Based on TWC Residents Survey





San Marcos

Job Growth by Place of Residence – TWC Household Survey

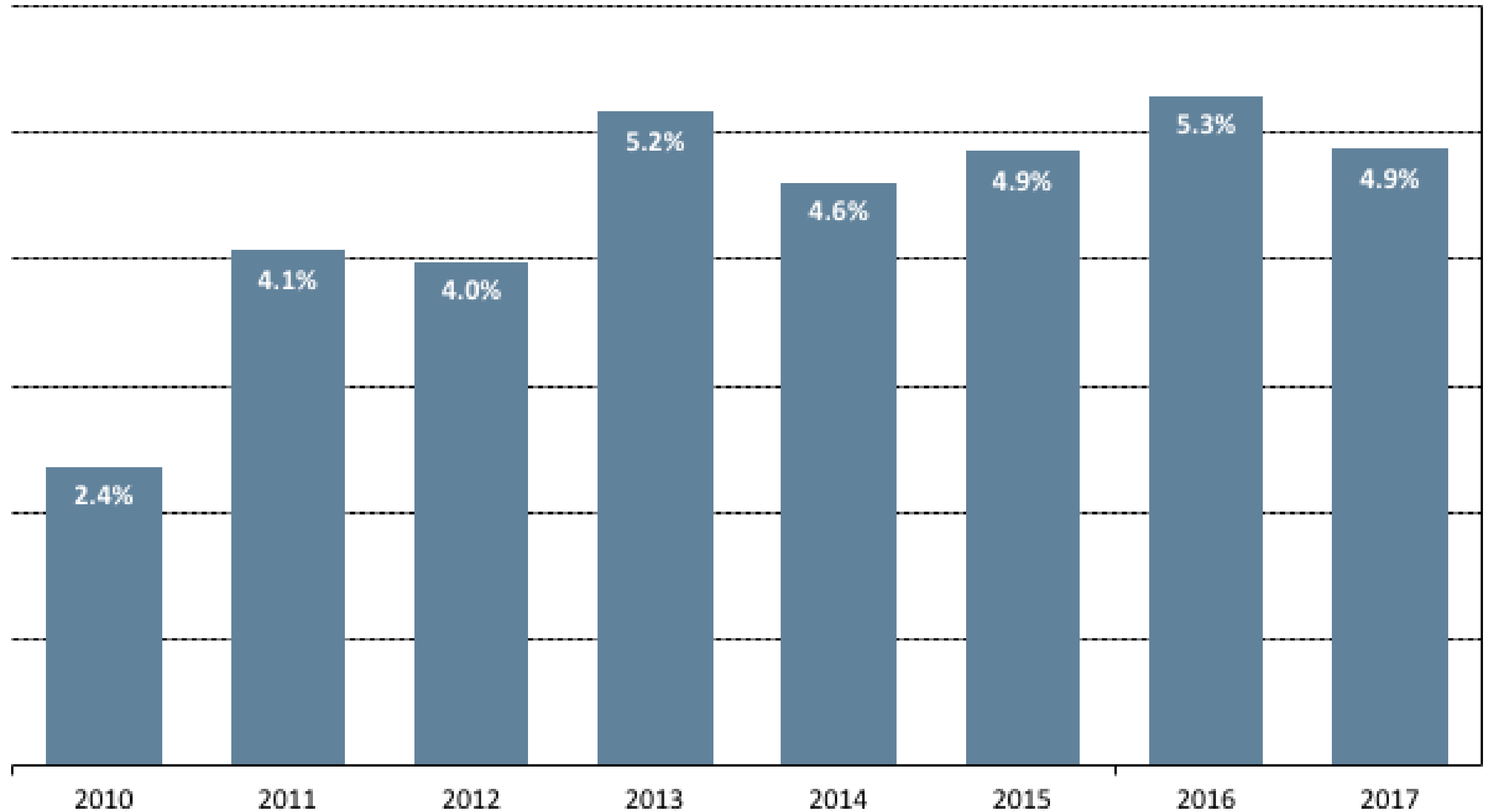


Source: Bureau of Labor Statistics (Texas Workforce Commission), TXP



Hays County

Total Job Growth – QCEW Survey

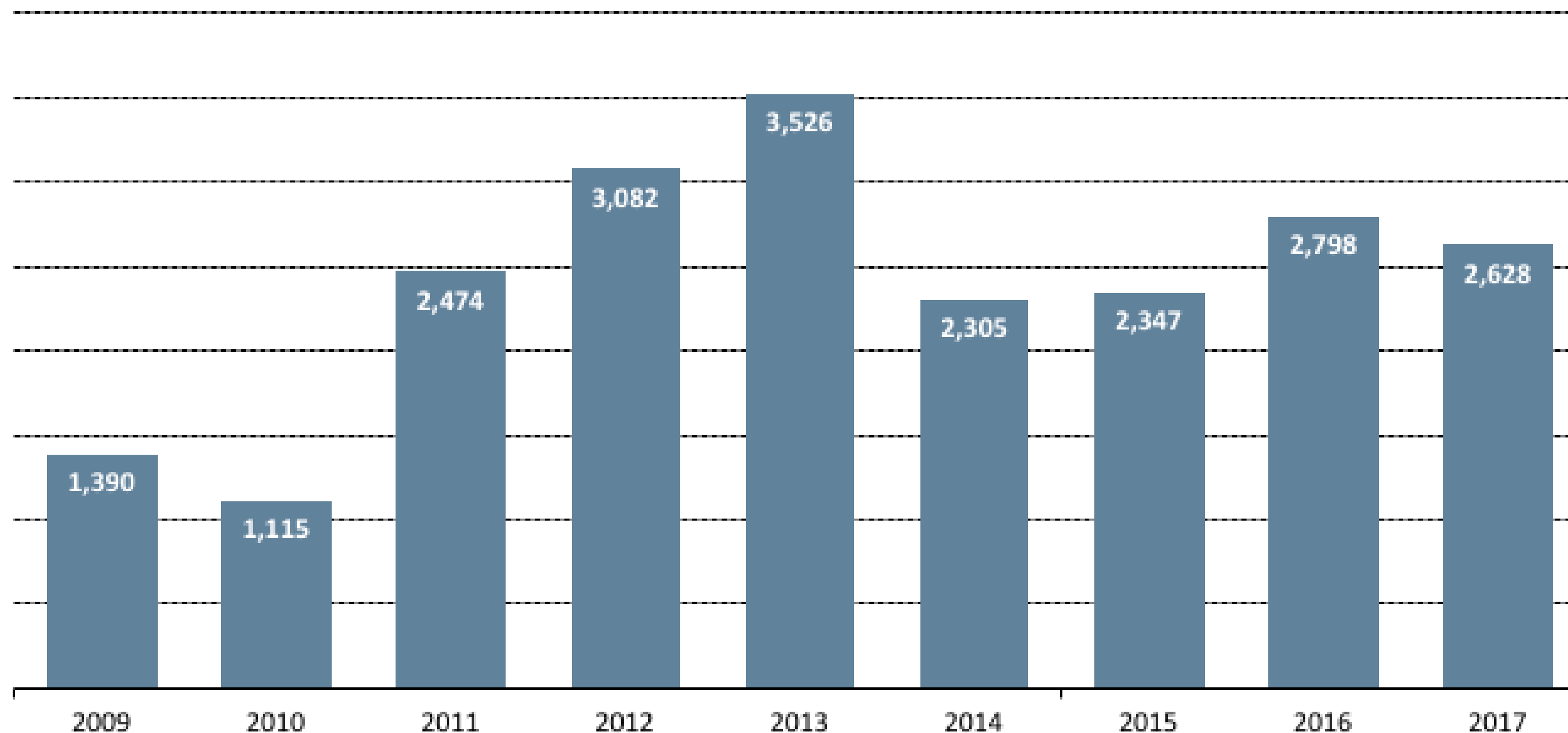


Source: Texas Workforce Commission, TXP



Hays County

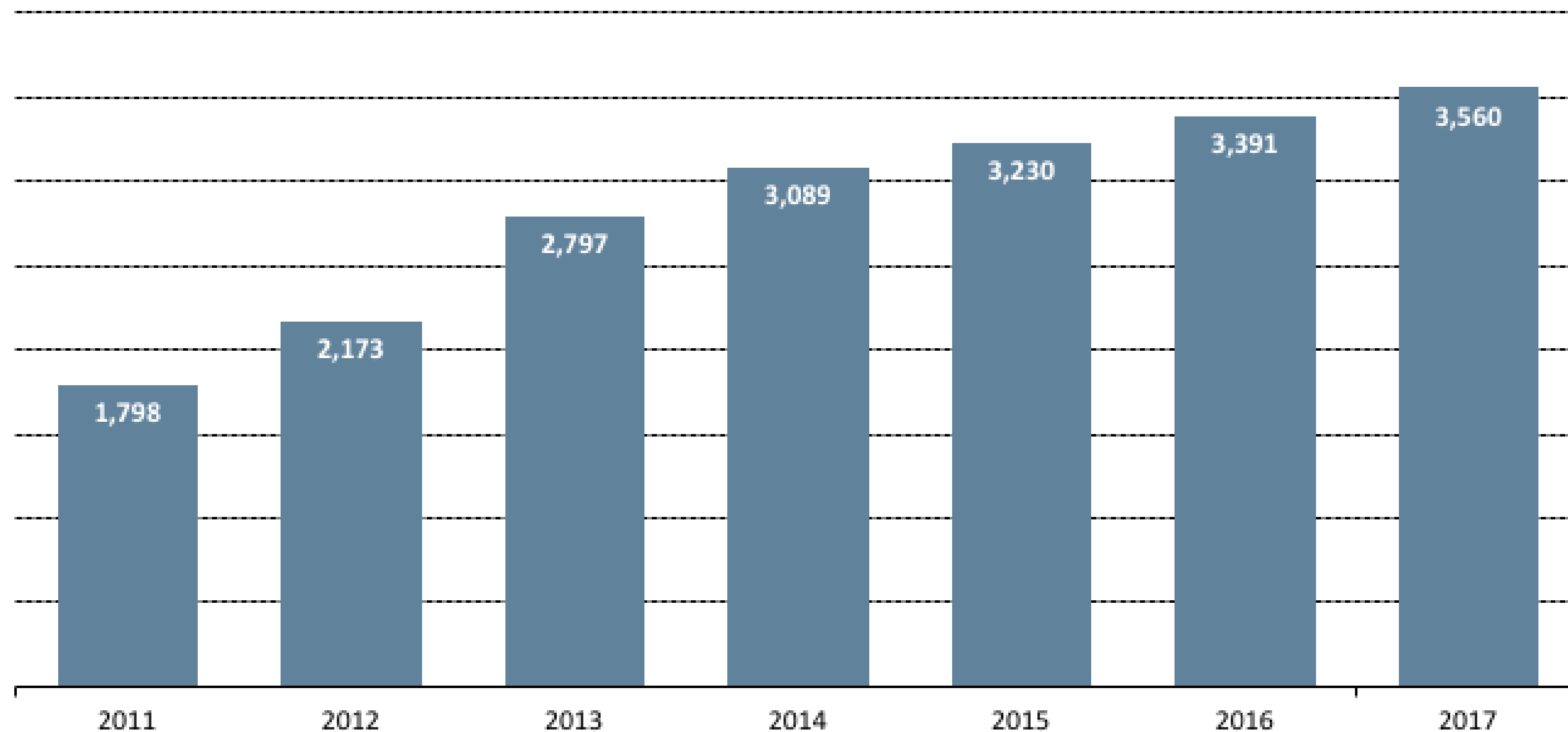
Housing Units Permitted



Source: Texas A&M Real Estate Research Center, TXP



Hays County Homes Sold

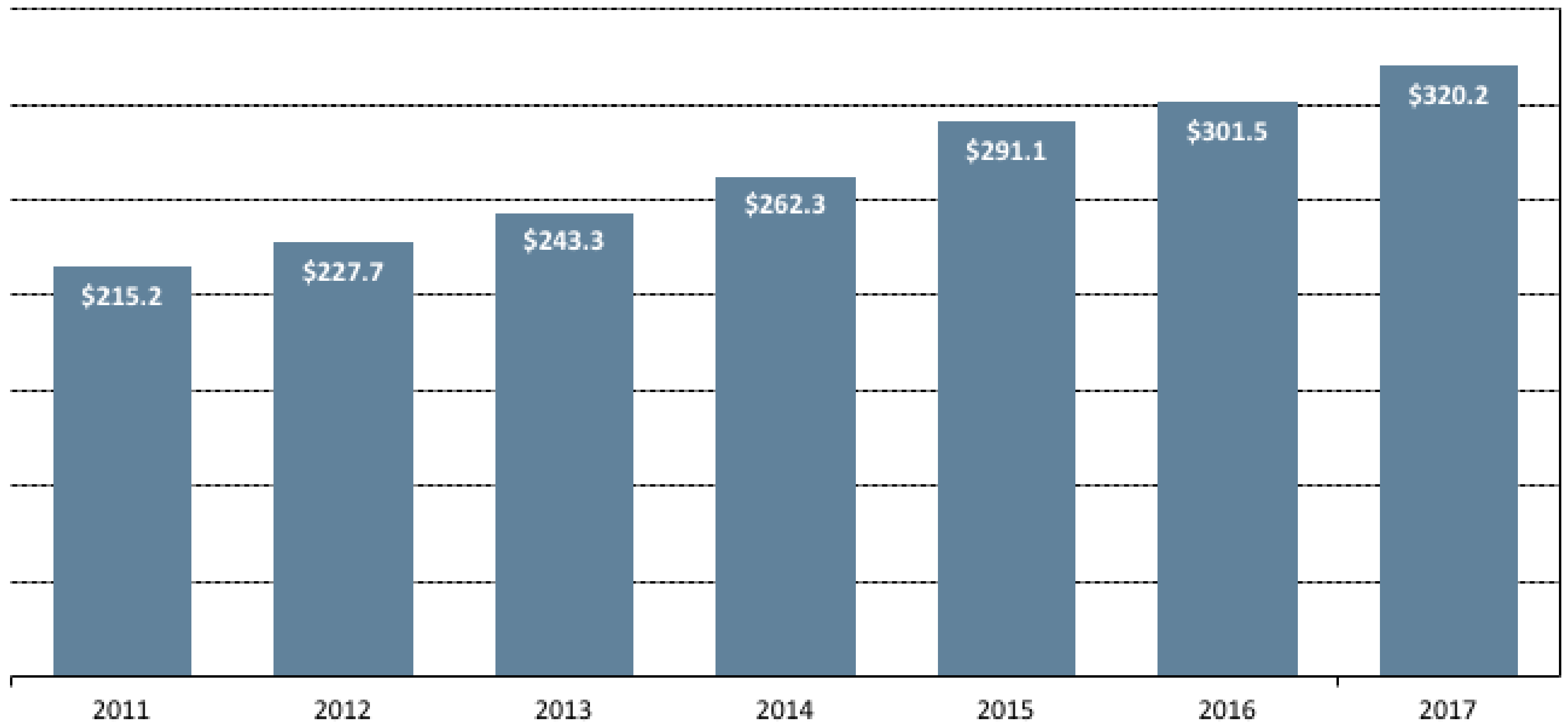


Source: Texas A&M Real Estate Research Center, TXP



Hays County

Average Price of a Home Sold (\$000)



Source: Texas A&M Real Estate Research Center, TXP



City of San Marcos

Factors Shaping Sales Tax Outlook

- Positive
 - Consumer confidence (at least for now)
 - Local job and household growth
 - Location of regional consumer services
 - Rising level of overnight visitors
 - Best Buy
- Negative
 - General trend away from malls along with overall age of the property
 - Increasing retail competition from adjacent communities
 - E-commerce



City of San Marcos

FY Sales Tax Rebate Growth – Comparison Communities

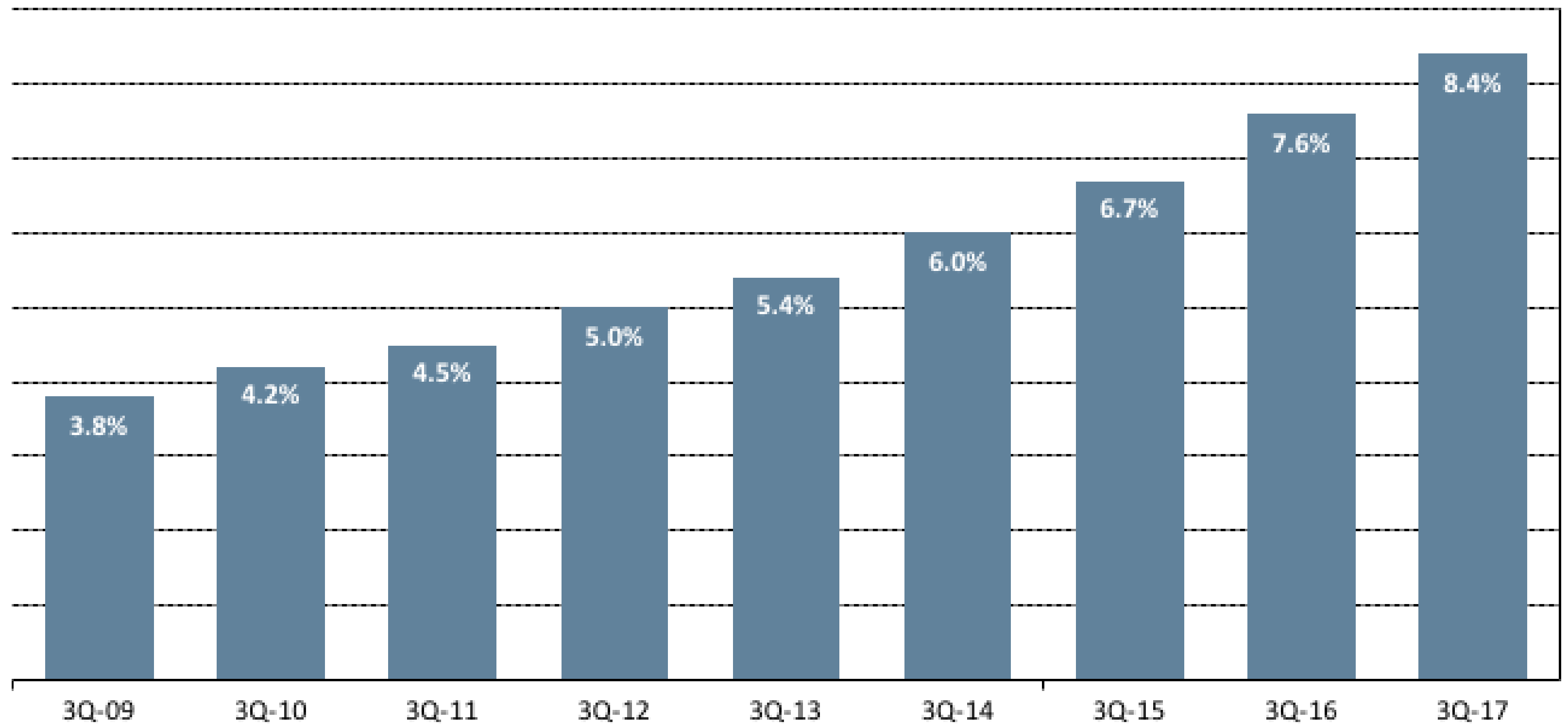
	2012	2016	2017	2017/2016	5-Year CAGR
San Marcos	\$21,079,582	\$28,429,630	\$27,364,449	-3.7%	5.4%
Hays County	\$11,728,860	\$16,861,893	\$17,263,935	2.4%	8.0%
Kyle	\$3,574,691	\$6,485,621	\$7,173,200	10.6%	14.9%
New Braunfels	\$21,570,125	\$28,532,282	\$29,971,389	5.0%	6.8%
Buda	\$3,523,055	\$5,748,708	\$6,026,500	4.8%	11.3%
Seguin	\$6,316,917	\$7,313,947	\$7,340,404	0.4%	3.0%
Schertz	\$7,760,582	\$10,895,853	\$10,905,603	0.1%	7.0%
Austin	\$155,601,649	\$203,641,921	\$210,006,962	3.1%	6.2%
Round Rock	\$63,193,631	\$67,216,047	\$70,319,638	4.6%	2.2%

Source: Texas Comptroller, City of San Marcos, TXP



City of San Marcos

E-Commerce as a Share of National Retail Sales

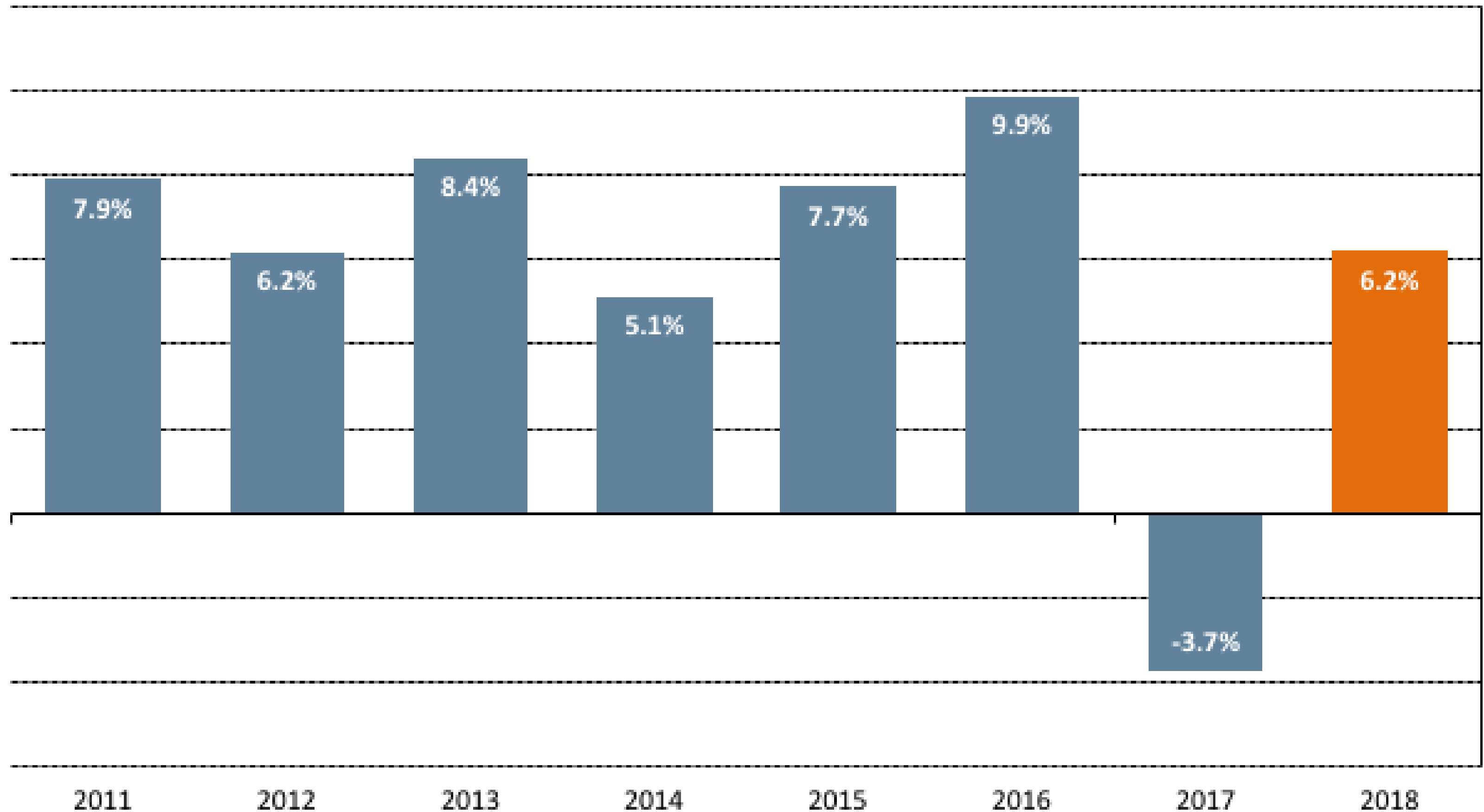


Source: Commerce Department, TXP



San Marcos

FY Sales Tax: History and Forecast

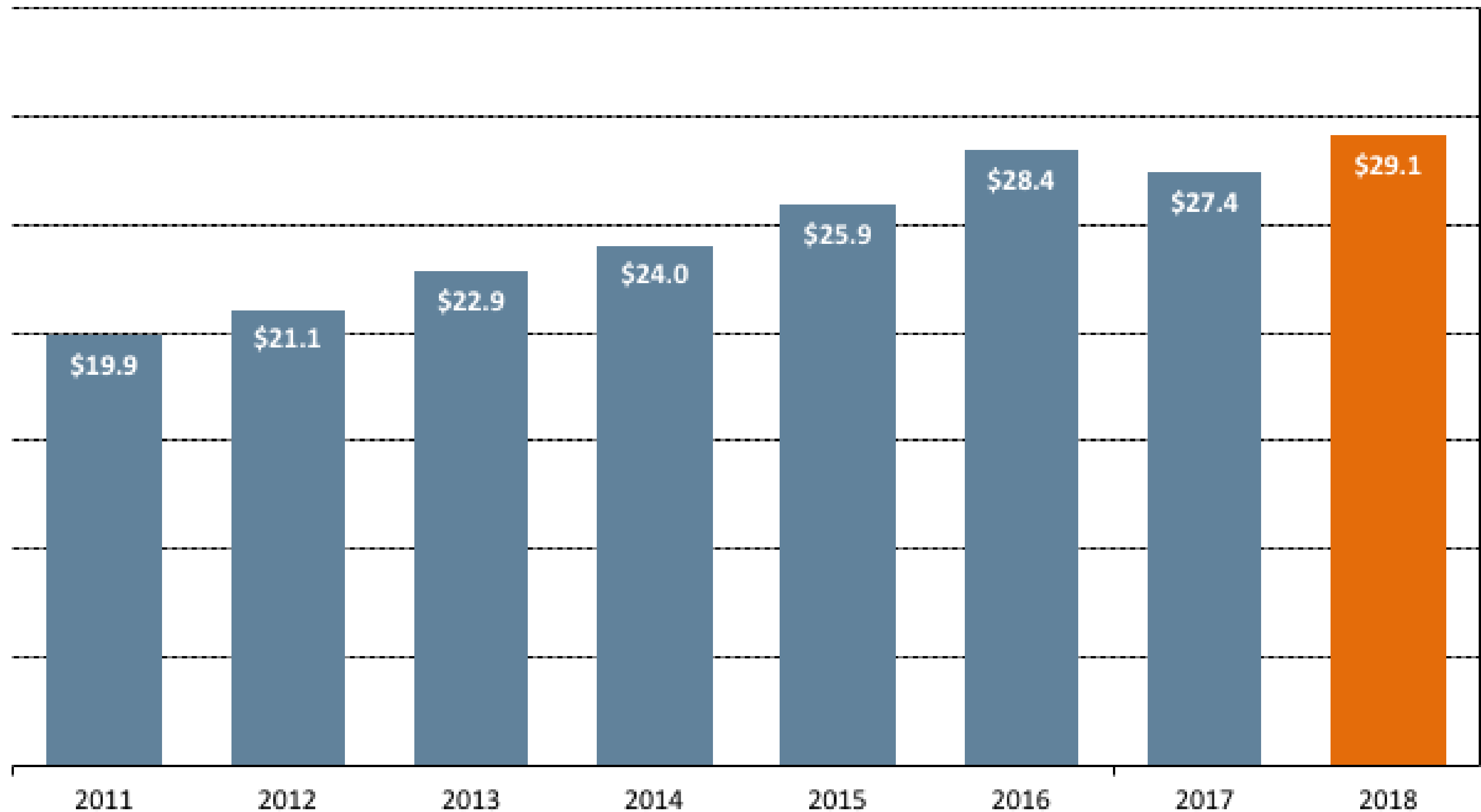


Source: TXP



City of San Marcos

FY Sales Tax: History and Forecast (\$Millions)



Source: TXP



Conclusions

- Positive local economic fundamentals (which assume continued modest overall national growth) are largely offset by challenges specific to local retail in San Marcos, including rising competition (both from nearby communities and e-commerce) and issues affecting malls, suggesting little change in 2018 (and 2019) net local sales tax collections.
- Best Buy is the X factor – as their local presence ramps up, the City's 25% share of their sales tax rebate could translate into an incremental \$2 to \$2.5 million per year. Based on this, the forecast is for overall City sales tax (including the net Best Buy impact) to rise 6.2% during 2018, with more modest growth in the 3-4% range expected the following year. Best Buy's investment in San Marcos suggests that their impact should be substantial for the foreseeable future, although there are no long-term guarantees,

2018 Economic and Sales Tax Forecast



February 2018



STRATEGIC INITIATIVES

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KEY PRIORITIES

- **Workforce Housing**
- **Public Transit**
- **Stormwater**
- **Community Partners**
- **City Facilities**



STRATEGIC INITIATIVES**WORKFORCE
HOUSING**

- A. Update, consolidate and communicate housing policies and action plans.
- B. Develop dedicated housing and revenue sources that meet goals.
- C. Implement land use and zoning regulations that support diverse, mixed income communities in all areas of the City.



STRATEGIC INITIATIVES**PUBLIC TRANSIT**

- A. City becomes the Direct Recipient for federal and state transit funding allocated to the San Marcos urbanized area.
- B. City researches the benefits and challenges of creating an integrated, seamless transit partnership between the City and Texas State.



STRATEGIC INITIATIVES**STORMWATER**

- A. Create a community resilient to regional and localized flooding events and improve stormwater quality.
- B. Create a sustainable stormwater utility that effectively and equitably funds stormwater improvements and leverages funding through alternative sources.



- A. Meetings with the University President (Texas State), Governing Bodies (Hays County and SMCISD), and key staff.
- B. Focus on partnership opportunities with a common interest and benefit to our constituents.
- C. Items to be discussed that lead to policy, memorandum of agreements or collaborations of mutual benefit and public interest.



STRATEGIC INITIATIVES**CITY FACILITIES**

- A. Explore short-term alternatives for staff expansion within City Hall complex.
- B. Review all possible alternative delivery methods for new facility construction.
- C. Develop 5-year fiscal strategic plan for implementation of bond projects.
- D. Develop Public Services and City Hall project design and scope.
- E. Explore alternatives for future land purchases for facilities.





KEY POLICY CONSIDERATIONS AND ASSUMPTIONS

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ANNUAL BUDGET **2019**

GENERAL CONSIDERATIONS

- Trends over the last 12-24 months have deviated from prior periods.
- Continue conservative forecasting.
- Opportunities to amend budget if revenues are higher than budgeted.



KEY POLICY CONSIDERATIONS AND ASSUMPTIONS

ANNUAL BUDGET **2019**

GENERAL FUND CONSIDERATIONS

- **Initial forecast shows another tight budget year and continued pressure on General Fund Balance**
 - Operating revenues continue to exceed operating expenses
 - Non-operating expenses including incentive payments and capital maintenance and equipment continue to increase
 - Financial policy requires a 25% fund balance for all recurring operating expenses
- **Sales taxes generated from outlet malls has slowed**
 - Historically generated more revenue than budgeted
 - Excess revenue rolled to fund balance and a portion was used in the subsequent fiscal year to fund one-time/non-operating expenses



Budget increase requests from Departments will be prioritized using the following criteria:

- Council's Strategic Plan
- Federal/State mandate
- Operational necessity
- Availability of matching funds from outside agencies



Hotel Motel Tax

- Additional rooms will be added in FY18 and FY19
- Occupancy rates remain stable but reaching saturation and growth is slowing

Electric and Water Wastewater Utility Funds

- Rates recommended by CUAB after review of rate modeling and expenses

Stormwater Management

- 15% rate increase projected for next 4 years
- Rate study underway but will not be completed in time to approve prior to budget adoption
- Proposed rate will be brought forward after the first of the calendar year



Sales Tax

- Sales tax collections growing but at a much slower rate
- Base sales tax experiencing stable growth
 - Increase of 4% or \$782K in last 12 months
- Outlet mall collections have experienced a slight decrease
 - Decrease of 5% or \$472K in last 12 months
- Collections from Best Buy are exceeding forecasted amounts

Property Tax



- Have experienced double digit growth in 3 of the past 4 years
- Large portion of high growth areas have an economic development or tax increment incentive

Sales Tax

- Assume zero growth for Outlet Mall collections
- Assume zero growth in base Sales Taxes
- Assume 4% growth in Best Buy collections
- Will modify as trend indicates as we move through the budget process

Property Tax

- Assume 10% growth for initial modeling
- Will have preliminary appraisal in April



General Fund Fees

- Increase all fees by annual CPI of 2.12%
- Will perform cost of service study for Community Services and bring back fee recommendation

City Owned Utility Franchise Fees

- Recommend continue 8% for FY19
- Reduce to 7% in FY20



Initial Assumptions include

- 4.5% increase for Police and Fire for the 4th year of the Meet and Confer agreement.
- 4.5% Merit and Cost of Living increase for non-civil service employees.
- 5% Health Insurance cost increase.
- Forecast does not include any new positions-additions will be evaluated through the departmental budget request process.
- Departmental operating budgets remain flat with the exception of contractual obligations, fuel, telephone, utilities, and software maintenance.
- Temporarily suspend annual \$200K contribution to the economic development reserve. Fund currently has a \$800K balance.



BUDGET POLICY DECISION POINT

Fund Balance

- Does the Council want to consider adopting a range for minimum fund balance?
 - General Fund-recommend range of 22-25%
 - Water/Wastewater-recommend range of 20-25%
 - Drainage-recommend range of 20-25%
- Recommend maintaining 60-day requirement in Electric Fund.



BUDGET POLICY DECISION POINT

Revenue

General Fund

- Does Council want to maintain current tax rate of 61.39 with a projected property assessment growth of 10%?
- Is the Council in agreement with the following assumptions:
 - Sales Tax growth-flat with the exception of Best Buy;
 - Fees increased by 2.12% per CPI; and
 - Community Services fees adjusted based on cost of service study?



BUDGET POLICY DECISION POINT

Expenses

- Does Council want to pursue a goal of a 4.5% merit and cost of living mid-year increase for non-civil service employees if budget allows?
- Does Council want to temporarily suspend annual \$200K contribution to the economic development reserve? Fund currently has a \$800K balance.
- Does Council want to continue with the temporary increase of City-owned utility franchise fees at 8% with a reduction to 7% in FY2020?



BUDGET POLICY DECISION POINT

Expenses

General Fund

Does Council want to consider funding these programs at the current funding levels?

- \$450K-Social Services funding
- \$75K-Museum funding
- \$150K-Youth Initiatives






FY18 BUDGET AMENDMENT

FY18 BUDGET AMENDMENT | **BEST BUY REVENUE**

- City's portion of the Best Buy revenue was not included in the FY 2018 budget.
- City's portion of the Q1 revenue was \$602,780.
- Revenue is sufficient to amend the budget to fund The Village request of \$432K.
- Forecast for City's portion in Q2-Q4
 - Q2-\$600K
 - Q3-\$300K
 - Q4-\$250K
- Recommend to use revenue for one-time expenses.
- Will bring forward a budget amendment for The Village in March then bring forward a subsequent amendment later in the fiscal year for the remainder.





BUDGET TIMELINE

TIMELINE**BUDGET TIMELINE**

- **January**-Visioning Advance
- **February**-Budget Policy Workshop
- **March 6**-Public Hearing and adoption of Budget Policy
- **March/April**-Departments work on budget
- **April 3**-Debt Work Session
- **April/May**-Departments meet with executive team to discuss budget requests
- **May**-City Manager budget review and formation
- **May 1**-Outside agency budget requests due
- **May 29**-Budget Update Workshop
- **June 13 & 14**-Budget Workshops
- **August 2**-Workshop on Proposed Budget
- **August 21**-Public hearing on the tax rate
- **September**-Public hearing on tax rate, budget, utility rates
- **September 18**-Budget and tax rate adoption

