Due to COVID-19, and as long as the State Disaster Declaration is in effect, this will be a virtual meeting. To view the meeting please go to www.sanmarcostx.gov/videos or watch on Grande channel 16 or Spectrum channel 10.

I. Call To Order

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.

III. Adjournment.

POSTED ON THURSDAY, JUNE 25th @ 1:00PM

TAMMY K. COOK, INTERIM 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

FY20 Update

Five-Year Outlook

Questions
Seeking Council Direction

The work session will layout revised FY20 financial update, and five year outlook of revenue and expenditure assumptions.

Seeking Council direction on tax rate assumptions and recommendations to increase funding for street maintenance.
FY20 COVID Impact on Revenue

**General Fund**

- Total projected shortfall NET $2M
- Fiscal YTD sales tax exceed budget
  - Gross Total $3.9M
  - Net of rebates $600K
- YTD expenditure reduction $4.7M

**HOT Fund**

- Total projected shortfall $975K
- HOT Tax collections
  - Year to Date: 45% of budget
  - Last Year YTD: 70% of budget
- YTD expenditure reduction $700K
- Remaining covered by HOT fund balance

**Enterprise Funds**

- Total projected shortfall $400K
- Revenue reduction due to no disconnect fees & late fees
- Offset by expenditure reductions
Five Year Outlook
FY19-23
Sales Tax Revenue Forecast

- **3.9%** FY19 actuals exceeded budget
- **10%** FY20 revised – YTD collections 78% of budget. Internet sales YTD exceed annual budget 25%+. For the remainder of the FY:
  - Outlet Malls assume only 60% of collections
  - Base assume only 80% of collections
- **(6.5%)** FY21 anticipate continued COVID impacts on employment, tourism & disposable income
- **(19)%** FY22-23 Comptrollers ruling on internet sales collected at point of destination will significantly reduce revenue. Anticipate employment to increase as more cash flows into the economy increasing sales tax revenue.
Expenditure Base Assumptions

**Personnel**
- Civil-service Meet & Confer funded
- Non-civil service 4% merit/COLA
- TMRS, worker’s comp increased
- No increase to health insurance

**Operations**
- Zero based budget resulted in 5% decrease
- Personnel Requests $2.7M (not funded)
- Municipal Court Judge full-time
- Contract increases

**Special Services**
- EMS contract & service expansion | $1.6M total
- City Utilities | $1.5M total
- TIRZ 2: Blanco Vista refinanced | ($1.2M)
- TIRZ 5: Downtown reduced to 25% | ($900K)
- Social Services/Museums | $900K total

**FY22 & FY23 Assumptions**
- Transfer to Transit | $1.5M total
- Animal Services Live Outcomes | FY22 $590K, FY23 $75K additional funding
- Economic Incentives | ($6M)
- No increase to headcount included
General Fund Five-Year Outlook FY19-23

Revenue vs. Projected Baseline Expenditures

Scenario A: Tax Rate @ current tax rate

FY22-FY23 no increase to appraised value on all scenarios

Expenditures

Revenue

Reduction*

Fund Balance

74.0

76.0

78.0

80.0

82.0

84.0

86.0

88.0

90.0

FY19 Actual

FY20 Forecast

FY21 Preliminary

FY22 Forecast

FY23 Forecast

25%

23%

22%

20%

19%

0.8

Reduction needed to achieve 20% Fund Balance, shown in millions
General Fund Five-Year Outlook FY19-23

Revenue vs. Projected Baseline Expenditures

**Scenario B: Tax Rate @ 7% growth**

- **FY21 Impact***
  - Budget Impact: ($333K)
  - Citizen Impact: $5.50

- **Fund Balance Reduction needed to achieve 20% Fund Balance, shown in millions**
  - FY19 Actual: 25%
  - FY20 Forecast: 23%
  - FY21 Preliminary: 22%
  - FY22 Forecast: 19%
  - FY23 Forecast: 18%

- **FY21 Impact***
  - Citizen impact based on $100K home value
  - Impact based on current tax rate vs scenario growth

[Graph showing revenue vs. projected baseline expenditures with data points for each fiscal year from FY19 to FY23]
General Fund Five-Year Outlook FY19-23

Revenue vs. Projected Baseline Expenditures

Scenario C: Tax Rate @ 5% growth

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue vs. Projected Baseline Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19 Actual</td>
<td>74.0 million</td>
</tr>
<tr>
<td>FY20 Forecast</td>
<td>76.0 million</td>
</tr>
<tr>
<td>FY21 Preliminary</td>
<td>78.0 million</td>
</tr>
<tr>
<td>FY22 Forecast</td>
<td>80.0 million</td>
</tr>
<tr>
<td>FY23 Forecast</td>
<td>82.0 million</td>
</tr>
</tbody>
</table>

Reduction needed to achieve 20% Fund Balance, shown in millions

- FY19 Actual: 25%
- FY20 Forecast: 23%
- FY21 Preliminary: 21%
- FY22 Forecast: 17%
- FY23 Forecast: 15%

FY21 Impact*

- Budget Impact: ($1M)
- Citizen Impact: $16.87

• Citizen impact based on $100K home value
• Impact based on current tax rate vs scenario growth
What does $1.5M provide in City Services?

01 Fire Station at 67%
02 Library at 79%
03 Parks & Recreation at 36%
Street Maintenance Funding

01 Total Streets FY20 Budget: $3.4M, Personnel: $1.4M, Operating: $2M

02 Commercial Waste Hauler Permit: Ordinance adopted 2003
Application fee: $100, Street Usage fee: 5% gross sales receipts
FY19 Revenue: $425K

03 Comparable cities charge 5 – 15% + Street damage clause at additional fee

04 Recommendation: Increase fee to 10% gross sales, amend ordinance to include street damage clause. Additional revenue of $425K, bringing total revenue to $850K recovering ~ 42% of operating costs.
Considerations for Fee Recommendation: 10% of Gross Sales

<table>
<thead>
<tr>
<th>City</th>
<th>Fee</th>
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<tbody>
<tr>
<td>San Marcos</td>
<td>5%</td>
</tr>
<tr>
<td>(current)</td>
<td></td>
</tr>
<tr>
<td>Addison</td>
<td>5%</td>
</tr>
<tr>
<td>Georgetown</td>
<td>8%</td>
</tr>
<tr>
<td>San Marcos</td>
<td>10%</td>
</tr>
<tr>
<td>(proposed)</td>
<td></td>
</tr>
<tr>
<td>Victoria</td>
<td>15%</td>
</tr>
</tbody>
</table>

- Revised fee schedules for Commercial Waste Haulers impact to and use of City streets would recover an additional 21% of our operating costs for street maintenance.
- Including additional ordinance language to allow for recovery of costs for specific damage to City streets beyond normal impact would supply a funding source for these repairs in lieu of tax dollars.
Considerations of Service Level Reductions

01 Hold vacancies
02 Reduce public facility service hours
03 Early retirement
04 Staff furloughs
05 Salary Reductions
06 Layoffs
Hotel Occupancy Fund
Hotel Occupancy Fund

Five-year Outlook FY19-23

- **FY20 Revenue:** Projected (57%) less than FY19, or ($957K) less than budget
- **FY20 Expenditures:** Reduced ($700K), use of fund balance
- **FY21 Expenditures:** Reduced all programs and operating, council approved use of $200K of reserves to fund arts programs
- **FY21 Revenue:** Assumes (30%) less than FY19
- **FY20-FY23** No assumption of additional General Fund transfers to balance budget
Budget Timeline & Next Steps

2020

- Continue to report financial results monthly

June

- 30th - Budget Workshop with revised revenue, expenditure details

August

- 4th - record vote on tax rate
- 13th - Proposed Budget, utility rate recommendation

Sept

- 1st – Public Hearing, 1st reading
- 15th – 2nd reading, adopt budget

2021

- Monitor monthly financial results, revise forecast
Council Direction Needed

- Tax Rate: Use current tax rate, assume decrease

- Commercial Waste Hauler Permit: fee increase to 10%, ordinance amendment to include street damage clause

- Additional considerations?
Thank You

- Bert Lumbreras
  City Manager
- Stephanie Reyes
  Assistant City Manager
- Victoria Runkle
  Interim Director of Finance
- Melissa Neel
  Assistant Director of Finance
- Laurie Moyer
  Director of Engineering/CIP
Purpose

• Stormwater Utility Rate Model & Base Assumptions
• Review FY 2021 rate and impacts
• Discussion on rate increases beyond FY 2021 through CIP constraints
Rate Model

New rate structure for FY 2021
- using impervious cover instead of lot size

Billing changes in ordinance
- billing owner now, not resident

No FY20 rate increase
- greater revenue need for FY21

### Existing (ERU 2,250 sf)

<table>
<thead>
<tr>
<th>Class Description</th>
<th>Total Lot Size-Square Feet</th>
<th>Current Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Residential</td>
<td>0-6,000</td>
<td>$7.57</td>
</tr>
<tr>
<td>Typical Residential</td>
<td>6,001-12,000</td>
<td>$12.10</td>
</tr>
<tr>
<td>Large Residential</td>
<td>12,001+</td>
<td>$13.86</td>
</tr>
<tr>
<td>Commercial</td>
<td>Impervious Area /ERU</td>
<td># of units * residential rate</td>
</tr>
</tbody>
</table>

### Proposed (ERU 2,575 sf)

<table>
<thead>
<tr>
<th>Class Code</th>
<th>Description</th>
<th>Impervious Cover Range</th>
<th>Rate Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>Small Residential</td>
<td>0-1,980</td>
<td>$7.43</td>
</tr>
<tr>
<td>R2</td>
<td>Typical Residential</td>
<td>1,981-3,336</td>
<td>$12.10</td>
</tr>
<tr>
<td>R3</td>
<td>Large Residential</td>
<td>3,334+</td>
<td>$17.68</td>
</tr>
</tbody>
</table>
| NR         | Commercial, Retail, Governmental, Multi-family, religious, non-profits | Impervious Area /ERU *Rate ($12.10)
Base Modeling Assumptions

- Includes increase to O&M based upon CIP
  - 3% of CIP implemented with 2-yr lag
- Rate increase should first achieve financial policy goals & then address CIP expenditures:
  - 25% minimum Fund Balance (General, W/WW & Elect.)
  - 1.20 debt service coverage ratio (W/WW & Elect.)
- FY21 CIP reduced by $4.0 Million with use of existing funds.
FY 2021 Rate Increase

• Previous Council direction 5-years of 15% increases to respond to citizen concerns
  • 15% increases in FY18 & FY19, 3 years remaining
  • 0% increase in FY20

• **12% increase** in FY21 required to achieve financial policy goals.

• FY21 CIP does not impact FY21 utility rate
  • FY21 CIP affects following years
12% Rate Increase Impacts

<table>
<thead>
<tr>
<th>Rate</th>
<th>R1 - Small</th>
<th>R2 - Typical</th>
<th>R3 - Large</th>
<th>Non-Residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$7.43</td>
<td>$12.10</td>
<td>$17.68</td>
<td>$12.10/ERU</td>
</tr>
<tr>
<td>12% Rate Inc.</td>
<td>$8.32</td>
<td>$13.55</td>
<td>$19.80</td>
<td>$13.55/ERU</td>
</tr>
</tbody>
</table>

- **Examples of Non-Residential bill increases:**
  - Small downtown business: $3/month
  - Interstate restaurant: $6/month
  - Apartment complex: $400/month (median $80/month)
  - Industrial business: $496/month (median $50/month)
Future Rate Increases

• Annual CIP funding is primary driver of Stormwater Utility rates
• FY21 CIP has no impact to FY21 Stormwater Utility rate
• Approval of FY21 CIP impacts FY22 rate
• Three scenarios developed to illustrate CIP and rate requirement connection.
• Need guidance for revision to FY21 CIP and development of future CIPs.
Priority Projects

- Projects that have participation agreements in place or expectations by citizens for implementation

- FY21 priority projects (stormwater only):
  - IH-35 Stormwater Oversize (Sunset Acres) - $5.3M
  - Academy/Sessom Improvement - $1.5M
  - Hills of Hays - $3M

- FY22 priority projects (stormwater only):
  - Wallace Addition Offsite - $4.5M
  - Sunset Acres - $4M
  - Castle Forrest Channel - $1.5M
Option 1 – Minimum FY21 CIP

- FY21 CIP reduced to $2M (plus $4M exist. funds)
- FY22 and beyond reduced to $6M annually

<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
<th>FY23 Rate Increase</th>
<th>FY24 Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>12%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

- Advantage – lowest future increases
- Disadvantage – delays priority projects in both FY21 & FY22*

*This scenario would provide for the $5.3M Advanced Funding Agreement with TxDOT but would require other FY21 priority projects (Academy/ Sessom and Hills of Hays) to be delayed to FY22
Option 2 – FY21 Priority CIP

- FY21 CIP increased by $4M from Option 1
- FY22 and beyond $6M annually

<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
<th>FY23 Rate Increase</th>
<th>FY24 Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>12%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

- Advantage – maintains FY21 priority projects
- Disadvantage – delays priority projects in FY22 and increases annual rates (2% higher than Option 1)
Option 3 – FY21 & 22 Priority CIP

- FY21 CIP increased by $4M from Option 1
- FY22 increased to $10M
- FY23 and beyond at $6M annually

<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
<th>FY23 Rate Increase</th>
<th>FY24 Rate Increase</th>
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<tbody>
<tr>
<td>3</td>
<td>$6,000,000</td>
<td>$10,000,000</td>
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<td>12%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

- Advantage – maintains FY21 & 22 priority projects
- Disadvantage – increases annual rates (4% higher than Option 1)
Option 4 – Min. Rate Inc. w/ FY21 Priority Projects

- FY21 CIP increased to $6M
- FY22 and beyond at $6M annually

<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
<th>FY23 Rate Increase</th>
<th>FY24 Rate Increase</th>
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<tbody>
<tr>
<td>4</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>6.5%</td>
<td>6.5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

- Advantages:
  - Lower increase
  - Maintains FY21 priority projects

- Disadvantages:
  - Below Fund Balance goal in FY21 (20%) but reaches 25% in FY22
  - Delays FY22 Priority Projects
<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
<th>FY23 Rate Increase</th>
<th>FY24 Rate Increase</th>
<th>New CIP Projects Funded</th>
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<tbody>
<tr>
<td>1</td>
<td>$2,000,000</td>
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<td>$6,000,000</td>
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<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>Only TxDOT AFA project</td>
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<tr>
<td>2</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>12%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>All FY 21 priority projects</td>
</tr>
<tr>
<td>3</td>
<td>$6,000,000</td>
<td>$10,000,000</td>
<td>$6,000,000</td>
<td>12%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>FY21 and F22 priority projects</td>
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<tr>
<td>4</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>6.5%*</td>
<td>6.5%</td>
<td>5%</td>
<td>5%</td>
<td>All FY 21 priority projects</td>
</tr>
</tbody>
</table>

*Fund Balance at 20%

- FY21 & FY22 CIP stormwater totals establish future rates
- Direction helps staff to develop CIP to meet expectations
- FY22 better understanding of revenue impacts from changes.
Council Direction Needed:

- Which Rate Increase Option?
- FY21/22 CIP amounts if Options 1-3?

<table>
<thead>
<tr>
<th>Option</th>
<th>FY21 CIP Amount</th>
<th>FY22 CIP Amount</th>
<th>FY23 CIP Amount</th>
<th>FY21 Rate Increase</th>
<th>FY22 Rate Increase</th>
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<th>Projects Funded</th>
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<td>$6,000,000</td>
<td>$6,000,000</td>
<td>12%</td>
<td>3%</td>
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<td>5%</td>
<td>5%</td>
<td>5%</td>
<td></td>
<td>All FY 21 priority projects</td>
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<td>$6,000,000</td>
<td>12%</td>
<td>7%</td>
<td>7%</td>
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<td>FY21 and F22 priority projects</td>
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<tr>
<td>4</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>6.5%*</td>
<td>6.5%</td>
<td>5%</td>
<td>5%</td>
<td></td>
<td>All FY 21 priority projects</td>
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*Fund Balance at 20%