



City of San Marcos

Meeting Minutes City Council

Tuesday, June 30, 2020

5:30 PM

Virtual Meeting

This meeting was held using conferencing software due to the COVID-19 rules.

I. Call To Order

With a quorum present, the budget workshop of the San Marcos City Council was called to order by Mayor Hughson at 5:31 p.m. Tuesday, June 30, 2020. This meeting was held online.

II. Roll Call

Present: 7 - Council Member Melissa Derrick, Mayor Jane Hughson, Mayor Pro Tem Ed Mihalkanin, Council Member Joca Marquez, Deputy Mayor Pro Tem Mark Rockeymoore, Council Member Maxfield Baker and Council Member Saul Gonzales

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 on the financial update on the current fiscal year and revised financial outlook. Mr. Lumbreras stated that Fiscal Year (FY) 2021 is important since it will lay the foundation on how we are positioned for subsequent years in terms of how the city will recover from the Covid pandemic, the impacts of Senate Bill (SB) 2 as well as respond to the loss of a key revenue source after the Comptroller's rule change.

Melissa Neel, Assistant Finance Director provided the presentation on the Fiscal Year (FY) 2020 Financial Update and Five-year Outlook of revenue and expenditure assumptions.

Ms. Neel presented the FY20 Covid Impact on Revenue and explained the following revenue shortfalls:

General Fund:

Total projected shortfall net revenue is \$2M

Fiscal Year to Date (YTD) sales tax exceed budget

• Gross Total \$3.9M

- Net of rebates \$600K

Ms. Neel stated in the initial plan in Phase 1 was to balance the budget to reduce expenditures to \$5.5M but the YTD expenditure actual reductions are \$4.7M.

Hotel Occupancy Tax (HOT) Fund:

Total projected shortfall is \$975K

HOT Tax collections

- Year to Date: 45% of budget
- Last Year YTD: 70% of budget

YTD expenditure reduction is \$700K, Remaining covered by HOT fund balance and the reserves.

Enterprise Funds:

Total projected shortfall is \$400K

Revenue reduction due to no disconnect fees & late fees. Offset by expenditure reductions

Ms. Neel stated the sales tax revenue forecast is as follows:

FY19: Up 3.9% which exceeded budget amount

FY20 revised is 10% Year-To-Date (YTD) collections are 78% of budget.

Internet sales YTD exceed annual budget 25%+.

For the remainder of the FY:

- Outlet Malls sales tax, we will assume only 60% of collections
- Base sales tax, we will assume only 80% of collections

FY21: a decrease of 6.5% with a continued anticipation of Covid impacts on employment, tourism & disposable income

FY22-23: a decrease of 19% due to the 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.

Ms. Neel stated in FY19, 46% of general fund revenue was made from the sales tax and in FY22 the decline and loss of revenue will mean that sales tax will only contribute 34% to the general fund.

The Expenditure Base Assumptions include:

Personnel:

- Civil service Meet & Confer are funded
- Non civil service 4% merit/COLA
- Texas Municipal Retirement System, 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 from part time**
- **Contract increases amount is offset by 5% with a net decrease of \$500,000**

Special Services:

- **EMS contract & service expansion | \$1.6M total**
- **City Utilities | \$1.5M total (to increase every year by 3%)**
- **TIRZ 2: Blanco Vista refinanced | decrease of \$1.2M**
- **TIRZ 5: Downtown reduced to 25% | decrease of \$900K**
- **Social Services/Museums | \$900K total**

FY22 & FY23 Assumptions:

- **Transfer from General Fund to Support Transit | \$1.5M total**
- **Animal Services Live Outcome Initiative combination of personnel for FY22 \$590K, FY23 \$75K additional funding**
- **Economic Incentives | decrease of \$6M**
- **No increase to employee headcount**

Ms. Neel stated that as we continue to increase in population there is an increased demand for city services. The services can't grow and accommodate the greater demand without employees that can carry out the services.

Ms. Neel outlined the General Fund Five Year Outlook (FY19-23) and different scenarios on changing the property tax rate and in each scenario there is a need to balance the budget and all revenue needed to be included.

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Scenario A: Tax Rate @ current tax rate

Ms. Neel stated the total revenue at the current tax rate, this year appraised value for all property increased by 8%, the increased amount of revenue for property in tax, compare to last year is going to increase by 8% without changing the tax rate due to increase value on the appraisals.

FY22-FY23 no increase to appraised value

Ms. Neel stated it is hard to predict due to the Covid pandemic as there are no historical trends to review.

Scenario B: Change in Tax Rate @ 7% growth**FY21 Impact:****Budget Impact: decrease of \$333K****Citizen Impact: \$5.50 less per month (Citizen impact based on \$100K home value) on a \$200K home the amount will be \$11.00 per month. This does not include new construction. If we lower the tax rate we would need to reduce the general fund and budget by \$300K.****Scenario C: Change in Tax Rate @ 5% growth. Assume tax base growth of 8%.****FY21 Impact:****Budget Impact to general fund is a reduction of \$1M****Citizen Impact is a reduction of \$16.87 per month for a \$100K value home
FY22-23 requires a reduction of expenditures over \$2M to keep a 20% fund balance.****What does \$1.5 million in City Services provide? Per year, it is 67 percent to operate one fire station, or 79% of the library, or 36% of the parks department.**

During the May workshop Ms. Neel stated there was a proposed street maintenance fee for residents and commercial rates charged through utility bills. The consensus was not to charge for residential. Ms. Neel stated there is a current Commercial Waste Hauler Permit ordinance that was adopted in 2003. Ms. Neel mentioned the Streets FY20 Budget is \$3.4M, personnel is \$1.4M, operating is \$2M. Current commercial waste permit for the application fee is \$100, the street usage fee is 5% gross sales receipts and in FY19 the revenue was \$425K. Staff recommendation is to increase fee to 10% gross sales and amending by including additional ordinance language to allow for recovery of costs for specific damage to City streets in lieu of tax dollars. Ms. Neel stated that additional revenue of \$425K, would bring the total revenue up to \$850K and recover 42% of operating costs.

Ms. Neel stated there needs to be a reduction to balance the budget to achieve the 20% fund balance. In order to reduce the property tax rate or not achieve the revenue with the assumptions, there will need to be considerations of service level reductions. The considerations are in order by holding vacancies and was first as a proactive approach in reducing expenditures as a response to Covid. Further considerations include reduction of public facility service hours, early retirement, staff furloughs, salary reductions and layoffs. The expenditures are 57% of the general fund and it is one of the larger items that

are directly related and impacts personnel cost.

Hotel Occupancy Tax (HOT) Update:

The comparison below of FY19 due to a stable year.

FY20 Revenue: Projected is 57% less than FY19, or \$957K less than budget

FY20 Expenditures: Reduced 700K with use of fund balance

FY21 Revenue: Assumes 30% less than FY19

FY21 Expenditures: Reduced all programs and operating, council approved use of \$200K of reserves to fund arts programs

FY20 FY23 No assumption of additional General Fund transfers to balance budget

Staff provided the budget timeline and next steps which include the following:

Record vote on tax rate on August 4th

Proposed Budget and Utility Rate Recommendation to be held on August 13th

Public Hearing and 1st reading to be held on Sept. 1st

2nd reading & Budget adoption to be held on Sept. 15th

Ms. Reyes spoke of the results of the Comptroller's ruling on FY22 and FY23, along with Senate Bill (SB) 2 and property tax appraisals and how we need to project these into the revenues.

Ms. Reyes spoke briefly of the anticipated FY22-23 of the Comptroller's ruling, Senate Bill (SB) 2 and property tax appraisals and how these need to be projected into the revenues.

Council Member Derrick inquired about which areas we are short on staff. Mr. Lumbreras stated that whatever the deficit is and what direction we go in terms of lowering the tax rate, we will proceed with a methodical and sequential process which may include service level reductions. Mr. Lumbreras stated we are not going straight to layoffs but will work through the list.

Council Member Derrick noted that if we do not stay with our current tax rate, we will be in serious trouble. Ms. Neel noted that, in addition, we must be ready for the impacts of SB 2 which is reduced rate in the future.

Mayor Hughson noted that when Service Level Reductions were mentioned at a previous meeting, she thought it would be specific programs, not reduction in staff. Mr. Lumbreras noted there are a number of choices to be made, but the first is the tax rate set by Council. He will then work through the numbers.

Council Member Baker expressed his concerns regarding the large staff request for personnel of \$7.4M and the cost of salaries. Also, concerning to him was the high paid salaries in the City and he doesn't believe staff should make over \$100K a year. Mr. Baker mentioned a 2018 pay range report that have staff salaries at \$100K and asked if it we can reduce pay ranges. Mr. Baker stated that it is disconcerting that cost reductions in operations/services are being made while staff is making over \$100K a year.

Mr. Lumbreras stated that salaries are set based on market studies, we have a number of positions in high demand. Mr. Lumbreras stated that we can't compete with private sector. Mr. Lumbreras stated that market analysis is done and we are not on top but try to be competitive. It is difficult as a smaller municipality with the high demand of experienced planners, line workers, engineering staff and fire/police. Mr. Lumbreras mentioned the request is not coming in with high salaries. These are market driven and competitive to address the key areas. We are not one of the highest paying communities in the area. Mayor Hughson stated that a lot of the positions are very specialized.

Mayor Hughson asked the council if they want to consider salary reductions.

Council Member Gonzales suggested a temporary salary reduction for those that are making over \$100K for one to two years during these difficult times.

Council Member Mihalkanin inquired about construction projects, and stated that if we reduced salaries by 10% for staff making more than \$100K we will be surprised by what savings we didn't get from that. We have multi-million-dollar construction projects. He supports the continuation of the Blanco Garden and Victory Garden projects and everything we have already started that is for drainage and stormwater for maintenance and against flooding. He mentioned that funding for construction often comes from state and federal funding and calendar deadlines need to be met. If not, the City would have to pay it back. Dr. Mihalkanin asked to see a list of what is in the pipeline what we perhaps can't do in the next fiscal year. Where can we get budget savings by moving projects back or slowing down a project of each fiscal year. Mayor Hughson reminded all that we have already done one pass on the CIP using this concept. Our next list is to include a "lean" version. Mr. Lumbreras noted that is the plan and council will see a list about which we can make decisions. Council consensus is to review the CIP list again.

Ms. Neel stated that the commercial waste hauler permit was not discussed in May workshop but is an alternative. The ordinance is outdated and we can

review and bring current rate standards. Ms. Neel stated that many cities charge fees to recover street maintenance but not charge in this manner. Ms. Neel stated there was discussion in the work session to have a fee through the utility bill and those fees charged cost recovery. Mayor Hughson stated she would like for more trucking companies that are causing a lot of wear on our roads to pay instead of doubling it for the few companies who have been paying. Ms. Kirwin, Community Enhancement Initiatives Manager, stated the application fee is \$100 and it's for solid waste and not revenue generated by new construction. Mr. Lumbreras stated that part of the dilemma is how to enforce the program. There are various trucks for different businesses driving through the streets and not sure of an effective way to administer the fee but staff can do more research. This alternative was a quicker way to present to Council. Mr. Lumbreras stated that there were challenges in terms to administering and operations.

Council Member Baker suggested to remove the word “waste” and make the program just on “Commercial Hauler Permit”, which would expand the program to many more trucks. Dr. Mihalkanin agreed because many of these large trucks are destroying some of our curbs and streets. Council agreed that that we should look at this program and enforcement. Mayor Hughson noted that we know about construction projects and they know, from bids for work, how many trucks with what materials will be needed for the project. Council consensus is to see what programs other cities may have. Mr. Lumbreras will see what can be done. Ms. Derrick noted delivery trucks to bars and convenience stores. As for the Waste Haulers, council consensus is that small increases over several years may be in order, but not doubling the fee.

Council provided direction on the following items:

Tax Rate for FY21: to proceed with Scenario B - tax rate @ 7% growth.

Commercial Waste Hauler Permit: Council consensus is to proceed with a gradual fee increases. Council also gave direction for staff to research construction haulers on how many trucks will be used to build a project. In addition, we can look at beer trucks and other local delivery trucks that are here every day. Council is also interested on how it will be enforced.

Mayor Hughson stated that staff salaries will be left to City Manager's decision and he will find a balanced budget.

Laurie Moyer, Director of Engineering provided the presentation on

Stormwater utility rate model & base assumptions, review of fiscal year (FY) 2021 rate and impacts and discussion on rate increases beyond FY 2021 through CIP constraints.

Ms. Moyer stated that the Capital Improvement Project (CIP) doesn't affect the current year's budget but it will affect the following year's budget when the first debt payment begins. Ms. Moyer mentioned that Council approved back in March a \$3.5M reduction in the amount of CIP projects. That was a one-third reduction. That debt payment has been reduced by one third of funding CIP list provided in May had the unconstraint general fund at \$6.2M and also included the Covid CIP which was reduce in FY21 as a recommendation by 30%. Ms. Moyer stated that at the next budget workshop, staff will bring back any ideas that we can pursue to control construction projects.

Ms. Moyer stated that the stormwater rate model doesn't impact FY21 but will in the future and will discuss how to reduce the impacts. Ms. Moyer stated that rate model projects with financial performance including revenue projections, cost of service and expense, which also assists with different scenarios in funding future expenses and what rates are needed to support those numbers.

Ms. Moyer mentioned the rate model will have a new rate structure for FY 2021 using impervious cover instead of lot size. The billing changes in ordinance includes billing the land owner, on commercial property. There was no FY20 rate increase which creates a greater revenue needs for FY21.

Ms. Moyer stated the Base Modeling Assumptions:

- Includes increase to operations and maintenance (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 & Electric)**
 - 1.20 debt service coverage ratio (W/WW & Electric)**
 - FY21 CIP reduced by \$4.0 Million with use of existing funds for projects that were delayed or completed with money available.**

**Ms. Moyer stated the FY21 Rate Increase by previous Council direction:
5 years of 15% increases to respond to citizen concerns.**

Done in FY18 & FY19, there are 3 years remaining

There was not an increase in FY20 because of the process of restructuring the utility.

Times have changed so we are reviewing this tonight.

- With no impact for FY20 and to achieve a 25% fund balance that would be a 12% increase in FY21 required to achieve financial policy goals.
- FY21 CIP does not impact FY21 utility rate, but will in the following years.

Ms. Moyer provided examples of non-residential bill increases of 12% rate increase impacts

Examples of averages for 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)

Ms. Moyer stated that our strong approach to addressing stormwater quality is the primary driver of Stormwater utility rates. FY21 CIP has no impact to FY21 Stormwater Utility rate but will impact the FY22 rate.

- Four scenarios were developed to illustrate CIP and rate requirement connection.
- Need guidance from Council for revision to FY21 CIP and development of future CIPs.

Ms. Moyer mentioned the priority projects that have existing participation agreements in place or expectations by citizens for implementation in FY21 priority projects (stormwater only):

- IH 35 Stormwater Oversize (Sunset Acres) at \$5.3M
- Academy/Sessom Improvement at \$1.5M
- Hills of Hays at \$3M

In FY22 priority projects (stormwater only) are

- Wallace Addition Offsite at \$4.5M
 - Sunset Acres at \$4M
- Castle Forrest Channel at \$1.5M

Ms. Moyer stated that staff is pursuing other funding avenues and have applied for Water Development Board funding for multiple projects to help balance the funding request.

Ms. Moyer presented the four options:

Option #1 Minimum FY21 CIP increase of 3%

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

<u>Option</u>	<u>FY21 CIP Amount</u>	<u>FY22 CIP Amount</u>	<u>FY23 CIP Amount</u>	<u>FY21 Rate Increase</u>	<u>FY22 Rate Increase</u>	<u>FY23 Rate Increase</u>	<u>FY24 Rate Increase</u>
<u>1</u>	<u>\$2,000,000</u>	<u>\$6,000,000</u>	<u>\$6,000,000</u>	<u>12%</u>	<u>3%</u>	<u>3%</u>	<u>3%</u>

- 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 increase of 5%

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

<u>Option</u>	<u>FY21 CIP Amount</u>	<u>FY22 CIP Amount</u>	<u>FY23 CIP Amount</u>	<u>FY21 Rate Increase</u>	<u>FY22 Rate Increase</u>	<u>FY23 Rate Increase</u>	<u>FY24 Rate Increase</u>
2	\$6,000,000	\$6,000,000	\$6,000,000	12%	5%	5%	5%

- 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 increase of 7%

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

<u>Option</u>	<u>FY21 CIP Amount</u>	<u>FY22 CIP Amount</u>	<u>FY23 CIP Amount</u>	<u>FY21 Rate Increase</u>	<u>FY22 Rate Increase</u>	<u>FY23 Rate Increase</u>	<u>FY24 Rate Increase</u>
3	\$6,000,000	\$10,000,000	\$6,000,000	12%	7%	7%	7%

- Advantage - maintains FY21 & 22 priority projects
- Disadvantage - increases to higher future annual rates (4% higher than Option 1)

Option #4 Minimum rate increase with FY21 Priority Projects increase of 6.5%

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

<u>Option</u>	<u>FY21 CIP Amount</u>	<u>FY22 CIP Amount</u>	<u>FY23 CIP Amount</u>	<u>FY21 Rate Increase</u>	<u>FY22 Rate Increase</u>	<u>FY23 Rate Increase</u>	<u>FY24 Rate Increase</u>
4	\$6,000,000	\$6,000,000	\$6,000,000	6.5%	6.5%	5%	5%

- Advantages - Lower increase and maintains FY21 priority projects
- Disadvantages - Below Fund Balance goal in FY21 (20%) but reaches 25% in FY22, Delays FY22 Priority Projects by one year

Council Member Gonzales asked what is the difference between options #2 and #4. Ms. Moyer stated the difference is allowing the fund balance to go to 20% instead of keeping it at 25%.

Council Member Rockey Moore asked about option 4 and money not coming out of the fund? Ms. Moyer stated the city's financial policy covers the general, electric utility, water/wastewater fund and doesn't cover the stormwater utility. If we go below 25% of the financial policy goal of the utility then option 4 will allow 6.5% increase and will not be building up the fund balance as quickly.

Council Member Derrick asked about option 4, will FY21 priority projects will be pushed back a year or all back a year. Ms. Moyer stated that it will push one back a year, staff have submitted Castle Forest for water development board funding and if nothing comes through, we can fund 2 projects under the \$6M and one will go into FY23.

Council provided direction to move forward with option #4.

III. Adjournment.

Mayor Hughson adjourned the Budget Workshop of the City Council on June 30, 2020 at 8:12 p.m.

Tammy K. Cook, Interim City Clerk

Jane Hughson, Mayor