City of San Marcos

Workshop Agenda - Final
City Council

Wednesday, February 13, 2019
4:00 PM
City Council Chambers

630 E. Hopkins - Budget Policy Workshop

I. Call To Order

II. Roll Call

1. Receive a Staff presentation and hold discussion regarding the Fiscal Year 2019-2020 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

III. Adjournment.

POSTED ON FRIDAY, FEBRUARY 8, 2019 @ 3:00PM

JAMIE LEE CASE, TRMC, CITY CLERK

Notice of Assistance at the Public Meetings

The City of San Marcos does not discriminate on the basis of disability in the admission or access to its services, programs, or activities. Individuals who require auxiliary aids and services for this meeting should contact the City of San Marcos ADA Coordinator at 512-393-8000 (voice) or call Texas Relay Service (TRS) by dialing 7-1-1. Requests can also be faxed to 855-461-6674 or sent by e-mail to ADArequest@sanmarcostx.gov
AGENDA CAPTION:
Receive a Staff presentation and hold discussion regarding the Fiscal Year 2019-2020 Budget Policy for the City of San Marcos, and provide direction to the City Manager.

Meeting date: February 13, 2019

Department: Finance

Amount & Source of Funding
Funds Required: Click or tap here to enter text.
Account Number: Click or tap here to enter text.
Funds Available: Click or tap here to enter text.
Account Name: Click or tap here to enter text.

Fiscal Note:

Prior Council Action: Click or tap here to enter text.

City Council Strategic Initiative: [Please select from the dropdown menu below]
Choose an item.
Choose an item.
Choose an item.

Comprehensive Plan Element(s): [Please select the Plan element(s) and Goal # from dropdown menu below]
☐ Economic Development - Choose an item.
☐ Environment & Resource Protection - Choose an item.
☐ Land Use - Choose an item.
☐ Neighborhoods & Housing - Choose an item.
☐ Parks, Public Spaces & Facilities - Choose an item.
☐ Transportation - Choose an item.
☐ Not Applicable

Master Plan: [Please select the corresponding Master Plan from the dropdown menu below (if applicable)]
Choose an item.

**Background Information:**
Per city charter budget policy workshop must be held before February 28th each year. The budget policy serves as the framework for developing the budget document for the next fiscal year. This is the first step in the process which culminates with the adoption of the budget in September.

**Council Committee, Board/Commission Action:**
Click or tap here to enter text.

**Alternatives:**
Click or tap here to enter text.

**Recommendation:**
Click or tap here to enter text.
Agenda

- City Manager Introduction
- Budget Process & Timeline
- Economic Indicators
- Strategic Initiatives
- Key Forecast Assumptions
- Policy Considerations & Budget Implications

Photo by: Andy Heatwole
Budget Process & Timeline
Once City Council formulates a budget policy the City Manager works with staff to develop the budget document.
February:
- Council Budget Workshop & Budget Kickoff

March:
- Public Hearing & Budget Policy Adoption
- City Department Requests Submitted

April:
- Executive Team Reviews Budgets

May:
- Budget Recommendations Determined & Approved by City Manager
- Council Budget Work Session
- April-June cycle may repeat multiple times

June:
- Council Budget Workshop

August:
- Council Proposed Budget

September:
- Public Hearing & Citizen Comments
- Council Adopts Budget

October:
- Implement and Monitor Budget

Conducted by City Staff
Conducted by City Council
Includes Public Hearing
# Economic Indicators

As more community members hold jobs at higher wages, an increasing proportion of their wages are used for housing as home prices continue to increase.

### Unemployment
- **December 2018**
  - **Federal**: 3.7%
  - **State**: 3.7%
  - **Regional**: 2.8%

### Wages year-over-year

<table>
<thead>
<tr>
<th></th>
<th>3.1%</th>
<th>0.8%</th>
<th>1.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>State</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Regional</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Hourly Rate Private Sector
- **December 2018**
  - **Federal**: $27.24
  - **State**: $26.05
  - **Regional**: $29.47

### Home Prices year-over-year
- **December 2018**
  - **Federal**: Up 2.2%
  - **State**: Up 2.2%
  - **Regional**: Up 4.3%

### CPI
- **December 2018**
  - **Federal**: Up 2.2%
2019 Strategic Initiatives

**Workforce Development**
Partner with community, training/programming,

**Workforce Housing**
Policies, dedicated housing and revenue sources, land use and zoning regulations

**Multi Model Transportation**
Funding recipient, inter-local agreements, continue other initiatives

**Downtown Vitalization**
Support diversified business activity, improve quality of place, accessibility

**City Facilities**
Short-term alternatives for expansion, alternative delivery methods, 5 yr plan, project design and scope, future land purchases
Key Forecast Assumptions
Forecast Assumptions

- Analyze trends over multiple years
- Utilize conservative forecasting
- Amend budget during fiscal year if revenues deviate from budget

General Fund Revenue
## General Fund Revenue

- **Property Tax**
- **Sales Tax**
- **Other Fees**

### In Thousands

<table>
<thead>
<tr>
<th>Year</th>
<th>Property Tax</th>
<th>Sales Tax</th>
<th>Other Fees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$50,446</td>
<td>36%</td>
<td>48%</td>
<td>$50,446</td>
</tr>
<tr>
<td>2015</td>
<td>$55,917</td>
<td>36%</td>
<td>46%</td>
<td>$55,917</td>
</tr>
<tr>
<td>2016</td>
<td>$59,483</td>
<td>32%</td>
<td>48%</td>
<td>$59,483</td>
</tr>
<tr>
<td>2017</td>
<td>$60,714</td>
<td>33%</td>
<td>45%</td>
<td>$60,714</td>
</tr>
<tr>
<td>2018</td>
<td>$74,781</td>
<td>31%</td>
<td>46%</td>
<td>$74,781</td>
</tr>
</tbody>
</table>

* FY 2018 was the first year for Best Buy Call Center sales tax collection of $7M
General Fund Revenue

Property Tax

Double digit % growth in appraised valued for the past 4 years with a combination of new construction and increased in existing values

Large portion of high growth areas have an economic development or tax increment incentive

Forecast model in progress to provide more detailed information
General Fund Revenue

- Capacity for FY2020 $1.5M
- $1M – Fire Squad added in FY19 budget to staff new fire station upon completion
- Remaining $500K reserved for bond project expenses or bond debt defeasance
Base sales tax collections have experienced a 1% average growth over the last 12 months

Outlet Malls showing favorable trend:
- Total collections have exceeded pre Oct 2016 levels
- Positive growth since Sept 2017
- 7% average growth over last 12 months

Best Buy Call Center exceeding forecast:
- Collection for the first 2 months of the fiscal year exceeded prior year by $900K or 70%
- FY18 collections retained totaled $1.8M
Initiatives in Process

Policies impacting revenue and fund allocation

- User Fee Policy
- City Special Events Policy
- Social Services & Youth Initiatives Policy
General Fund Budget Requests

Prioritization of department requests for additional resources

- Council Strategic Plan
- Federal/State mandate
- Operational necessity & core services
- Availability of matching funds from outside agencies
Enterprise Fund Revenue

Model rates over a multi-year period to determine required adjustments

- Operations & Maintenance
- Capital Needs & Existing debt obligations
- Current and future infrastructure needs
- Increase rates in small increments over time to meet future needs
Other Forecasting Assumptions

- Electric & Water/Wastewater franchise fees to return to 7%
- Stormwater rate study complete. Proposed rates to be delivered during budget process
- Hotel occupancy remains stable while room rates are lagging
Policy Considerations
Budget Implications
Policy Considerations

- **Strategic Initiatives**
  - Funding goals
  - Revenue sources

- **Increase Live Outcomes**
  - Gathering data
  - Determining needs
  - Address core services

- **Fund Balance**
  - Maintain minimum fund balance of 25%

- **HB/SB 2 Rollback Rate**
  - If implemented in prior FY the impact could have been $1M in reduced revenue
Policy Considerations

**Maintenance Funding**
- Facilities
- Parks
- Streets

Will see requests from departments for additional funding

**Meet & Confer**
- Civil service employees

TBD

**Merit increase**
- Non-civil service employees

TBD

**Health Insurance**

Assume 10% increase based on national average
Policy Considerations

- Transit Operations
  - Funding goals
  - Revenue sources

- Staffing needs
  - Determine through department budget request for additional resources

- Parking Management
  - Funding goals
  - Revenue sources

- CIP Capacity
  - City Facility Projects
  - Cape’s Dam Infrastructure needs
Council Decisions

Over 65 Property Tax Freeze
- Tax bills will never increase,
  Tax freeze is permanent,
  Currently offer over 65 exemptions

Economic Development Reserve
- Suspend $200K funding reserve???

Other Considerations
- Council to provide
## Historical Residential Rates

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Average Home Value</td>
<td>129,156</td>
<td>140,250</td>
<td>153,724</td>
<td>168,757</td>
<td>183,510</td>
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<tr>
<td>Property Tax</td>
<td>684.79</td>
<td>743.61</td>
<td>815.04</td>
<td>1,036.00</td>
<td>1,126.57</td>
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<tr>
<td>Electric Utility*</td>
<td>111.48</td>
<td>111.48</td>
<td>111.48</td>
<td>111.48</td>
<td>111.48</td>
</tr>
<tr>
<td>Residential kWh</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>267.00</td>
<td>280.32</td>
<td>294.36</td>
<td>309.12</td>
<td>324.48</td>
</tr>
<tr>
<td>Wastewater</td>
<td>614.88</td>
<td>621.12</td>
<td>633.6</td>
<td>646.2</td>
<td>659.40</td>
</tr>
<tr>
<td>Drainage</td>
<td>89.16</td>
<td>99.84</td>
<td>109.80</td>
<td>126.24</td>
<td>145.20</td>
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<tr>
<td>Resource Recovery</td>
<td>233.76</td>
<td>269.28</td>
<td>283.32</td>
<td>292.20</td>
<td>301.92</td>
</tr>
<tr>
<td>Community Enhancement Fee</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>Total Annual Cost</strong></td>
<td>2,001.07</td>
<td>2,137.65</td>
<td>2,259.60</td>
<td>2,533.24</td>
<td>2,687.05</td>
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</tbody>
</table>

*Does not include the cost of power or energy charge that fluctuates monthly based on market prices
Thank You
Homestead Exemption + Over 65 Freeze

- Current programs in place

<table>
<thead>
<tr>
<th></th>
<th>Exemption Amount</th>
<th>Number of Participants</th>
<th>Exempt Property Value</th>
<th>Total Tax Reduction</th>
</tr>
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<tbody>
<tr>
<td>Over 65</td>
<td>$25,000</td>
<td>1,680</td>
<td>$40,409,000</td>
<td>$248,071</td>
</tr>
<tr>
<td>Disabled</td>
<td>$25,000</td>
<td>100</td>
<td>$3,880,000</td>
<td>$23,800</td>
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<tr>
<td>100% Disabled Vet</td>
<td>100%</td>
<td>88</td>
<td>$18,699,000</td>
<td>$114,800</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,769</td>
<td>$62,988,000</td>
<td>$386,671</td>
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</table>

- Homestead Exemption
  - 4052 taxpayers currently have exemption from another entity
    - Impact of 5K exemption- $128,000 in reduced tax revenue
    - Impact of 10K exemption- $256,000 in reduced tax revenue
    - Impact of 15K exemption- $384,000 in reduced tax revenue
Over 65 Freeze

- Tax amount paid is frozen
  - No increase if tax rate is increased
  - No increase if appraised value increases
  - Taxes would decrease if value or tax rate decrease generates a lower tax bill
- Taxpayers must apply for the freeze
- Tax amount paid would increase if improvements are made on the residence

Once adopted it cannot be reversed

Estimated $313M (6% of total assessed value) in property owned by citizens who currently have the over 65 exemption

Appraisal district/tax collector advises to allow a year to properly implement
- If adopted, recommend implementing for tax year 2020

Homestead Exemption + Over 65 Freeze
MEMO

TO: The Honorable Mayor and City Council

FROM: Bert Lumbreras, City Manager

DATE: February 8, 2019

RE: Budget Policy Workshop

As you are aware, the Fiscal Year 2019-2020 Budget Policy Workshop is scheduled for Wednesday, February 13th. I am looking forward to this year’s budget process since there are many challenges facing our community and the organization, especially in how we continue to make progress toward achieving the FY 2018-2019 strategic initiatives as well as the new ones Council developed during your recent Visioning session.

As a reminder, next week’s workshop is required by the City’s Charter which requires the workshop be held before February 27th each year. The purpose of the Budget Policy is for the Council to formulate a policy statement to serve as a guiding document to be used by the City Manager as direction during the preparation of the proposed budget. In addition, this workshop provides an opportunity for Council to bring forward programmatic and service changes early in the budget process. The Budget Policy shall be adopted after a public hearing by March 31st each year.

In summary, the workshop will provide consensus from the Council to address many areas for consideration during the budget process and how best to serve our community. This shall be accomplished through support of core services, programs, and strategic initiatives to develop a balanced budget.

There will be budget workshops on May 7th, June 26-27th, and August 1st. Each workshop will focus on specific challenges seeking council direction and an update on progress toward a balanced budget for adoption in September.

I look forward to working with you throughout the budget development process and have a budget that not only meets core basic City services but also paves the way toward progress on the Council’s existing and new strategic initiatives.

The presentation and supporting documents will frame the discussion for the workshop. Your input is essential in assisting me to develop a budget that closely reflects your community priorities.

Please let me know if you have questions.
City of San Marcos
2019 Proposed Budget Policy Statement

I. Fund Balance

- General Fund: Maintain 25% (of recurring operating expenses).
- Water/Wastewater Fund: Maintain 25% (of recurring operating expenses).
- Drainage Utility Fund: Maintain a range of 20% (of recurring operating expenses).
- Electric Utility Fund: Minimum of the equivalent of 60 days of operating expenses including purchased power.

II. Revenue

GENERAL FUND

- Property tax rate maintained at 61.39 cents per $100 of valuation.
- Property values increased based on a conservative trend estimated at 10%.
- Explore impact of providing homestead exemption and an over 65 freeze.
- Base sales tax revenue and revenue generated by the outlet mall will not be increased from the FY18 budget. Revenue generated by Best Buy will include the City’s 25% allocation and will be increased by 4% from FY2018. These estimates will be updated as the collection trend indicates.
- Maintain City-owned utility fund franchise fee transfers to the General Fund at 8%.
- Bring forward Community Services fee adjustments based on the results of the cost of service study.
- All other revenues will be budgeted based on historical trends.
- Fees for services will be increased approximately 2.12% based on the average CPI index for the calendar year 2017.

WATER FUND

- Rate study to determine possible rate increases and structure changes.
- Citizens Utility Advisory Board will make recommendations related to rate structure and future rate adjustments.

ELECTRIC FUND

- Rate study to determine possible rate increases and structure changes. No rate adjustment anticipated.
- Citizens Utility Advisory Board will make recommendations related to rate structure and future rate adjustments.

STORMWATER MANAGEMENT FUND
Rate study underway and preliminary results and decision points will be presented to Council during budget discussions.
Proposed rates will be brought forward after the first of the calendar year for adoption.

HOTEL MOTEL FUND

Revenue budgeted based on conservative trends reflecting new hotel rooms, occupancy rate, and average room rate.

III. Expenditures

All budget requests from outside agencies must be submitted for consideration prior to May 1.

GENERAL FUND

Funding year 4 of the Meet and Confer agreement with Police and Fire with a 4.5% increase in wages.
Pursue the goal of funding 4.5% merit and cost of living increase for non-civil service employees.
Additional personnel will be evaluated through the departmental budget request process.
Estimated 5% increase in health insurance premium beginning January 1, 2019.
Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
Fuel/Contractual Obligations/Consumer Price Index increases allowed.
Continue the annual $200,000 contribution to the economic development reserve that is shared equally between General Fund, Water Wastewater Fund, and Electric Fund. The City Manager will review the Special Economic Development Funding Policy during the budget process in order to analyze the policies and potential uses.
Continue allocation of $150,000 to fund the existing Youth Services Manager position and youth focused programs identified in the youth master plan. The City Manager will examine structure and cycle of funding.
Increase allocation for museum funding $25,000 to $100,000 with a maximum of $25,000 per participant.
Increase Social Services funding levels $50,000 to $500,000. The City Manager will examine the structure and funding cycle.

WATER/WASTEWATER FUND

Pursue the goal of funding 4.5% merit and cost of living increase for non-civil service employees.
Additional personnel will be evaluated through the departmental budget request process.
Estimated 5% increase in health insurance premium beginning January 1, 2019.
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed.
- Continue the annual $200,000 contribution to the economic development reserve that is shared equally between General Fund, Water Wastewater Fund, and Electric Fund.
- Utility fund transfers to the General Fund budgeted at 8%.

**ELECTRIC UTILITY FUND**

- Pursue the goal of funding 4.5% merit and cost of living increase for non-civil service employees.
- Additional personnel will be evaluated through the departmental budget request process.
- Estimated 5% increase in health insurance premium beginning January 1, 2019.
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed.
- Continue the annual $200,000 contribution to the economic development reserve that is shared equally between General Fund, Water Wastewater Fund, and Electric Fund.
- Utility fund transfers to the General Fund budgeted at 8%.

**STORMWATER UTILITY FUND**

- Pursue the goal of funding 4.5% merit and cost of living increase for non-civil service employees.
- Additional personnel will be evaluated through the departmental budget request process.
- Estimated 5% increase in health insurance premium beginning January 1, 2019.
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed.

**HOTEL MOTEL FUND**

- Pursue the goal of funding 4.5% merit and cost of living increase for non-civil service employees.
- Funding for special programs remains flat. Organizations can request increases during the budget process for specific programs.

**IV. Debt**

On April 3rd, a City Council work session will be held to discuss the City’s current debt balances, future debt requirements, and the effect on the budget.