



City of San Marcos

Meeting Minutes City Council

Thursday, August 13, 2020

5:30 PM

Virtual Meeting

I. Call To Order

With a quorum present, the budget work session meeting of the San Marcos City Council was called to order by Mayor Hughson at 5:32 p.m. Thursday, August 13, 2020. The meeting was held virtually.

II. Roll Call

PRESENTATIONS

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2019-2020 Financial Update and preliminary Fiscal Year 2020-2021 Budget, and provide direction to Staff.

Bert Lumbreras, City Manager provided a brief introduction to the proposed budget for Fiscal Year 2020-2021. He stated that around the same time that we began planning for the upcoming fiscal year, we were faced with the pandemic and the uncertainty it brought. City staff acted quickly to reduce expenses. This included a managed hiring program, forgoing projects, and reducing supplies and contractual services budgets to lower what was once a \$6.4 million shortfall. Without the belt-tightening, cost reductions, and more revenue than forecasted from online retail sales; we would be facing an even greater deficit before planning for next year.

The next fiscal year is important because it lays the foundation for subsequent years in terms of how well the City recovers from the pandemic, how the caps implemented by SB2 will impact revenue, and the Comptroller's rule change regarding online retail sales. Mr. Lumbreras is proud of the balanced budget as it continues to fund vital City operations and services our residents expect and deserve.

Mr. Lumbreras highlighted a couple of the recommendations:

At the June 30 Budget Workshop, staff received direction from City Council to lower the tax rate to 7% above the no-new-revenue rate, or what used to be known as the effective tax rate. The budget includes a property tax rate of 59.3

cents per \$100 dollars of valuation, a reduction of 2.1 cents compared to last year. This translates to 5% above the no-new-revenue rate, and a savings of \$42 dollars per year compared to the current tax rate for someone whose home is valued at \$200,000 dollars. The rate was able to be lowered further by holding vacancies, reducing operations costs and making the difficult financial decisions where Council and staff have worked collaboratively to respond to these uncertain times.

This budget also includes a proposed 2.5 percent salary increase for all non-civil service employees effective in October. Due to the pandemic, the 4% salary increases that were budgeted for this past April were not implemented. The proposed increase is a cost of living adjustment and acknowledges the outstanding work of our employees throughout this uncertain time. Awarding it in October instead of April 2021, also helps to align with when increases are awarded to police and fire in accordance with their meet and confer agreements.

Many in our community continue to feel the economic impacts of the pandemic, and this budget reflects our commitment to be responsible stewards of taxpayer dollars. All departments went through a zero-based budgeting process to ensure operating funds are used as efficiently as possible. Also, due to more vacancies than normal, staff is being asked to do more than their normal responsibilities.

In addition to the departments stepping up, the City has worked with community partners during this budget process. This includes restructuring the economic development incentive agreement with Endeavor that Council approved in July and the restructuring of one of our Tax Increment Reinvestment Zones to pay the developer sooner and realize cost savings.

Mr. Lumbreras expressed his appreciation of staff for their outstanding work on the budget and their diligence ensuring the City's financial security to continue providing services. He also thanked City Council for their support of staff's recommendations and willingness to join us in making tough decisions to ensure a balanced budget is achieved. Despite these uncertain times, City Council's guidance and the dedication of staff has resulted in a solid plan that invests in the strategic priorities while continuing to fund critical City operations.

Mr. Lumbreras introduced Melissa Neel, Assistant Director of Finance, who presented the proposed budget.

Ms. Neel provided a FY20 Revenue Recap, which includes the following:

- **Fiscal Year (FY)20 Original Budget Revenue: \$86.3M**
- **Projection as of April: \$78.7M, \$6.4M shortfall (after rebates), this is due to:**
 - **Pandemic outbreak, disaster declaration by federal, state, and local authorities**
 - **Businesses are required to close**
 - **Unemployment hits record levels**
- **Projection as of June: \$82.4M, \$2M shortfall (after rebates), this is due to:**
 - **March sales tax as the results exceed projections. There was a large increase in economic development rebates**
 - **Businesses reopened**
- **Projection as of August: \$90.9M, \$1.3M shortfall (after rebates), this is due to:**
 - **April sales tax and it continue to exceed projections. Much larger economic development rebates due to increased sales tax**

Ms. Neel provide the FY20 Expenditure Reductions, which include:

- **Personnel: \$1.8M**
- **Contract Services: \$610K**
- **Materials & Supplies: \$1.3M**
- **Capital Outlay: \$500K**

There are known future financial constraints and it is the City's fiscal responsibility to ensure revenues can support recurring expenses as we approach known reductions in General Fund revenue in the coming years.

- **FY22: Comptroller ruling on internet sales tax collection to the point of destination (potential \$3M reduction after rebates)**
- **FY23: SB2 property tax cap at 3.5% (potential \$600K-\$1M reduction)**

Ms. Neel discussed the budget policy direction for FY21 and highlighted the status, these include:

- **Maintain fund balance at 25% - this was reduced to 20% due to pandemic**
- **Tax rate not to exceed Voter Approval Rate - Council adopted special taxing unit calculation of 8% growth**
- **Zero based budgets for all department operating expenses - this has been completed**
- **Social services, museums, city hosted events fully funded - this has been included**
- **Refinance TIRZ #2 Blanco Vista - this is in process**
- **Parks & Recreation fees effective September 1st - this has been postponed to January 1, 2021**
- **Development Services cost of service study FY20 - this was postponed to FY21**
- **Other fees increased by Consumer Price Index (CPI) - this is included**

- **Municipal Judge at full-time - this has been completed**
- **Merit, COLA, & health insurance adjustments - merit & cola proposed increase no health insurance increase**
- **Emergency Medical Services (EMS) expansion of service - this is included**
- **Youth services director (Community Action) - this is included**
- **Citizen Utility Advisory Board (CUAB) recommended rate adjustments - this is included**

The following General Fund Assumptions were presented:

- **Property tax rate @ 5% revenue increase, @ tax rate of 0.5930. This is \$700K less than a tax rate @ 7% revenue increase over prior year base. Appraised values are certified estimates.**
- **TIRZ #2 Blanco Vista zero contribution (was \$1.8M, 67% O&M \$1.2M), payoff developer, FY22 debt service**
- **Solid Waste Hauler revenue increased to 7% of sales**
- **Parks & Recreation Programs fee implementation on January 1, 2021**
- **No fee increase to Development Services, cost of service study to kick off with cost recovery fees FY21**
- **All other fees increase 2.3% (CPI 2019)**

The following General Fund Personnel Assumptions were presented:

- **FY21 Civil Service Meet & Confer agreements funded**
- **FY21 Personnel at 2.5% Merit/COLA increase as of October 1st**
- **FY21 Health insurance - no increase**
- **Vacancies funded at 75%**

The following General Fund Personnel Additions were presented, which include:

- **Fire Department – Station No.6, 3 captains, 1 firefighter in the amount of \$317K (bond reserves)**
- **Reclassifications: Engineering – 2 reclassifications \$22K, Information Technology – 3 reclassifications in the amount of \$12K**
- **Community Enhancement – (Community Enhancement Fee) in the amount of \$102K for a Horticultural Specialist and 2 Community Enhancement**

Technicians

- **Facilities – HVAC Service Tech, offset by \$60K reduction in O&M, \$75K**
- **Finance – Financial Analyst, offset by 50% of Grant accountant – grant funded, \$36K**

The following General Fund expenditure assumptions were presented, which include:

- **EMS expansion and contract increase, total \$1.6M (\$533K increase)**

- **Social Services funded: \$840K (HSAB, CASA, Community Action, HCWC, Family Justice Center, museums)**
- **City sponsored events: \$100K (Veterans, Summer Fest, Sights and Sounds)**
- **Capital Lease/Finance \$1.7M (fleet, equipment finance)**
- **Capital Outlay \$390K**

Ms. Neel provided the Historical Tax Rate Summary and the FY21 Proposed Tax Rate Bill Impact. The tax rate has been at .6139 since the voters approved the public safety bonds a few years ago. Lowering the property tax rate from 7% to 5% growth over the no new revenue rate of .5930 reduces General Fund revenue by \$700K. The total levy will be \$38,000,000 with Debt Service % of 30.3% and Operation sat 69.70%. She also presented the general fund summary of revenue and expenses and the fund balance. The proposed tax rate impact to the property owner is \$593.00 per \$100,000 of property value.

The General Fund Summary of Review shows FY19 property tax at \$19,500,000, Sales Tax of \$37,100,000 and Other Revenue of \$24,100,000. In FY 20 property tax at \$23,000, 000, Sales Tax of \$42,300,000 and Other Revenue of \$25,400,000. FY 21 is budgeted at property tax at \$25,500, 000, Sales Tax of \$39,000,000 and Other Revenue of \$26,500,000.

General Fund Summary: Expense

OperatingExpense	FY19	FY20	FY21
Personnel	\$50.2M	\$52.7M	\$56.6M
Contract Services	\$7.2M	\$7.3M	\$7.8M
Materials & Supplies	\$4.5M	\$3.5M	\$4.9M
Other	\$5.8M	\$5.9M	\$6.3M
Total Operating Exp	\$67.9M	\$69.6M	\$75.7M
Non-Recurring Expense	FY19	FY20	FY21
Eco Dev / TIRZ	\$8.9M	\$16.4M	\$15.6M
Contract Services	\$7.2M	\$7.3M	\$7.8M
Capital Outlay & Other	\$2.8M	\$2.7M	\$3.0M
Total Non-Recurring Expense	\$11.8M	\$19.2M	\$18.7M

General Fund Summary: Fund Balance

Summary	FY19	FY20	FY21
Revenue	\$80.8M	\$90.9M	\$91.1M
Total Expenditures	\$79.7M	\$88.8M	\$94.4M
Fund Balance	\$17.2M	\$19.3M	\$16.0M
Fund Balance %	25.9%	28.2%	21.4%

Ms. Neel provided the Hotel Occupancy Fund and Fund Summary, which includes:

- Hotel/Motel revenue assumed 25% of FY19 actuals based on occupancy levels during pandemic
- Shared one full-time head count with General Fund to fill part-time vacancy

Hotel Occupancy Fund Summary

Summary	FY19	FY20	FY21
Revenue	\$4.2M	\$2.6M	\$3.0M
Total Expenditures	3.5M	3.0M	3.3M
Fund Balance	640K	530K	494K
Fund Balance %	31.8%	26.0%	22.5%
Use of Cash Reserves	200K		200K

Ms. Neel provided information related to the following enterprise funds:

Electric Fund

- CUAB recommended no rate increase for FY21
- Personnel Additions of a Complex Meter Technician, Senior Electrical Engineer, Electrical Engineering Technician, and a Utility Financial Analyst in the amount of \$352,000
- Operating Expense Additions for contract services, vehicle leases and professional development in the amount of \$133,000
- Capital Outlay Additions for a bucket truck, transformer & substation test equipment in the amount of \$296,000

Electric Fund Summary

	FY19	FY20	FY21
Revenue	\$58.8M	\$62.3M	\$63.1M
Expenses	59.5M	62.5M	63.6M
Ending Fund Balance	10.9M	10.0M	9.5M
Debt Coverage	1.28	1.18	1.20
Ending Balance in Days of Operation	55	64	61

Water/Wastewater Fund

- CUAB recommended a 5% Water rate and a 3% Wastewater rate increase in FY21.
- Personnel Additions include a Crew Leader and an irrigation inspector in the amount of \$180,000
- Operating Expense Additions for contract services and vehicle leases in the amount \$90,000
- Capital Outlay Additions for SCADA system, tilt camera, maintenance Skid, jet/vacuum truck, and hydro excavator in the amount of \$470,000

Water/Wastewater Fund Summary

	FY19	FY20	FY21
Revenue	\$40.8M	\$46.0M	\$50.7M
Expenses	40.5M	45.3M	50.8M
Ending Fund Balance	13.2M	11.1M	10.9M
WeatherStabilization Reserve	2.8M	2.9M	3.7M
DebtCoverage	1.28	1.3	1.6
PotentialRate Adjustment	5% W 3% WW	5% W 3% WW	5% W 3% WW

Stormwater Fund:

- **Recommended rate increase in FY21: 6.5%**
- **Indirect Cost Allocation revised, total impact \$1.1M increase**
- **Capital Outlay Additions for a street sweeper, dump truck, and track hoe in the amount of \$81,000**

We will be using \$500,000 of cash reserves

Stormwater Fund Summary

	FY19	FY20	FY21
Revenue	\$5.7M	\$6.0M	\$7.2M
Expenses	5.1M	6.6M	7.3M
Ending Fund Balance	1.6M	1.5M	1.9M
Fund Balance %	32.8%	23.9%	26.6%
Use of Cash Reserves		500K	500K

Laurie Moyer, Director of Engineering and CIP, explained the Capital Improvement Plan (CIP) Process, which includes:

- **Projects identified throughout the year and submitted for inclusion.**
- **Budget Policy, City Council Initiatives, Capacity, Rate and Debt capacity frame staff recommendation process.**
- **City Council adopts first year of 10-yr plan with annual budget.**
- **Final funding for adopted CIP occurs with debt sale the following spring.**
- **Prior to Spring issuance projects may change depending on which projects are ready and if so, can access funds through reimbursement process**
- **Debt issuance varies from adopted CIP amount based upon funding readiness.**

Mrs. Moyer provided the FY21 Recommended CIP Totals, which include:

- **General Fund - \$4,485,000 – reduced by \$1,754,000 due to discussions of the need to reduce costs for FY21**
- **Water Fund - \$44,681,575 (includes participation of approximately \$36,500,000 in the Alliance Water project).**
- **Wastewater Fund - \$10,874,000**
- **Stormwater Fund - \$9,720,000**

- **Electric Fund - \$10,460,421**

**The 2021 Strategic Initiative Funding was presented, which include:
Downtown Vitalization, source of funds will be the Downtown TIRZ**

- **Downtown Pedestrian Safety & Comfort Improvements**
- **Downtown Alley Reconstruction**
- **Downtown Property Acquisition**

Multi-Model Transportation

- **Sessom/Academy Intersection Improvements**
- **IH-35 Improvements (SH123)**
- **Downtown Pedestrian Safety & Comfort Improvements (Downtown TIRZ)**

City Facilities

- **City Facilities HVAC Replacement**
- **City Facility Parking Lots**
- **City Facility Roof Replacements**
- **City Facility Major Maintenance/Repair**
- **HHW New Facility (Solid Waste)**
- **Police Department Renovations**
- **Airport Ramp Grant (match)**

Stormwater (Former Initiative)

- **Hills of Hays**
- **IH-35 Improvements (Sunset DS Improvements)**
- **Sessom/Academy Intersection Improvements**

The FY21 General Fund & Other Projects include:

- **Bond Projects - \$4.5M for Fire Station #6 – High Point/Trace**
- **Tax Increment Reinvestment Zone Funded - \$2.3M for Downtown Alley**

Reconstruction Phase 1 and Downtown Pedestrian Safety & Comfort Imp

- **Resource Recovery - \$500K for Household Hazardous Waste Facility**
- **General - \$4.5M which includes: Disaster Recovery, IH-35 Improvements, Network Infrastructure, Sessom Academy Improvements, Airport RAMP grant, Fire Engine Replacement, City Facilities, River Parks Plan, Police Department Renovations, and Public Safety Video Technology**

Ms. Moyer continued her presentation and outlined the steps moving forward:

- **Analyze CIP Funds, find savings to defer future debt needs**
- **Refine Future CIP Years to align with multi-year strategies for General Fund limitation and Stormwater rate direction.**
- **Pursue Alternative Funding regarding grants and partnerships to leverage**

City funds and a future bond election.

Council Direction Needed

- **General Fund**
 - **Property Tax Rate**
 - **Non-civil Service Merit/COLA Increase**
 - **Personnel additions**
- **Enterprise Funds**
 - **Water/Wastewater Rate Increase**
 - **Stormwater Rate Increase**
 - **Resource Recovery Increase**
- **Capital Improvement Projects**
 - **Year one of 10 year CIP**

Deputy Mayor Pro Tem Rockey Moore inquired about properties still under protest. Ms. Neel explained that every year there are a number of properties under protest. Generally, by July 25, the number of properties under protest was still high so a conservative number has been provided by the appraisal protest. There is a higher number of protests this year due to re-appraisals and due to Covid, some of the Appraisal Review Board appointments have been postponed.

Deputy Mayor Pro Tem Rockey Moore also inquired about the percent increase options and noted that we are looking at the smaller of all amounts considered.

Council Member Baker asked about the merit increase across the board and asked if there is another option that would allow only employees making up to a certain amount be considered for these increases. Council Member Baker would like to see the increase be adjusted for anyone that is making less than \$100,000 per year. He suggested an increase of 5% to all employees making less than \$100,000. Council Member Derrick expressed her support of this as well.

Mr. Lumbreras stated that analysis would need to be done and salary compression needs to be considered. Council Member Baker wants to see a more equitable solution concerning these increases.

Mayor Hughson suggested a potential "one time" increase for those making less than a certain amount and asked Council to consider one of the following three options:

- Option 1 – Merit/COLA Increase as presented by staff to all employees**
- Option 2 – Certain % for those making less than a certain amount (that amount to be determined)**

**Option 3 – "one time" increase for those making less than a certain amount
Council provided consensus to move forward with option 3.**

Council Member Derrick would like Human Resources (HR) to do an analysis but she is in favor of increasing the percentage if we can avoid compression issues or give a one time bonus for those that make a certain amount.

Mayor Pro Tem Mihalkanin would like HR to do an analysis to determine what the budget implications may be and he would like to look at option 3.

Deputy Mayor Pro Tem Rockeymoore does not want to move too far from the norms but a bonus/payment could be considered. Budget implications must be known.

Marquez prefers option 3 for staff analysis and would like to know what other cities might do.

Baker prefers option 3 as does Hughson.

Stephanie Reyes noted that employee increases have not been given since April 2019 and that this raise was intended for October 1. In response to the Mayor's question, the raise originally set for April 2021 is no longer in the budget. She noted there should be equity in regards to civil service and non-civil service employees. She did state an analysis would need to be done. She wants to make sure there are no unintended consequences and this is why a 2.5% increase was recommended. They didn't want to wait for staff to get an increase until April 2021 as Civil service received an increase in October 2019 and will get one in October 2020. She wants to make sure council has all the information before making a decision.

Deputy Mayor Pro Tem Rockeymoore asked how this recommendation by council would interfere with Staff's recommendation.

Mr. Lumbreras, stated there are options that can be considered such as a 2% increase across the board and then a lump sum payment for those making under a certain amount. This would help with compression and he would like to see this go forward in October. This is one option that staff will analyze.

Rockeymoore and Council Member Derrick agree with the idea Mr. Lumbreras suggested with the additional compensation and the 2% increase.

Council consensus is to allow HR to look into this and provide multiple options.

Council Member Derrick asked Ms. Neel what the total operating budget is for the City. Ms. Neel stated, that with assumptions built in as presented, the total operating budget is \$258,714,410.

Council Member Derrick asked how we reduced personnel by \$1.8M. Ms. Neel stated this is anticipated by salary savings and vacancies.

Council Member Derrick asked about vacancies funded at 75% and what this means. Mayor Hughson stated this means they are only funded 75% of the year.

Council Member Derrick asked what year is projected for a future bond? Ms. Moyer stated they were initially thinking 2022, but the final determination has not been made. Council Member Derrick wants to make sure there is no reason to push this out further and wants to allow Council enough time to review and give their approval.

Mr. Lumbreras commented on the potential bond election and state we do not want to have a conversation on a bond election while we still have projects that are not completed. Staff has been working hard to get projects shovel ready and CIP has been re worked and if a project needs to go he will approve it and will make sure the expectations of council are being met and not in a rushed mode. Nothing will be brought forward until we are ready and we are at a point to have all elements lined up.

Council Member Derrick asked about pursuing alternative funding and if we are still down a grant position? Ms. Reyes stated that we do have a grant writer, but we did lose our grant compliance manager.

Mayor Hughson confirmed that the Revised CIP numbers are the numbers previously noted as “lean” for FY21.

Council Member Baker asked staff about an email that was sent from Linda Coker and how much of the efforts were removed regarding Historic Preservation and how much have been removed from our budget.

Shannon Mattingly, Director of Planning and Development Services said nothing was removed. Commissioner training is still funded and she asked the chair of the Historic Preservation Commission if they could provide a list of the types of training they would like to attend. One concern was staffing and we have made a shift to reduce the case load of Alison Brake and she is mostly doing historic preservation. She is currently receiving additional training.

Mayor Hughson inquired about travel and professional development and asked if this was cut. Ms. Neel stated that travel and training was cut for FY2020 and most travel was cancelled due to the pandemic anyways. There are no restrictions on training that is justified. Mrs. Mattingly stated that many conferences were already paid for and when those went virtual most of the registration fees were refunded. There was a reduction in costs due to lack of travel and many conferences going virtual. Travel and training was cut for this Fiscal Year but it is budgeted for next year.

Council provided Consensus on the following:

The Budget Timeline includes the vote to set proposed tax rate and 1st public hearing on proposed budget, CIP, and utility rates on September 1st. On September 15th, there will be a public hearing on the tax rate, 2nd public hearing on proposed budget, CIP, and utility rates, and a vote to adopt the budget, ratify tax roll, and set the tax rate.

General Fund

– Property Tax Rate, Council provided consensus on a 5% Tax Rate

– Non-civil Service Merit/COLA Increase, Council provided consensus to is to allow HR to look into this and provide an analysis as to what would be the best option.

Ms. Neel reminded council of dates for public hearing notifications and mentioned timelines are tight due to September 1st requirement to hold 1st Public Hearing on proposed budget, CIP, and utility rates.

– Personnel additions of the following:

- Fire Department – Station No.6, 3 captains, 1 firefighter in the amount of \$317K (bond reserves)
- Reclassification: Engineering – 2 reclassification \$22K, IT – 3 reclassification in the amount of \$12K
- Community Enhancement – (Community Enhancement Fee) in the amount of \$102K for a Horticultural Specialist and 2 Community Enhancement Technicians
- Facilities – HVAC Service Tech, offset by \$60K reduction in O&M, \$75K
- Finance – Financial Analyst, offset by 50% of Grant accountant – grant funded, \$36K

Council provided consensus to move forward with these additions

Enterprise Funds:

Water/Wastewater Fund - Council provided consensus to move forward with

the 5% Water rate and 3% Wastewater rate increase in FY21.

Stormwater Fund - Council provided consensus to move forward with the 6.5% rate increase in FY21 with average impact monthly of .78 cents.

Resource Recovery Increase - Council provided consensus to move forward with a 3% rate adjustment in FY21 with average impact monthly of .78 cents.

Capital Improvement Projects - Council provided consensus to move forward with year one of the 10-year CIP

Mayor Hughson thanked staff for their work on this budget and appreciates all the time spent. City council concerns were heard and she thanked Staff for coming in with the 5% instead of the 7% increase and thank you in advance for the information you will provide on raises. We are confident this will be done.

III. Adjournment.

Mayor Hughson adjourned the budget work session meeting of the San Marcos City Council at 7:56 p.m.

Tammy K. Cook, Interim City Clerk

Jane Hughson, Mayor