



City of San Marcos

FY 2023 Budget Policy Workshop

February 16 & 17, 2022



Agenda

- City Manager Introduction
- Budget Process
- FY21 Year-End Review
- Challenges
- Core Services/Strategic Initiatives
- Economy and Environment
- General Fund
- Other Major Operating Funds
- Key Forecast Assumptions
- Budget Policy Discussion
- Decision Point Summary

Budget Development

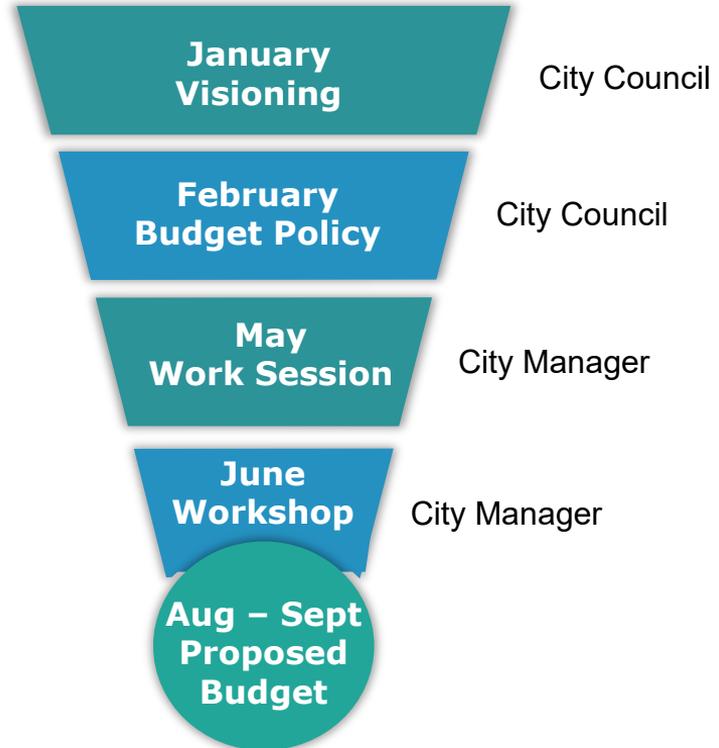
Set strategic initiatives for the coming years

Formulate policy statement to guide City Manager during budget preparation

Deliver budget capacity and trends

Deliver budgeted programs, revenues, and expenditure philosophy

Deliver proposed budget of all general budget items by fund type



Once City Council formulates a budget policy the City Manager works with staff to develop the budget document



Budget Timeline

Budget Policy Workshop	February 16-17
Adopt Budget Policy	March 23
Budget Work Session & CIP Update	May 17
Budget Workshop	June 29
Proposed Budget Workshop	August 18
Public Hearings, Budget and Tax Rate Adoption	September 20
Close Year-end and Implement Budget	October 1



Community and Economic Challenges

- **Growing Community**
 - pop. 44,894(2010) 67,553(2020) = 50.5% growth
- **Continued impact of state ruling for sales tax on e-commerce**
- **Continued Uncertainty**
 - Inflation – “Headline” rates
 - “Great Resignation”
 - Employee Recruitment and Retention
 - Work from Home environment
 - Supply chain disruptions/cost increases
 - COVID-19 variants
 - Slow retail growth



Focus on the Basics

• Fund Core Services

- Public Safety
- Public Health and Welfare
- Maintain Infrastructure
- Quality of Life
- Protection of Environment
- Sound Development
- Support Services

• Department Constraints

- Increased Costs
- Attracting/Retaining Qualified Staff
- Workload/Capacity/Expectations
- Supply chain disruptions



2022-23 Strategic Initiatives

- **Workforce Housing**
- **Sustainability**
- **Covid Response**
- **Community Safety**
- **Economic Development**
- Additional Area of Focus: Assessment of Community Assistance
- Develop Equity Policy



Economic Indicators

	Unemployment Dec 2021 (bls.gov)	Home Prices Year-to-Year (fhfa.gov)	CPI-U* Dec 2021 (bls.gov)	Median home price - Dec 2021
Federal	3.9%	18.5%	7.0%	
State	5.0%	16.6%	7.4%	
Regional	2.9%	30.6%		
Hays	3.1%	29.5%		\$395,070
San Marcos		35.7%		\$379,900
* Consumer Price Index – All Urban Consumers (All items)				



The Great Resignation: *What does it mean?*

- Employees are making different life choices.
- Work-life balance is a focus.
- COVID taught many that they don't need "all the things". Employers are offering hiring incentives to recruit potential employees back into the workplace. Many are closing storefronts and will remain virtual for the foreseeable future.
- Alternative workplace options are important – no "one size fits all".
- Record numbers of employees are leaving – retirees who we've depended on, employees working long shifts who aren't interested in that work life any longer, with an interest in family centric or shifting careers.



The Great Resignation: *How is it affecting us?*

- 60% of employees are paid below the market range for their position.
- 44% of employees with 5 years and less time in a position are at the entry quartile of the pay range which is below the prevailing wage.
- 73% of employees with up to 5 years time in their position are below the midpoint of the range.
- The current market requires higher salaries to attract candidates creating compression for current employees.
- The list of positions which are difficult to hire is growing and we are losing key talent in a very rapidly changing market.
- Recent employee exit interviews discuss leaving due to increased workload, expectations, and not regularly funding staff increases.
- Skillsets/positions at the City are mostly to provide core basic and quality of life services.
- Due to the number of employees affected, the fix may take multiple years and will be expensive.



The Great Resignation: *How is it affecting us?*

Positions we have not been able to fill or struggle with:

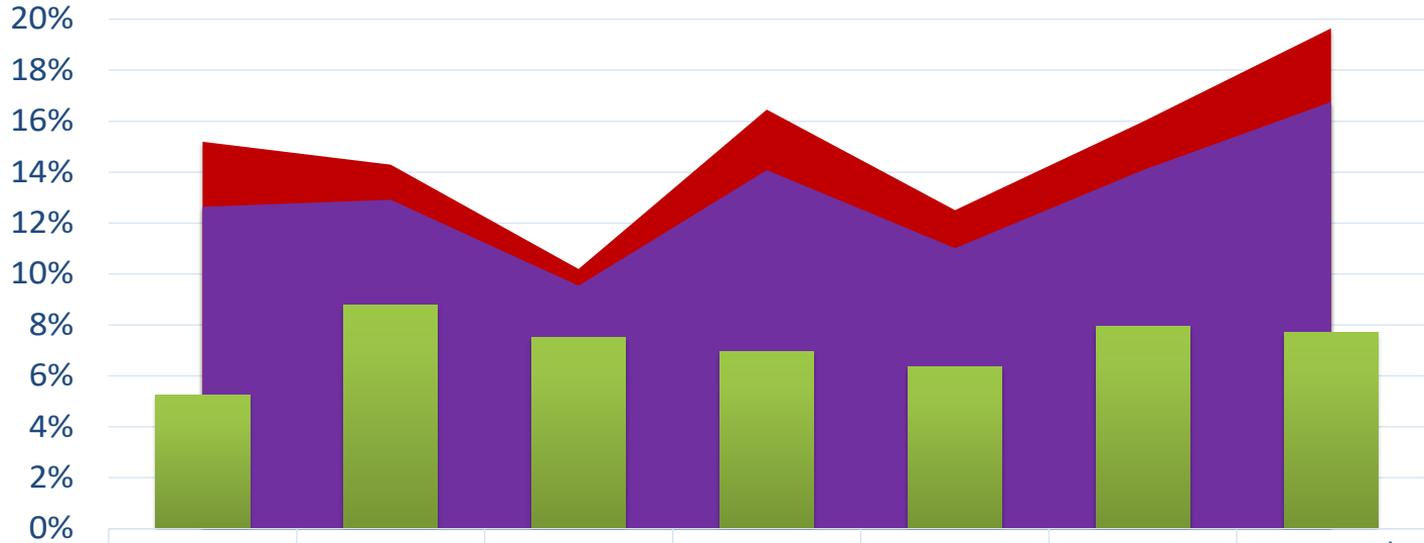
Continuous Recruitment:

- 911 Telecommunicator
- Equipment Operators
- Lineworker & Lineworker Apprentice
- Police Officers
- Maintenance Operator
- WIC Health & Nutrition Specialist

Difficult to Fill:

- Accountants
- Grant positions
- Planners
- Inspectors
- CDL Licenses (we have started an in-house CDL training program)
- Summer recreation program positions
- Technology
- Technical craft – mechanics, equipment operators, instrumentation, etc.

City of San Marcos Vacancy Rate January 2022



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022*
■ Non-Civil Service	15%	14%	10%	16%	13%	16%	20%
■ City-wide	13%	13%	10%	14%	11%	14%	17%
■ Civil Service	5%	9%	8%	7%	6%	8%	8%

* Annualize Oct – January 2022



Recommendation

- Develop a clear compensation policy
- Demonstrate that we value employees as our most valuable asset.
- Update compensation plan:
 - Review peer comparators
 - Update job descriptions
 - Market study
 - Consider the long-term impact of compensation policy to organizational culture. In today's market, total compensation must articulate more than direct wages.



FY23 Budget Considerations – All funds

- Zero-based budgeting
 - Factor in necessary CPI (consumer price index) depending on industry
- Revenue forecasting, based on historical trends
- Enhancement of City's grant program to maximize alternative funding opportunities
- Staffing
 - Competitive market – recruitment and retention incentives?
 - Support market rate compensations study
 - Increase personnel to adequately support core services
- Evaluation of health insurance
- Review current financial policy and update where needed with FY23 budget
- Maintain Cost Allocation Plan transfers
- Incorporate priorities from Council visioning sessions



GENERAL FUND



FY2021 Year End Summary

General Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET	ACTUALS	% OF BUDGET
Beginning Fund Balance		\$ 25,370,000	
Total Revenue	\$ 85,241,000	\$ 95,101,000	112%
Taxes	69,569,000	79,004,000	114%
License & Permits	3,710,000	5,424,000	146%
Fines & Penalties	1,357,000	655,000	48%
Interest Income	475,000	44,000	9%
Current Services	2,049,000	1,303,000	64%
Other Revenue	1,639,000	2,252,000	139%
Transfer from Other Funds	6,442,000	6,419,000	100%
Total Expenses	\$ 91,997,000	\$ 86,822,000	94%
Personnel	56,453,000	54,492,000	97%
Contracted Services	11,228,000	8,999,000	80%
Material & Supplies	5,128,000	5,043,000	98%
Other Expenses	10,538,000	8,436,000	80%
Bond Payments & Fees	107,000	107,000	100%
Grant Disbursements	29,000	15,000	50%
Social Services	490,000	491,000	100%
Operating Transfers	8,006,000	9,221,000	115%
Capital Expense	18,000	18,000	100%
Ending Fund Balance		\$ 33,649,000	

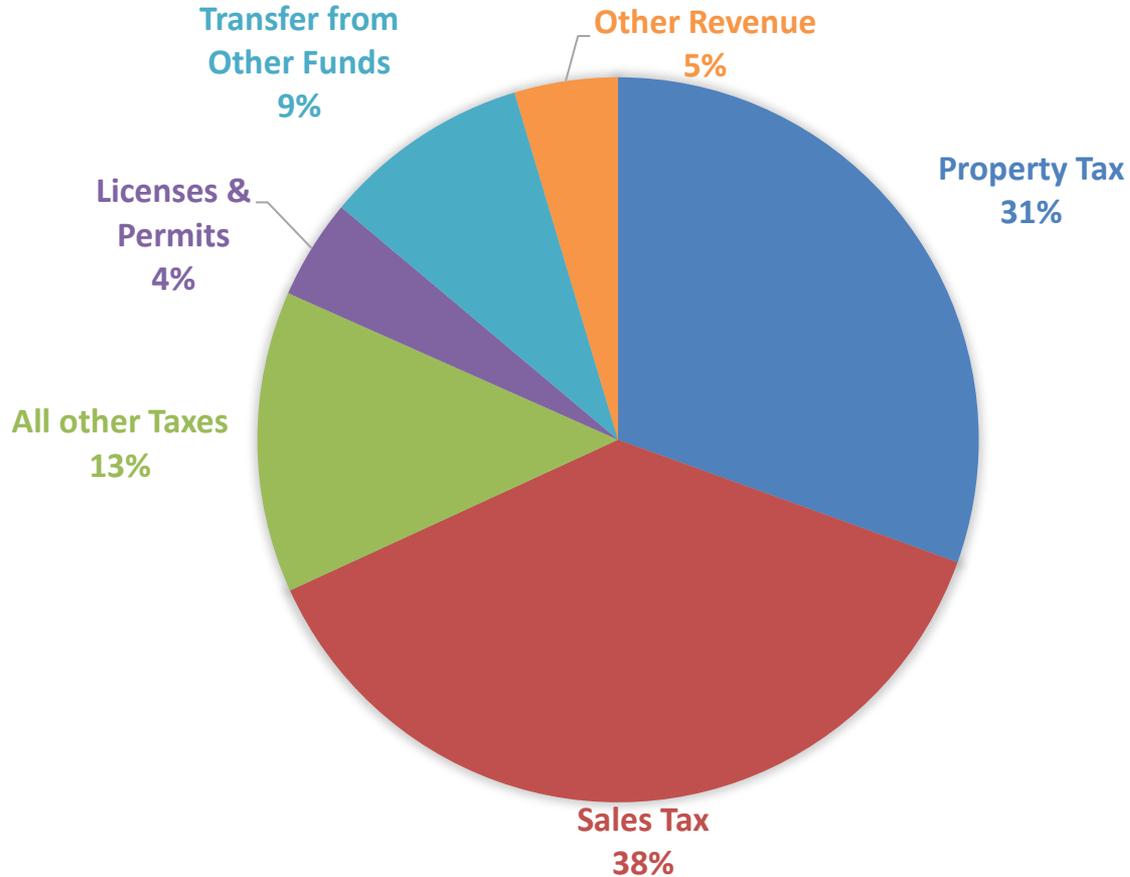


FY21 General Fund Summary

- Revenues exceeded revised budget by \$9.9M
 - Property tax exceeded budget by \$1.1M (4.2%)
 - Sales tax exceeded budget by \$8.8M (26.6%)
 - Permit revenue exceeded budget by \$1.7M (45.9%)
 - Increases offset reduction in fines, interest and charges for services
- Expenditures were \$5.2M under budget
 - Salary savings of over \$2M
 - Savings in Contracted services of \$2M
 - Savings in Other Expense of \$2M
- FY 21 added \$8.3M to fund balance – exceeds 25% threshold
 - Cash fund FY22 General fund CIP to keep debt rate flat
 - Use for non-recurring expenses
 - Should not use for recurring costs



General Fund Revenue Sources - Adopted 2022 Budget



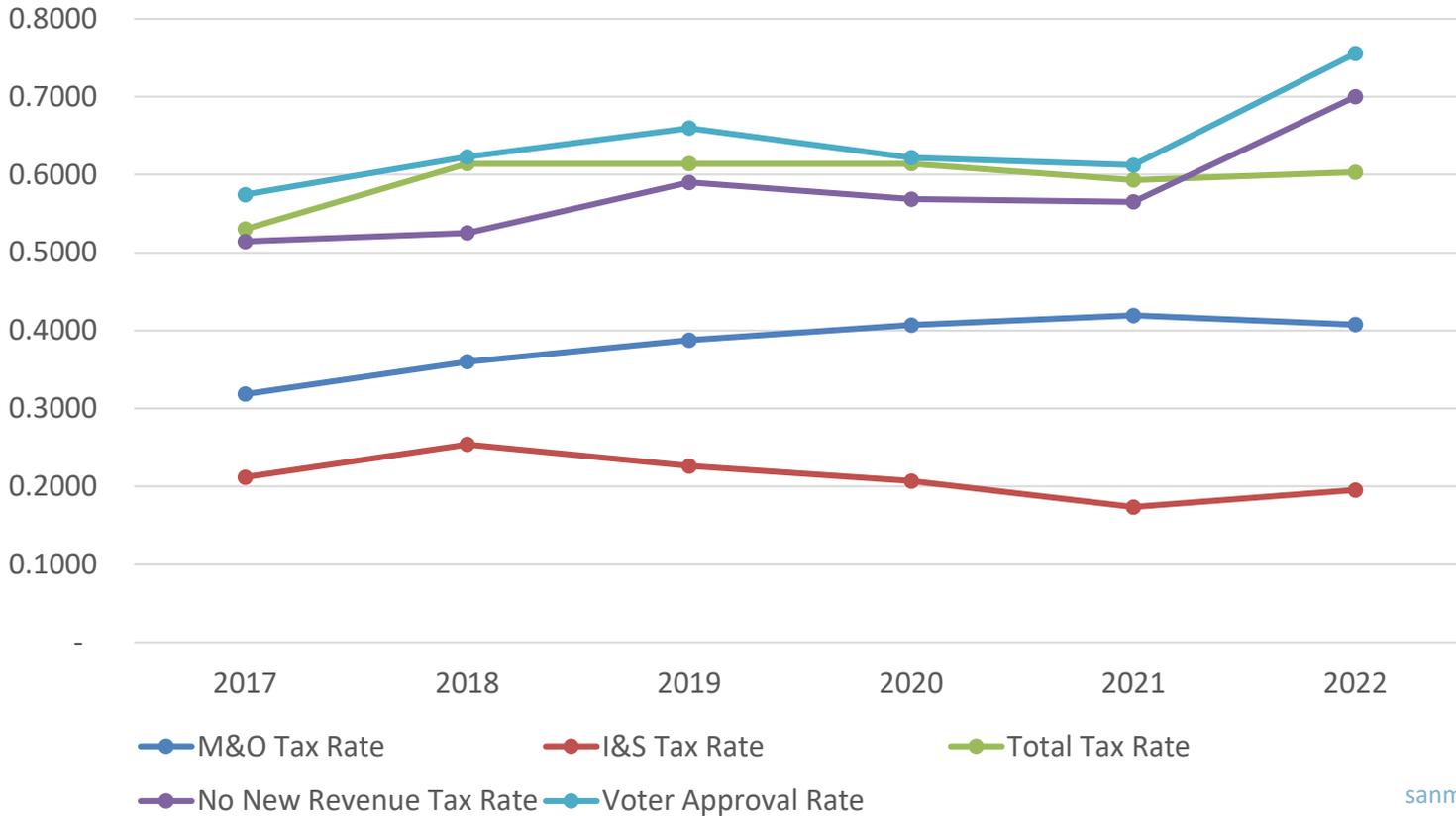


Property Tax Rate

	FY19	FY20	FY21	FY22
Tax Rate per \$100	61.39¢	61.39¢	59.30¢	60.30¢
Total Appraisal	\$5.062M	\$5.644M	\$6.273M	\$6.550M
Total Levy	\$31.1M	\$34.6M	\$37.2M	\$39.2M
I&S Rate per \$100	22.62¢	20.69¢	17.36¢	19.54¢
M&O Rate per \$100	38.77¢	40.70¢	41.94¢	40.76¢



San Marcos Property Tax Rates





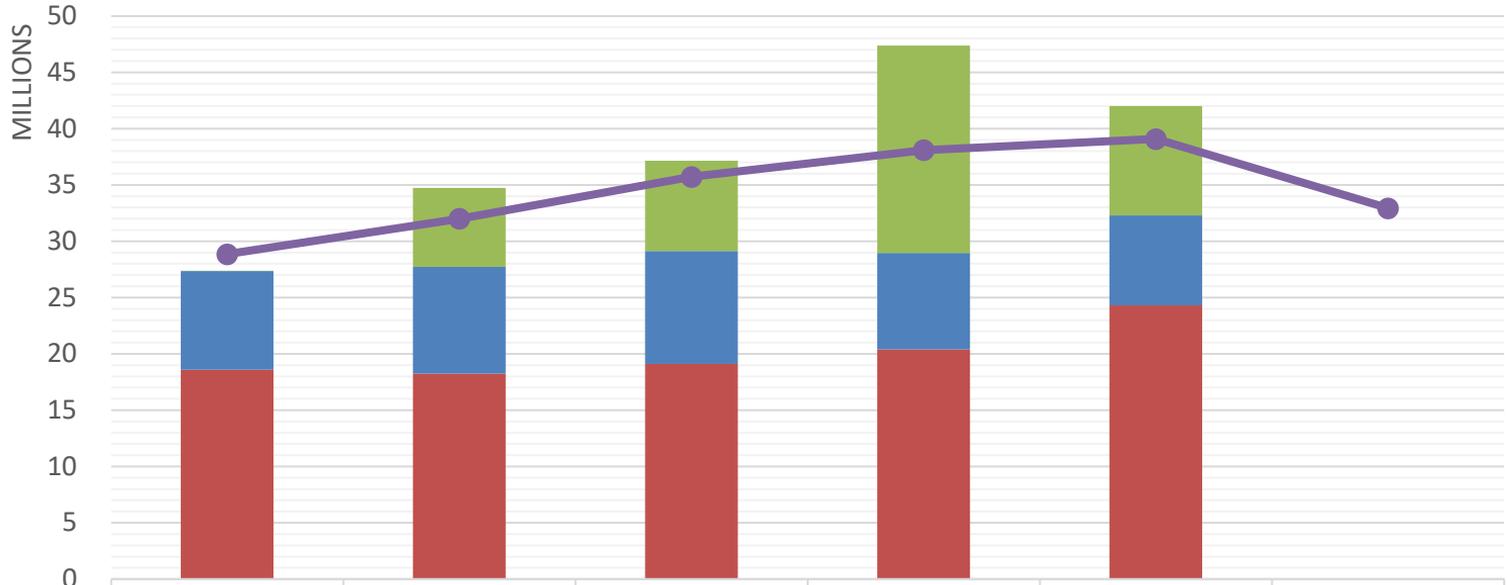
Property Tax Collections

	2017	2018	2019	2020	2021
Gross Taxes	\$21.64M	\$28.07M	\$30.67M	\$34.66M	\$37.09M
TIRZ Payments	\$1.44M	\$2.31M	\$2.91M	\$3.88M	\$4.79M*
Net Taxes	\$20.20M	\$25.76M	\$27.76M	\$30.78M	\$32.29M
Growth in gross taxes		29.67%	9.27%	13.02%	6.99%
Growth in net property taxes		27.52%	7.77%	10.87%	4.92%

* TIRZ calculation not final



Sales Tax Revenue

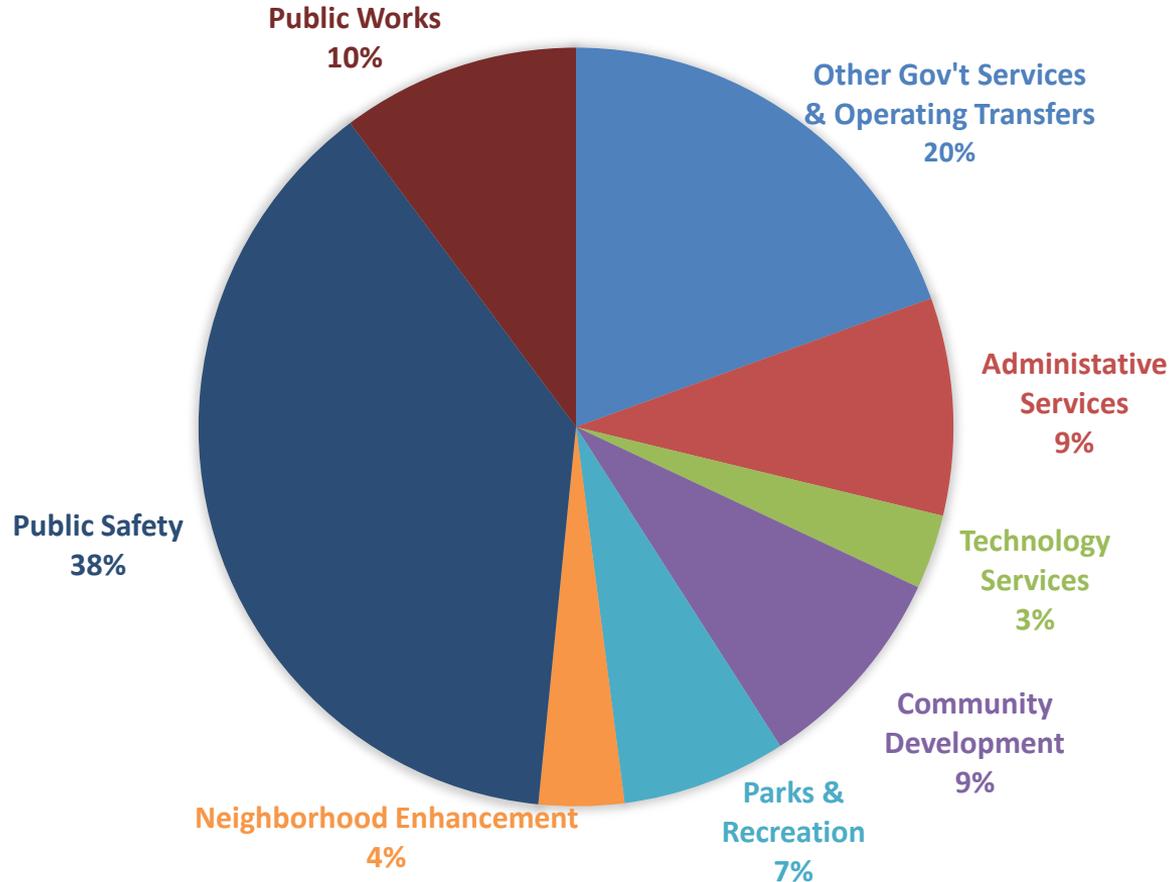


	2017	2018	2019	2020	2021	2022
■ E-commerce	115	6,994,172	8,013,204	18,439,571	9,715,112	
■ Outlet Malls	8,769,422	9,480,128	10,017,513	8,538,069	7,966,738	
■ All Other	18,594,913	18,258,737	19,117,944	20,411,054	24,317,425	
● Adopted Budget	28,850,186	32,002,025	35,719,111	38,088,295	39,078,135	32,939,400

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General Fund Expenditures - Adopted 2022 Budget





FY23 General Fund Revenue Considerations

- Property Tax
 - New homestead exemption of \$15,000 and increase to senior/disabled exemption from \$25,000 to \$35,000
 - Consider adopting rate between the No New Revenue Rate and the Voter Approval Tax Rate, as in prior years
- Sales tax collections
 - Projections based on historical trends
- American Rescue Plan (ARP) funding
- Tax Increment Reinvestment Zones – higher growth areas impacts tax rate calculation
- Explore new revenue sources
- Development services fee study in progress



FY23 General Fund Estimated Increases

- **Personnel**
 - Compensation Study – set aside 5% for funding results ~\$3M
 - Additional personnel to fund core services - 40+ unfunded requests in PY
 - Upcoming Meet and Confer negotiations
- **Contracted Services**
 - Traffic Signals previously maintained by TXDOT, will be transferred to City
 - Vehicle replacements – supply chain disruptions have caused increased prices and delayed delivery
- **Materials and Supplies - rising costs**
- **Other Charges**
 - Potential federal and state mandates
 - Increased costs for support of transit services
 - Some return to in-person professional development, travel
 - May see compliance in 380 agreements and requests for incentive
- **Capital Improvement Projects**



General Funds Capital Improvement Projects

- **Capital Improvement Projects (CIP)**
 - Issuance of debt impacts the City's calculated debt rate.
 - The City has been constraining debt funded CIP in an effort to build capacity for new City Hall facilities and future bond election.
 - The City has been working with our financial advisor to build a debt model



FY22 Midyear Personnel Considerations

- 2% Increase for non-civil service staff
- Additional staff considered in FY22 budget
 - IT Security Administrator
 - Environmental Inspection Specialist
 - Compliance Analyst
 - (2) City Marshal positions
 - Fire Prevention Engineer
 - Police Commander
 - (3) 911 Telecommunicators
- 32 additional personnel requests city-wide in FY22 not included for mid-year consideration
- Fund compensation study



General Fund Agency Funding

Description	FY 2022
Human Services Advisory Board (General Fund)	\$500,000
Human Services Advisory Board (ARP)	\$150,000
Court Appointed Special Advocates	\$45,000
Family Justice Center	\$45,000
Youth Funding -	\$50,000
Total	\$790,000



General Fund Museum & Events Funding

Description	FY 2022
Museums	\$100,000
Sights n Sounds *	\$80,000
Go Wheels Up *	\$47,500
Veteran's Day	\$5,000
Summer Fest	\$15,000
Mermaid Festival (ARP)*	\$25,000
Special Events	\$30,000
Total	\$302,500

** May be partially or fully funded by HOT or ARP*



OTHER MAJOR OPERATING FUNDS



FY2021 Year End Summary

Electric Utility Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET	ACTUALS	% OF BUDGET
Beginning Fund Balance		\$ 12,522,000	
Total Revenue	\$ 81,144,000	\$ 82,833,000	102%
Current Services	59,651,000	54,456,000	91%
Other Revenue	18,982,000	26,147,000	138%
Transfer from Other Funds	2,226,000	2,226,000	100%
Interest	285,000	4,400	2%
Total Expenses	\$ 84,119,000	\$ 79,247,000	94%
Personnel	7,495,000	6,422,000	86%
Contracted Services	59,958,000	58,743,000	98%
Material & Supplies	706,000	802,000	114%
Other Expenses	6,427,000	5,350,000	83%
Debt Services	4,205,000	4,217,000	100%
Operating Transfers	4,316,000	3,295,000	76%
Capital Expense	1,012,000	418,000	41%
Rate Stabilization Reserve		\$ 780,000	
Ending Fund Balance		\$ 15,328,000	



FY2021 Year End Summary

Water / Wastewater Utility Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET		ACTUALS		% OF BUDGET
Beginning Fund Balance			\$	12,264,000	
Total Revenue	\$	50,703,000	\$	49,127,000	97%
Current Services		49,904,000		48,201,000	97%
Other Revenue		611,000		915,000	150%
Interest		188,000		11,000	6%
Total Expenses	\$	51,298,000	\$	45,224,000	88%
Personnel		5,752,000		5,363,000	93%
Contracted Services		12,963,000		11,379,000	88%
Material & Supplies		1,939,000		1,735,000	89%
Other Expenses		4,861,000		4,666,000	96%
Debt Services		13,746,000		13,764,000	100%
Operating Transfers		11,500,000		7,911,000	69%
Capital Expense		536,000		406,000	76%
Rate Stabilization Reserve			\$	335,000	
Ending Fund Balance			\$	15,832,000	



FY2021 Year End Summary

Stormwater Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET	ACTUALS	% OF BUDGET
Beginning Fund Balance		\$ 1,776,000	
Total Revenue	\$ 7,217,000	\$ 6,862,000	95%
Current Services	7,201,000	6,862,000	95%
Other Revenue	-	200	-
Interest	16,000	-	-
Total Expenses	\$ 7,298,000	\$ 6,841,000	94%
Personnel	1,188,000	1,259,000	106%
Contracted Services	1,018,000	612,000	60%
Material & Supplies	195,000	187,000	96%
Other Expenses	47,000	15,000	32%
Debt Services	3,406,000	3,405,000	100%
Capital Expense	1,444,000	1,363,000	100%
Ending Fund Balance		\$ 1,797,000	



Enterprise Fund Considerations

FY 21 Highlights

- Winter storm impact on Ferguson revenue in Electric
- Utility forgiveness program – offset by reduced costs and increased revenue

FY 23 Planning

- Annual rate model reviews - meet operating and capital needs with goal of small increments over time
- Maintain fund balance thresholds
 - Electric – 60 days
 - Water/Wastewater – 25%
 - Continue to cash fund CIP to the extent possible with excess fund balance
- Increases in operations & maintenance anticipated based on CPI increase over prior year



FY2021 Year End Summary

Airport Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET	ACTUALS	% OF BUDGET
Beginning Fund Balance		\$ (38,000)	
Total Revenue	\$ 562,000	\$ 644,000	115%
Operating Revenue	562,000	644,000	115%
Total Expenses	\$ 620,000	\$ 622,000	105%
Airport Management			
Contracted Services	479,000	479,000	100%
Material & Supplies	-	-	0%
Incentive Payments	71,000	103,000	144%
Other Expenses	70,000	40,000	100%
Ending Fund Balance		\$ (16,000)	



FY2021 Year End Summary

Hotel / Motel Fund

OCT 1, 2020 - SEPT 30, 2021	BUDGET	ACTUALS	% OF BUDGET
Beginning Fund Balance		\$ 175,000	
Total Revenue	\$ 3,067,000	\$ 3,685,000	120%
Taxes	2,855,000	3,513,000	123%
Late Charges & Penalties	1,000	1,500	147%
Interest Income	40,000	-	0%
General Fund Transfer	171,000	171,000	100%
Total Expenses	\$ 3,343,000	\$ 2,535,000	76%
Personnel	836,000	879,000	105%
Contracted Services	439,000	330,000	75%
Material & Supplies	492,000	503,000	102%
Other Expenses	118,000	84,000	71%
Tourism Programs	150,000	39,000	26%
Operating Transfers	1,307,000	699,000	53%
Ending Fund Balance		\$ 1,325,000	



FY23 Other Forecasting Assumptions

Airport Fund

- Airport - goal is to be self-sustaining

Hotel Occupancy Tax Fund

- Increase Hotel occupancy
- Consider funding from HOT funds for special events
(incorporate items that HOT Tax can fund from General fund?)



Decision Point Summary

- FY22 Mid-Year Consideration
- Tax Rate: Not to exceed greater of No New Revenue Rate or current rate?
Stay between the No New Revenue Rate and Voter Approval Tax Rate?
- Constrain CIP to keep debt rate flat?
- Tie CIP to available capacity in the model?
- Revenues: Budgeting based on historical trends?
- Fund Balance: Maintain at 25% of expenditures? Use excess to fund one-time expenditures?



Decision Point Summary (continued)

- Implement results of the compensation study?
- Fund personnel additions to adequately support core services?
- Increase personnel costs by 5%?
- Social Services & Other (Slide 32-33) fund at current level from General Fund and supplement with ARP monies (funded \$150k from ARP in FY22)?
- Focus HSAB and CDBG allocations toward meeting Council strategic initiatives?
- Additional considerations?



Questions?



Thank you!

Stephanie Reyes

Interim City Manager

Joe Pantalion

Assistant City Manager

Anna Miranda

Interim Finance Director

Laurie Moyer

Interim Assistant City Manager

Chase Stapp

Director of Public Safety