

## **All Up In Your Budget – Episode 2 (Revenues)**

**Jay Socol, Mary Ellen Leonard**

**7/31/20**

Jay Socol: Hi, everybody. Jay Socol here. Welcome back to All Up In Your Business. This is episode two in a four-part mini-series that we're calling All Up In Your Budget, where we will attempt to explain the proposed FY21 College Station Budget, which we said in episode one is like no other. So, we hope this series of conversations gives everyone a better understanding of how COVID-19 directly affected what is in this proposed budget and what's not in it while giving some additional flexibility as we face who knows what over the coming months.

So in this episode we are talking about revenues, the dollars we bring in from a variety of sources that allow us to deliver services like public safety, and parks, utilities, infrastructure, maintenance and so forth, pay for new projects and more. So, as you can imagine, the pandemic has just gutted some of our primary revenue sources, which means Director of Fiscal Services Mary Ellen Leonard had to pull multiple rabbits out of her hat to allow city staff to continue serving citizens while cutting costs significantly. So, Mary Ellen, why don't we start by explaining where our funding even comes from and how we use it.

Mary Ellen Leonard: So, basically the way I look at the city is we have different checkbooks, and the revenue comes from different places and it has to be kept in those different places by law. The biggest checkbook that we have is for the general fund, and the general fund is where we fund police, fire, parks, public works, the library and things like HR and that type of stuff. The revenue that goes into the general fund is composed of three primary sources. One of those is what's called the ad valorem or property tax. There is a piece of the property tax, not all of it, but a piece of it that goes to fund that general fund.

Sales tax also goes into the general fund. And then the third kind of large component is what's called a utility transfer. And the utility transfer is basically like a shareholder dividend, I like to think of it, which is it's in lieu of a franchise fee and it is because the city owns the utilities. As an owner of those utilities, you get some of the profits off of that utility. So, there's a transfer into the general fund. And those are the three primary sources. There's some minor sources like court fines and fees, and permit fines and fees, and parks and rec services, but those only compose about maybe 20%.

Jay Socol: Now, last year we were talking about a change in the percentage of revenues that we rely upon, or we derive from sales taxes versus property taxes. Traditionally in College Station we have received a greater percentage of our revenues from sales taxes, I believe, than we have property taxes, but that was starting to flip-flop. And what a difference a year makes in terms of the revenues that are coming in and the revenues that are not coming in.

Mary Ellen Leon...: Right. So last year... Sales tax is an unpredictable source of revenue for the city because it's basically based off of people's disposable income and how much they have the ability to spend. Last year, the sales tax made up about 34.5% of the city's general fund sources of revenue. This year, it will only make up about

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31.3% of that general fund source of revenue -- which means a larger percentage is coming from that ad valorem piece of the sales tax.

Jay Socol: So, talk about the implications of substantially lower revenues. We don't know exactly where it'll end up, but substantially lower levels of revenue in sales taxes, how those property tax revenues could come in for us and what the implications are for those things.

Mary Ellen Leonard: So, let's start with the property tax revenue, which is that 37.4%. That's kind of a more stable source, but determining what that amount is, is in part out of the hands of the city. So, the property taxes, how that works is the Brazos County Appraisal District on January 1st, which would have been before COVID, they determine what the value is of your individual residence or a commercial business, or any of the multifamily apartment complexes around the city.

Jay Socol: Wait, I thought *you* did that, Mary Ellen! I thought you did that!

Mary Ellen Leonard: Oh, no, that is way far out of my realm of what I can do.

Jay Socol: No, but the point is, the city doesn't do that.

Mary Ellen Leonard: No, the city does not determine what those valuations are, and they're actually locked in on January 1st. And then everybody gets a notice, and if you want to protest you go to the appraisal district and say, "This value isn't accurate," and plead your case or whatever. I don't even know how that process works. But the point is those values were done on January 1st, which was before COVID-19 was even discussed. So, by the time we actually get what are called certified values or that whole protest process is over, we haven't even gotten them yet.

So, between January and July, that whole protest process is going on, or the notification in protest process is going on. And we don't know what the values are ultimately going to be where we receive part of it as that ad valorem. So, we have kind of had to guess a little bit at, okay, what rate are we going to need to be able to maintain services? And how are we going to do that? That property tax rate, which is the dollar amount per \$100 of valuation that is assessed, is set by the city council. And the proposed budget then is the staff's recommendation to city council about, where do we see under the laws and regulations related to the property tax, where do we think that rate needs to be? And we have proposed in this budget that we don't change the rate. That it's the same rate as it was last year.

Jay Socol: And we're recording this on July 31st. And so, have you gotten enough information yet from the appraisal district to be able to bring into clear focus some of those calculations?

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- Mary Ellen Leonard: Not quite. So they have not given us... They've given us an estimate, but when they gave us the estimate, there was still 1.1, I think it was \$1.1 billion with a B of valuation that was still under review by the appraisal district. So they were still trying to determine what that final value needed to be. And that is about 10% of the value that's taxable in the city. So that's a big enough number that it's kind of rough to determine what it needs to be. As of today, which is July 31st, we still don't have their final numbers. I'm told I should get them by the end of the day today, but it might not be until maybe Wednesday of next week.
- Jay Socol: Yeah. And just to be clear, we're not the only thing on a College Station resident's tax bill, right? I mean, there are other rates that you're paying and we're certainly not the highest one on the tax bill, correct?
- Mary Ellen Leonard: Right. So when that tax bill comes, that tax bill is for the school district, which is the highest rate that's on there, the county and then the city as well.
- Jay Socol: Yeah, okay. So you talked a little bit about property tax and I think you said that represents 37%, right? Of the-
- Mary Ellen Leonard: 37%.
- Jay Socol: And again, is that for the general fund?
- Mary Ellen Leonard: Yes. Just the general fund, which is how we pay for the police and fire, public works, parks.
- Jay Socol: So sales tax revenues represent, I think you said 31%, is that right?
- Mary Ellen Leonard: Yeah, 31%.
- Jay Socol: And we have been doing as much as we can as a city to try to infuse more financial resources, get more money in the hands of our local businesses so they can keep going, they can keep providing their services and goods that our consumers can spend their money on and so forth. We've been trying to do what we can. While we're slowing down our own operations, we've been trying to infuse some funding into our business community to help the sales tax revenues. So talk to me about sales tax revenues and how important it is and what it allows us to do.
- Mary Ellen Leonard: So with about 31%, it's actually... So our police department is about 28% of the general fund. So the sales tax primarily would pay for the police department. And I'm looking to see... the fire department's about 23%. So it's either police or fire that would come primarily from the sales tax. And the sales tax is primarily the... We get a big chunk of our sales tax in the fall related to obviously new students coming into town and major sporting events over at A&M. That

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doesn't mean we don't get sales tax all year, but there are some kind of hefty chunks that come in the fall. And what we anticipated in this budget or tried to anyway was, what if that sales tax does not materialize? What if we don't have football or the students are not allowed to come back or they don't come back for whatever reason, how would that look?

Are we still going to be able to pay for the police and fire service? And in going through multiple scenarios and kind of analyzing with the help of the data analytics firm, where the sales tax might fall out for the fall, we were able to come up with ways that we could offset that revenue loss so that we could still provide those services. As far as the city being able to provide to the community additional help, Debbie Eller's group, which is community services, has actually done a beyond stellar job of taking the money that we normally receive through a federal program called CDBG, and they have very quickly retooled what that... what those funds were allowed to be used for so that they could be utilized in the community to help offset some of the economic strain that some of the businesses were feeling to try and help them through to get to that fall season. So I think Debbie's group is the one that you need to talk to about that in your next podcast.

Jay Socol: Yeah, okay. So let's move on. You mentioned, in addition to property tax revenues, sales tax revenues, that the third, maybe most important piece of revenue comes from utility transfer. So talk more about that.

Mary Ellen Leonard: So, the utility transfer is, like I said, it's kind of a dividend or because it's a utility, they're called franchise fees. So we can transfer from electric, water, wastewater and solid waste, a reasonable amount into the general fund in the form of this transfer that's in a dividend that helps pay for then some of the public services that are provided by the governmental side of the business. The utility transfer is set by policy at 10%. However, we haven't been collecting 10% on water, wastewater, electric, or... water or wastewater and sanitation, and the electric utility we've only been charging 8%. So, one of those strategies that we looked at for on the revenue side was to increase that transfer from the electric utility into the general fund to 9%, not up to 10, but to 9% to kind of offset some of that sales tax loss, if needed.

Jay Socol: That doesn't mean that we've been charging customers a percentage more. It means we're transferring over some additional dollars that would have normally stayed in that electric fund. Is that right?

Mary Ellen Leonard: Exactly. And we're not charging anymore, and we haven't been charging anymore, we're just transferring a little bit more over. It's like if Exxon declared a dividend of 80 cents and then oil prices went up and they declared a dividend of a dollar. So, that's what we're doing is we're looking at what has been in that fund and can we increase it a little bit without charging more on the electric

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side, still provide those services and help out the general fund side as we move through this pandemic.

Jay Socol: So, we talked -- I think it was in episode one -- about the flexibility that's built into this budget. Should we start recovering from this pandemic more quickly than we sort of expect to. And that means the economy opens up more, people are coming back in, both students and tourism fires back up and spending again increases and so forth, and we get more sales tax revenues. We have more revenues to work with. What are we prepared to do with those?

Mary Ellen Leonard: With those additional revenues if they come in?

Jay Socol: Yes.

Mary Ellen Leonard: So, I think before, the first notice that you're going to have that additional revenues are coming in is you're going to hear a lot of noise coming from the second floor of city hall. There are... I don't-

Jay Socol: You guys are going to be like diving through piles of money like Scrooge McDuck -- is that's what's going on?

Mary Ellen Leonard: And I don't know that we'll be piling through like Scrooge McDuck, but yeah, we're going to be at least shouting through the rooftops, because I think nobody wants this budget to be overly conservative more than the folks who have put it together. We want this worst-case scenario to never materialize. So, if that additional sales tax revenue does come in, I think the first thing that we're going to do is we're going to look at, what were the strategic decisions made to reduce services probably related to the head count and say, which departments sacrificed to the point where you've got two or three people that have been now doing multiple jobs. And can we now hire one of those additional people back to alleviate that stress from the internal staff? So, I think that's probably the first thing that would be looked at is to get some relief to those folks that have been pulling multiple duty or significant overtime.

Jay Socol: Yeah. Because I know we've talked about, yes, if things continue to be bad or even get worse in some way, there are some additional steps that we can take as an organization. But we probably, so we don't jinx ourselves, don't talk much about, well, what if things are actually better than we expect? And there are enough revenues to do some extra things with, what would that even look like? So, I appreciate you talking about that,

Mary Ellen Leonard: We may end up just having a tailgate party in the back of city hall for everybody to start on my dime.

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Jay Socol:

Wouldn't that be nice? So, we will be talking in this next episode more about the actual cuts that have been made to put together this proposed budget for FY21. Because they are significant and they are across the board. And they aren't departments that have been strong-armed into this. This has truly been a collaborative effort with department heads stepping up to say, here's what we can do with that. So we're going to talk more about that. So, let's stop there for episode two. This was a really good primer on city revenues.

In episode three, we're going to talk about how we typically spend those dollars and how different spending... We'll look at FYI 21. How flexibility again, has been built in to allow us to roll with whatever the pandemic or mother nature decides to throw at us. So, Mary Ellen, thank you again for helping out in episode two, I'll see you in episode three. And everybody, thank you for listening or watching All Up In Your Budget.