

All Up In Your Budget – Episode 4 (capital projects)

Jay Socol, Mary Ellen Leonard

7/31/20

Jay Socol: Hi, everybody, Jay Socol here and welcome back to All Up In Your Business. This is episode four, our exciting, dramatic final episode in our mini-series that we're actually calling All Up In Your Budget. So we've been explaining the proposed FY21 budget for the City of College Station, the circumstances leading to it, how the revenues have been impacted and what we think that means for our ability to even provide services in the future. And how we've cut millions of dollars in spending in order to weather the storm while continuing to do business.

Our last episode will address capital projects. These are the big things that we believe can move forward, the big things that we believe can wait, and then how College Station citizens can have a voice in their FY21 budget as we move toward its adoption. So, Fiscal Services Director Mary Ellen Leonard is still here. Thank goodness she hasn't left me.

I think a good place to start, Mary Ellen, is to explain sort of what constitutes a capital project -- how a good number of city departments are even involved with these things. It's not like it's just one department or two departments so, explain to us how capital projects work.

Mary Ellen Leonard: Okay. So capital projects are the big construction projects that you see for infrastructure throughout the city. And multiple times it requires coordination between what I call some of the big seven departments -- well, five of the big seven departments. Public works, which is streets and street maintenance, and then electric and water and wastewater, drainage, parks. If there is a big capital project, they all have to be coordinated. And there, there is a department in general government called the CIP department that oversees the construction of the majority of those particular projects.

So what happens is we have a portion of the ad valorem (property) tax that is restricted to pay for the debt for streets, parks, and governmental facilities and technology. So those types of projects get kind of funded with that piece. And then the utility departments, if they have a capital project for like electric or we need a new water tower or a new sewer plant that, comes out of the rates that are paid for: electric, water and wastewater that are on your utility bill monthly.

So if the department director sees a need or is made aware of a need from a citizen, that capital project is designed and then constructed provided that funding in one of those two pots is available for them to move forward. So the capital projects budget is different from kind of the O&M (operations and maintenance) budget, which is a lot of salary and benefits and ongoing expenses. These are big-time, one-shot construction projects for infrastructure to keep the city moving.

Jay Socol: I'm sorry. All I got out of that was that public communications is not one of the big seven. I didn't really hear-

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- Mary Ellen Leonard: Neither is finance.
- Jay Socol: I didn't hear anything else that you said. I'm so sorry. But we have a schedule for capital projects that goes out how many years?
- Mary Ellen Leonard: So it's 10 years. Any time a capital project is proposed, we have to look at, can we get it on the schedule? What year can we get it on the schedule? And can we typically finance it within our existing utility rates or within our existing debt service side of the tax rate? That's the first goal, is when can we get it on the schedule and does it fit within our existing structure? And we look out for 10 years.
- Jay Socol: So the capital projects budget in these departments have been for the most part dramatically reduced for FY21. Can you talk about where some of those decreases are and maybe where we might even actually see an increase in that proposed capital projects budget?
- Mary Ellen Leonard: So, primarily what we did is since we do this 10-year outlook, last year, we looked at kind of where we thought our capital projects would be in FY21. And for this year, knowing that we have the pandemic to have to deal with and we also have gotten savings from some of these projects. And some of these projects just flat out have gotten delayed. We kind of reshuffled the deck, reallocated where the projects would be and we ended up coming up with about a \$24.7 million decrease in the capital projects budget from where we thought we were going to be to what is actually in the proposed budget this year.
- And where some of that came in, a lot of it came in, is in the streets area. So there has been some significant savings on streets projects, as well as there's been some delays. We have a number of projects that because we have this railroad that runs straight through town, we have to get permission from the railroad to be able to do some street projects. And some of our street projects have been delayed because we haven't heard back from the railroad yet.
- Jay Socol: Who had the bright idea to build train tracks right through the middle of College Station?
- Mary Ellen Leonard: I have no idea.
- Jay Socol: That was an actual tweet that came to us from one of our students who we love so much is, whose bright-
- Mary Ellen Leonard: Oh really?

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Jay Socol: Yes. Whose bright idea was it to build railroad tracks through the middle of a city and university? You can't explain enough in 280 characters in a reply. So anyway, that's off point. But, so talk about some of the things that we are going to be able to do from a capital project standpoint, we believe in FY21.

And if you can, whether you have the list in front of you or just from memory. And some of the things that we are saying we're not going to do that right now, we're either going to push that out a few years or do something different.

Mary Ellen Leonard: So from the streets perspective, so again, we'll break this down into kind of the governmental projects, which is streets, parks, and facilities and technology. And from a streets perspective, there are major projects that we're still going to continue to work on because they've been on the schedule. In some cases, we've already issued the debt and we're able to continue to move forward. So why wouldn't we? These would be things like the Rock Prairie Road, State Highway 6 to Bird Pond expansion. The Luther Street Rehab, the Lincoln Avenue Rehabilitation.

And then there is Greens Prairie to Arrington all the way out to the city limits. There's an expansion of the Greens Prairie Road out that way that we're going to continue to do. We also have from a parks perspective, we have a minimal amount of park projects from the parks perspective. Their projects tend to be a little bit shorter in nature. So we may be able to get them done in an 18-month span. So we don't typically, while we need to help finance some of those projects, they don't typically span years and years like some of the major roadways might take for us to be able to do.

They are expected to complete this year the Central Park pavilion and restrooms, and some athletic field restrooms out at Central Park as well. There's Bee Creek. There's some more restrooms we're working on out there as well as a concession stand. And the biggest thing that I think is going to be impacted has to do with the sports kind of venues that College Station is known for. There was a final phase of Veterans Park that was going to be funded from the hotel tax that, because of the decrease in the hotel tax, the redirection of where the priorities for the city are, which is to bring those tourists back.

The staff recommendation is that we not proceed with the final phase of Veterans Park, but rather we utilize that money to bring tourism here in other manners. And the Texas Independence Ballpark, which is the kind of baseball tourism type attraction, that design work is going on right now in FY20. And we're going to finish that design. We normally like to start construction right after the design is done, but in this case, because of the flexibility we're building into this budget, we've planned to delay that construction for a year so that we know that we're recovering on the hotel tax side before we start that construction.

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From a facility in technology, governmental facility and technology standpoint, there's minimal projects that are technology-related. So there's some more fiber optics and some cybersecurity type projects that are included in there. But the biggest project that the citizens will continue to see is the construction of the new city hall. And that construction is going to continue because all of the funding has already been made available. So we have all of the money to continue that construction and to complete that project. And so we're going to move forward with completing that project.

Jay Socol: And I think a nice side story to the construction projects, the big capital projects that are moving forward, is we're able to inject some money into the construction industry here in our community.

Mary Ellen Leonard: I think that's exactly what things like the city hall are doing is it's a big, major construction project that we already had all of the funding for. And so it makes sense to continue that and to continue employment of people working on that project.

Jay Socol: Yeah. Anything else that comes to mind in terms of capital projects that we think have made it in or some capital projects that we're going to pump the brakes on?

Mary Ellen Leonard: Well, that's just the general fund side of it. So most of the capital projects that we're pumping the brakes on relate to parks projects that we're not going to move forward with as well as some street projects that have been delayed. We haven't added new projects to the listing, but they've been delayed for one reason or another. From a utility standpoint, the electric utilities got some substation work that they've been working on, and they're going to continue to work on that substation so that the growth on the south side of town can continue.

Their other big project has to do with the AMI project or advanced metering infrastructure, which is some technology-related meters that will help kind of speed up some of the service-related to electric, turning off and on and moving. We have a big transient population. So when we have to move who is at what meter, it'll help with that type of upper part of the operations.

The water and wastewater also have really big projects. One of which is a water tower. So citizens are going to see a water tower being constructed. I think it's off Rock Prairie Road. And then the Lick Creek Wastewater Treatment Plant expansion we've been talking about for years. I think it's a \$39 million project that we started several years ago that when COVID-19 hit, we're halfway through that project. It's not something you should really stop. So we're continuing to complete that treatment plant expansion, which will allow additional development on the south side of town in the future.

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Jay Socol: Okay. Anything else about capital that you want to mention before we transition to tourism?

Mary Ellen Leonard: Yeah. Actually, the biggest piece that I think people get kind of confused about is that funding piece that I mentioned earlier. And the utility funding, which is a good chunk of what our bond offerings are, are funded from the utility rates. So whether you were a property owner and paying ad valorem taxes, or if you are renting and paying utilities, we use that utility money part of it to pay for these large capital projects.

So the students that are in that are paying for utilities are actually contributing towards the water tower, the treatment plant expansion and the electric utility substation and advanced metering infrastructure. The ad valorem tax from the property owners is what goes for the streets and things like the facilities and the parks expansions. And that is we do our level best to hold that steady. Because we want to make sure that we're getting the biggest bang for our buck.

And the budget will propose a certain amount for the debt that we're going to issue to fund both sets of those projects. But before we actually bring that to council, we go back through all these projects, look for additional savings, see if we can refinance any of our existing debt, lower the interest rate. See if any of these projects have been delayed and we don't need to issue that debt right now. And then we bring it to council. And that's about a six-month time period from when the proposed budget is developed to when we bring something back to council saying, "We think it's going to be X dollar amount."

And last year, we were able to bring in when we brought that back, we had significant savings. We re-juggled some of the debt that had already been issued. We refinanced debt and our refinance rate because the city is considered a good investment and stable. We got under 1% for our refinancing. And our new debt that was issued was at 1.85%, I believe, which is historically low for the city.

Jay Socol: And it's all because of you.

Mary Ellen Leonard: None of that's because of me. My assistant director is really good at this.

Jay Socol: No, that's a big deal. In fact, I was accompanying one of our council members to a media appearance this morning, and he brought up that very point and what great success that ended up producing and savings to our taxpayers. So, that's a big deal.

Mary Ellen Leonard: So we'll continue to do that. Just because there's a number in the budget book, that doesn't mean we're issuing that debt. We're going to continue to look for

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ways that we can save money before we bring it to council and get their okey-dokey.

Jay Socol: Good point. Okay. So let's transition to the HOT fund, hotel occupancy tax fund, and our new tourism operation that we're bringing in-house. But if you can kind of give us a quick primer on the HOT fund, where those dollars come from and how we use them and how it may look a little bit different this time around.

Mary Ellen Leonard: Yeah. So the HOT fund or the hotel occupancy tax is a tax that is paid in lieu of sales tax. So if we have visitors come to the city and they rent a hotel room, they don't pay sales tax on that hotel room, but they do pay this hotel occupancy tax, which is about 15.7%. Not all of that goes to the city. The portion that goes to the city then goes into a special checkbook that is legally restricted to only be used for certain things.

So with COVID-19 shutdowns, no one traveling, that particular industry has kind of taken it on the chin. And the hotel tax is not coming into the city because the tourists aren't coming into the city. So one of the things that we were able to do, because we had a savings account in that fund, we were able to look at what makes the most sense. And one of the things that we looked at was we were paying Experience Bryan College Station, which was an outside agency that was funded about 77% from College Station and 23% from the city of Bryan.

We were paying this outside agency for a lot of marketing and event attraction work. We are bringing that all in-house next year under our economic development director, who will be kind of overseeing coordination between events that need to come here and the economic developments related to College Station. Because there was so much money going into that entity that was College Station, it just seemed to make more sense to let College Station have more of a direction in what was happening there.

The second thing that we looked at in that fund had to do with set asides or where we had earmarked a certain amount of savings for capital projects, primarily. And we talked about this a little bit earlier, Veterans Park and this Texas Independence Ballpark, which is a baseball, softball specialized venue. And the Veterans Park final phase staff is recommending that we not move forward with that, spending that additional amount of money out at Veterans Park. Just because given where that we need to attract so many more visitors and make sure that things like 7v7 come back, the Games of Texas come back and all of that, it seems to make more sense that we utilize the money to make sure that these entities that bring people here are still capable of bringing people here.

So that is one thing that we're looking at kind of redirecting funds for. The Texas Independence Ballpark, staff is not recommending that those funds be redirected. Just kind of delayed a year so that we can see how this shakes out.

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And we can see football games come back and Ring Days and Parents (Family) Weekend and all the things that fill our hotels. When we know that those can come back, then it'll make sense for us to continue forward with that capital project.

Jay Socol: Yeah. And by the way, when you're referencing Texas Independence Ballpark, if people aren't familiar with what that is, we've used the placeholder name Southeast Park for a long time. But that's what we're talking about is Texas Independence Ballpark at Midtown in College Station's Midtown. So that's what you're describing.

But that eventually is going to be yet another premier venue to draw state level and national level tournaments to our city and fill those hotel rooms and get those folks into our businesses and restaurants and so forth. So it eventually will be the right time to do that. And we'll hopefully reap the rewards from it.

Mary Ellen Leonard: Yeah. I agree with you. If you look at Veterans Park, right? I mean, that is field sports. So football, soccer, those types of sports, but there's not a stick sport. So the baseball, softball, there's not a premier venue to bring major tournaments here to town. And that's exactly what the plan would be for that kind of park.

Jay Socol: Right. And so that's why we are so anxious for the pandemic to be gone so we can reopen things, have events like Texas A&M does, what Texas A&M does so well and have these events that bring tons of people here. Because we really do go from event to event to event. And that's how we fill our hotels and support our businesses.

And it's why it matters so much because that is who we are and what we are. We are event-driven, we're sports-driven, especially, but that's why we are so anxious about getting things somewhere back to normal again so we can do better.

Mary Ellen Leonard: Yeah. I think that the plan related to the HOT tax is, again, a strategic flexible plan for us to be able to address kind of where we're at right now in the pandemic, as well as provide a vision for what the future might be. I think the other piece that's in that hotel tax fund that we haven't really talked about a lot. It has to do with the short-term rentals.

And there was a lot of effort that was put in by staff, even during the pandemic and a lot of effort that was done virtually by Brian Piscacek to get an ordinance and in place to where some of this short-term rental tax actually could be recognized and realized and deposited it into that fund.

Jay Socol: Brian Piscacek is one of our assistants to the city manager, in case you're wondering who is this all-seeing person, Brian Piscacek? He is a Texas Tech grad,

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which we still allowed him in the door. I don't know how we botched that background check, but anyway, at least he's being somewhat productive.

Mary Ellen Leonard: Yeah, exactly. Who knew a Red Raider could do that?

Jay Socol: So before we start wrapping up, is there anything else regarding the HOT funds or tourism or anything that you want to leave folks with?

Mary Ellen Leonard: No, I don't think so. I think that particular fund, there's a lot of restrictions on it. It's taken a big hit, but like the rest of this budget, I think we have a solid strategic plan that moving forward, we're going to be able to be proactive and not reactive. And to me, that's a huge difference. Be able to think through what needs to happen and not just kind of shotgun it.

Jay Socol: Okay. Well, there you go. So I think that wraps up our four-part mini-series on the proposed FY21 budget. Now, we really hope that this has helped explain how we've been able to craft a smaller budget at the same tax rate and utility rates, still deliver services and tackle some big projects, but position ourselves to weather the pandemic, even if it doesn't go away anytime soon.

And by the way, you can view the entire 330-page proposed FY21 budget document on our website. It's at [CSTX.gov/budget](https://www.cstx.gov/budget). Enjoy that. There aren't nearly enough pictures for my liking, but maybe you'll like it. But it is very interesting and revealing on how we plan to do business in the upcoming fiscal year. So, Mary Ellen, thank you so much for joining me on this four-part little mini-series.

Mary Ellen Leonard: You're welcome, Jay. Anytime.

Jay Socol: Alright and thank you for listening or thank you for watching All Up In Your Budget.