

All Up In Your Budget – Episode 1
Jay Socol, Mary Ellen Leonard
7/31/20

Jay Socol:

Hey everybody, Jay Socol here. Welcome back to All Up In Your Business. We have taken several months off due to the pandemic but we are back at it, this time with a special miniseries. It's going to be four episodes that focus on the City's proposed budget for fiscal year 2021, so you might call it All Up In Your Budget; at least, that's what we're going to call it. So, the idea is to take a 330-page budget document that looks something like this [holds up budget book], right? And explain the big ideas in it, the changes caused by COVID-19, how sustainable we think those are and what it means to our residents. So, this is a budget like no other and we want to make sure that College Station residents and taxpayers understand what's in it, what's not in it and why.

So, the best person to do that is College Station's Director of Fiscal Services, Mary Ellen Leonard, who has led the assembly and presentation of this document. She has macro and micro views of what's in this budget document. And she's accustomed to explaining things in terms that eventually even I can understand, so that is the goal. If I can understand it, so can the rest of you. So in this first episode, Mary Ellen, I thought it might be best to set the stage with an overview of what this budget is all about. And the economic conditions that COVID-19 has even created for the City of College Station, so help break it down for us.

Mary Ellen Leonard:

Oh, well that's a big ask right there, Jay. So, as far as where we're at, we took an approach to this budget that we needed to create something that is dynamic, that is proactive and that is strategic for the city. As we all had to go through the COVID-19 pandemic, since, what, March of 2020? We've had to all adjust at our thinking, we've had to adjust the way we do business all across the community and the City is no exception. So, as far as what this budget looks like, we started actually developing this budget in FY20 when the pandemic hit. We looked at what's going to happen for the remainder of FY20, and what do...we need to do...to make sure that we're not in a reactionary phase.

And in this budget document where that's reflected is in a column in all of the pages that have the detail and way too many numbers that's called the year end estimate. And in that year end estimate, we attempted to project where are we at with our sales tax? Where are we going to be with our other types of revenue like court and the permit revenue? And how much of a loss is the City itself going to suffer? And then what do we need to do to stave off that loss as strategically as possible? And so, we had developed some mitigation strategies that allowed the City to reduce their budget and make it to where we could sustain those losses and still provide the same level of services that we had planned for FY20.

So, that was the beginning point is can we get ourselves back to square one even though we were facing the pandemic? And we feel like we've achieved that and it seems to be panning out for FY20. So, then we looked at FY21 and tried to predict the future. And in predicting that future, we again looked at

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what's our sales tax going to do? What is the property valuations going to do? And then how are we going to have to adjust to any continued further revenue reductions that we felt like as a city we would need to endure?

Jay Socol:

So, what were some of those uh-oh moments for you along this pathway? You knew that there was trouble coming, but were there certain markers like, "Oh boy, kids aren't coming back. Oh boy, here it goes...and now we're shutting down businesses, oh no." I mean, because you were looking at and watching for markers and then trying to get... And then you were having to patiently wait on data to tell you just how bad some of those markers were. What were some of those?

Mary Ellen Leon...:

So, actually one of the first things that we did it was before the City shut down with the pandemic is that was the first uh-oh moment for us. That we're looking at the numbers was, "Uh-oh, this is going to impact the community and on a rather large scale and we need someone to help us analyze what that impact might be." And our most volatile source of revenue is that sales tax. So even before, we use March 16th as the pandemic date, and even before that happened we had contacted our sales tax vendor who does some data analytics. And we asked them for some data analytics related to if the governor would enact a shutdown and that shutdown came, I think it March 18th. And so, we had a three-to-five-day head-start where we had somebody working on getting sales tax data for us.

So, we received from this analytics firm some data related to where would we be in a three-case scenario. A best-case scenario, what they called a probable case scenario, and then a worst-case scenario related to the shutdown and how long we would be in that shutdown. And how they did that was they actually contacted our top 100 vendors and asked them right after the shutdown, were they impacted? What did they anticipate seeing? Were they declared an essential business? And what the community then felt like from a business perspective the sales would be? And we used that model then to project out our initial FY20 impact with those three versions and thankfully our top 10 vendors, all but one of them, were still open. So, that was the first uh-oh moment was the rumors of the shutdown and then we reacted. Well, we tried to be proactive prior to that shutdown.

I think the next uh-oh moment was, "Yeah, this is a lot longer than two weeks." And when it became, "Yeah, this is a lot longer than two weeks," and we still, from a city perspective, still had to conduct business and does everybody...can everybody even work remotely? And what does that look like? And what do our revenues look like from a remote standpoint? It became a little bit of a longer, larger picture related to what that sales tax would be. And then when A&M – obviously, they're such a big player in town I mean, what they decide impacts everyone, and their decision related to having no new student conferences all

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summer and no summer camps, then that impact for us from a city perspective basically is an all summer-long impact.

The last uh-oh moment has to do with the students coming back and the football season. Those are two primary drivers of sales tax and the economy in this community and what does that look like? And until yesterday, there wasn't any information related to what was going to happen and what was football even going to look like. So, we developed the budget with those three scenarios as far as, what's a best-case scenario? Meaning everything's closer to back to normal. A probable scenario that some kids will come back, some won't, we'll have some football, we won't have some and then a worst-case scenario of we're still in this pandemic pseudo-shutdown, no football, not a lot of students and what would that look like for the City?

Jay Socol: So, everything works together. Everything that's happening now will in some way influence what we're able to do in the future. But for you upstairs with all the fiscal and budget folks, what has been easy to do? And what has been more difficult or impossible to do? Was throwing on the brakes for FY20 relatively easy to do? And to downshift the city organization to a very different gear? Or is somehow that a lot more difficult than it sounds knowing that they're trying to read the tea leaves for FY21 -- is also very difficult?

Mary Ellen Leonard: Well, it was a lot more bumpy than it sounds unfortunately. And I think that has to do a lot with what everybody is struggling with is your way of operating is different. I couldn't walk down the hall and get an answer related to more detail from one of the analysts because they were scattered to the winds. And I couldn't walk down the hall and talk to the city manager's office about strategy options because they were scattered to the wind. So, just that communication between everybody made developing anything and getting anything coordinated I think that much more challenging. But I think everybody also rose to that challenge or we wouldn't have had a document and we wouldn't have something that is strategic and proactive to head into FY21. So, I think everybody realized the importance of doing what we needed to do, but it was a lot harder than it might sound.

Jay Socol: So, I think we're going to talk about this more as we go through these little miniseries episodes. But I think one of the keywords that I've heard you use over and over about what this budget represents is flexibility. And so, before we do deep dives into revenues and expenses and things like that in future episodes, talk about what you mean by this budget -- this proposed budget -- containing flexibility.

Mary Ellen Leonard: So to me, the flexibility means... a budget is just a plan. So, it's what we think we can achieve moving forward. And the first thing that we did was we planned for the worst-case scenario. We developed this budget assuming or trying to assume that there would be no football season. And the fall sales tax revenue,

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which is significant for the City, just wouldn't materialize. And then we developed strategies to say, "Okay, if that worst-case scenario truly happens, how are we going to make sure that we can provide as much as we possibly can? And that was where we have this thing called a budget congress where all of the departmental leadership, the directors of each of the departments met and they provided input from their particular department about things.

If in the worst-case scenario they felt like they could continue hanging on for this year. So that we could contribute to the community the service level or not impact the service level for at least this year and wait and see. And so, that's what the flexibility is, is planning for the worst, hoping for the best and having strategies to be able to mitigate what that worst case might be. And then we also brainstormed what other strategies are out there that if our worst-case scenario is, if there's something worse than what we currently think is worse, are we going to be able to sustain that? And so, we still have other things that we've thought about that we know we can do, we just didn't build them into the budget because I don't think anybody wants to predict we're in this situation for five years.

Jay Socol: So, I wanted to talk a little bit about the theme of this budget, which again if I hold up this giant document [holds up budget book], right? Is we're in this together. Which is both inspirational and factual. Talk about that a little bit and if there's an opportunity to do it, I'll explain even the origins for the way that looks and why it's phrased that way. But in your opinion, we're in this together, what does that mean to you?

Mary Ellen Leonard: So, I think what that means to me is one of the core values of the City is One City, One Team. And there is no way that we would possibly have this budget if every department didn't contribute to the reductions that are included in this budget. Police, fire, public works, electric, water -- they all stepped up to the plate and they all said, "For the good of the team, I can give up this. For the good of the team, I can give up that." And by everybody pulling together, we were able to develop something that means that we're still going to be able to provide the services that most people see all the time because other things that we provide have been sacrificed by everyone here. And to me, that's what it means by being in this together. And as far as how that theme came up, I think your department had a huge hand in that.

Jay Socol: Yeah. In fact, the idea of that chalk art look and the aspirational aspect of it... Shortly after the pandemic started affecting this community and we started shutting things down, my wife, Kara, and I were walking through Brison Park, which is my favorite of all of College Station's parks. It's beautiful. I love that park and there were a number of people out there enjoying it. And there was a group of college kids doing some chalk art on a big piece of concrete and it was a big picture of the earth. And I think the phrase that was used was, "Everything is going to be okay," or something like that. And we can even later edit in a

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photo of that because I took a photo of that. And I felt like at that very moment I really needed to see that and I needed to hear that. And that sounds a little trite, but at an emotional moment early on in this pandemic when we didn't know much about anything or what was going to happen, I needed that.

And so, as you and I started talking about a theme for this particular budget document, that kept standing out. And so, we modified it a little bit but that's really why I think it looks the way it does and it says what it says. And the cuts you're talking about -- again we're going to get into some of that in these future episodes, but the cuts you're talking about all of these departments making police, fire, public works, parks, planning, and so forth, these are not insignificant cuts. There are big dollars and endeavors and stuff and so forth represented by these cuts. And so if we wrap this up, if we wrap up this introductory episode, I'd like for you to characterize it with an elevator pitch of sorts of what this budget represents, what it is. The dollar amount? Maybe the magnitude of a decrease that we're going to be talking about, some big takeaways in terms of rates and all that. Just the information that will set the stage for our future discussions.

Mary Ellen Leonard: So, some of the big items that are in this budget is it's a \$312 million. There is a total of about... hang on one second...

Jay Socol: You're supposed to know all this from heart.

Mary Ellen Leon...: I know and I don't. It's about \$266 million that's in what's called operation maintenance that is police, fire, parks, public works, water, electric, sewer all of that. And then there is another about \$46.7 million that's in capital projects. And every single one of those budgets has been gone through in a detailed manner and decreased. So for police and fire, they have decreases related to overtime and positions that they think, okay, I can live without this position for a year. Parks went through all of their programs and said, "Okay, if we're not having football, we're not doing these fall sports." And they went through program by program and offering by offering to get decreases. The overall decrease of the budget is about 8.3%.

And in everybody pulling together, we were able to not have any rate increases, whether it is in any of our fees, there's no rate increases in any of the utilities at all. There is somewhere around 55 to 60 positions that have been frozen. So, that's where the department directors have said, "For a year, we have people who are willing to step up and do more than one job or multiple people that are going to do more than one job to cover these 55 to 60 positions." That's about \$2.9 million of this budget (reduction). And then on top of that, there were additional expense reductions. There are studies and surveys that need to be conducted for us to be able to move forward with certain projects that have been delayed.

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We've come up with some creative solutions and alternatives to try and help the hotel industry that has been dramatically impacted in this town to come up with alternatives. And we looked at the capital program what things can we move around? Where can we find savings to get things done? So overall, I think the big piece of it is there is a reduction of 8.3% in the total budget. There's a hiring freeze of 55 to 60 positions as well as expense reductions of... it's almost \$5 million, \$5.8 million of total expense and hiring freeze reductions in this budget. There's also a capital reduction of, I think it's about \$25 million that we have looked at the capital budget and moved things around, reduced, delayed or used savings, or come up with some alternatives for. And I don't think people are done with that yet.

Jay Socol:

Okay. So, that's a pretty good place to stop and end episode one here. So, we hope it's been helpful in terms of explaining the conditions that have led to framing up this proposed budget. In episode two, we'll start diving into the revenue scenario a little bit deeper, where dollars come from that allow us to deliver services and what happens if those revenue sources are drastically reduced. So, thanks very much, Mary Ellen, for getting us started with episode one, I'll see you again on episode two. And thank you everyone for listening to All Up In Your Budget.