

Open Work Session
Discussion of Capital Improvement Program (CIP)
May 19, 2020

Mr. Wayne Strausburg, Director of Administration, came before Council and said he will answer any questions or provide clarification as best as he can on the proposed CIP.

Mr. Holloway said he would like to talk about the Airport. He then asked what is the total in the CIP for the Airport for this year? Mr. Strausburg asked if Mr. Holloway is talking about general fund support, to which Mr. Holloway responded, most of it was bonded. Mr. Cannon said he sees \$5.3 million as pay-go, and \$2.5 million as old money, but he is not quite sure what the old money represents. He said Mr. Taylor had some considerations that a lot of the comments referencing prior appropriations never really came to fruition in regard to last year's CIP, and the new money was never bonded, so what might be considered old money in this CIP never really came to fruition, and that might be a concern.

Mr. Holloway said his comment would be about the \$18 million dollars. He then asked if they should be using any of that money, and can that money be better spent? He said he knows they have other requests for money to be spent. He then asked if they should even consider putting that in a capital fund and replace that with portions of the \$18 million dollars the federal government has given them, to which Mr. Strausburg responded, from a procedural standpoint, this \$18.2 million coming from the federal government will be in the form of a series of reimbursement grants. He said they have access to it over four fiscal years, and, as Mr. Rudy pointed out at the last work session, they anticipate that about \$9.1 million of that money will be used for the operating and maintenance expenses for the Airport itself, and that would leave about \$9 million available for capital projects that the FAA would approve. He said he can spin down the list of what capital projects they believe the FAA will approve - the Piedmont parking lot rehab, new lighted crosswalk \$170,000; the Piedmont headquarter and old terminal roof rehab \$1,436,000; the FAA antenna feasibility study and relocation about \$60,000; taxiway-A completion \$1.8 million; the airfield rescue and fire building \$1,825,000; the maintenance hangar \$3.2 million; the interior of the UAS hanger \$344,000; and auto parking attendant \$150,000. He said those projects would be underwritten, and they believe approved, based on the guidance they have gotten so far from the FAA. He clarified, those projects would be underwritten and reimbursed through the FAA grant funding. He said a significant project that is in the Airport plan is of course the runway extension, and they talked to the FAA about whether or not the runway extension would qualify under the CARES funds, and they were told that it would not, but that is a significant project he believes has to remain in the Airport CIP. Mr. Holloway asked if the runway extension money would be state and federal funds out of the \$18 million, to which Mr. Strausburg responded, yes, that would include County. Mr. Holloway asked if they would leave that in the CIP or take it out, and are other capital funds needed elsewhere in the County, or do they leave it in? He asked, if it gets reimbursed back, it will never come out of the Airport, so they are going to have \$25 million dollars going to the Airport. Mr. Strausburg said, when they get clarity, meaning something in writing from the FAA, then he thinks they will bring that back to Council because in that instance they now have a grant they have to accept and appropriate. He said he thinks that is probably the cleanest way to handle this. He said he thinks they should leave these projects in the CIP, but they may want to indicate in the CIP that the funding is to be determined, and bring the grants before Council as those grants become available to them. He said he thinks that may be

the cleanest way. Mr. Holloway asked if Mr. Strausburg is saying they do not have clarity on this \$18 million yet, which they have heard a lot about, to which Mr. Strausburg responded, they know the \$18.2 million is available to them, but they need written confirmation from the FAA on the capital side as to what projects they will support. He said they have that verbally, but they want that in writing.

Mr. McCain said, given the fact there is the very realistic possibility they are going to be able to get back the Airport funds in some fashion, Mardela is not in the CIP, and he thinks Mardela should be in the CIP, and those funds could be available for Mardela. Mr. Strausburg said the issue with Mardela is not the funding, but it is two issues. He said, first of all, the Executive has not signed off on the scope of the project. He said second is they are committing a significant amount of capital at a time when they do not know where they are going from an economic standpoint, and he would suggest that before they make that commitment they get much better intel on what the fiscal outlook for the State and the County is going to be. Mr. McCain said the CIP is not committing to anything, to which Mr. Strausburg responded, it is in the budget year. Mr. McCain said it is still a plan, and if the funding is not there in that budget year, it is not there in that budget year. He said, for example, when these monies become available, if they do not use \$9 million dollars for the Airport that they have budgeted now because they get it via the \$18 million that is coming, all of a sudden they now have \$9 million they can work with, but if it is not in the plan, they cannot even allocate it to Mardela because it is not in the plan. He said he does not understand the harm of having it in the plan, to which Mr. Strausburg responded, the critical year is the budget year. He said he spoke with Ms. Leisl Ashby, Mr. Jesse Reid, and Micah Stauffer yesterday, and \$2.5 million in the budget year becomes real money. He said, if they proceed on architectural and engineering costs on a plan that the Executive of the County is not going to endorse, that is money that is not well spent. Mr. McCain said his question then becomes what is the plan? He said the school cannot continue to function as it is, so what is the plan, to which Mr. Strausburg responded, he does not know how they embark on significant capital projects at this point in time without knowing what fiscal straits they are going to be facing over the next two to four years. Mr. McCain said he does not want to keep this debate going, but, using that logic, they could use that logic with every item they have in the CIP, to which Mr. Strausburg responded, he does not disagree. He said he thinks he told Council at the last meeting that they placed a hold on any capital project that has not started until they can ascertain where they are going in this County, and in the State fiscally. Mr. McCain said he thinks Mardela should be in the CIP. He said it is a five-year plan, and it is not going away. He said they need a plan.

Mr. Davis said Mr. Strausburg said no new capital funding, so what about the Sheriff's Department, to which Mr. Strausburg responded, that project has started. Mr. Davis asked if they already funded that, to which Mr. Strausburg responded, they have funded about half of it. He said to actually get it built they would have to borrow the money or take it out of reserves, but he would not suggest they do that, so they will have to borrow that money. Mr. Davis asked if Mr. Strausburg knows roughly how much that is going to cost, to which Mr. Strausburg responded, he would have to refresh himself on that.

Mr. Cannon said Council just approved Resolution 32-2020, which authorized Lindsey Rader and Funk and Bolton to represent them in the bond market. He said, if there is no plan, and there seems to be some inconsistency with where they are going in the future based on the County's future budget projections, why did Council just pass Resolution to hire Lindsey Rader and Funk and Bolton, to which Mr. Strausburg responded, because if they are going to go to the market, they are going to have to have

bond counsel. He said Council made it clear that before they can engage bond counsel they need Council's approval, so that is the reason he brought it forward. He said he is just following Council's direction. Mr. Cannon said he appreciates that, but he would assume if the Administration was contacting them there might be some idea of what they need them to do. He said they do have a CIP in place. Mr. Strausburg said the first thing they need them to do is to go through the \$6.4 million dollars in idle bond funds that have to be re-appropriated and repurposed, and Ms. Rader is the best person to do that for them because she has been the person for over 20 years who has written the bond bills and guided them through every bond issuance. Mr. Cannon said what Council approved does not mention anything to that affect. He said what Council approved mentioned hiring her for new money general obligation bonds, to which Mr. Strausburg responded, they are repurposing general obligation bonds. Mr. Cannon asked if that is new money, to which Mr. Strausburg responded, idle bond funds that can be repurposed, and he would suggest to Council that they need to repurpose those bond funds for Beaver Run Elementary or that project is going to go off the rails, and that needs to be done by December.

Mr. Holloway asked Mr. Strausburg to explain the benefit of repurposing idle funds, to which Mr. Strausburg responded, when all the projects in a particular bond issuance are completed or the project is abandoned, those funds can then be repurposed or reallocated to other qualifying capital projects. He said they believe that the best utilization of that \$6.4 million dollars is to repurpose the idle funds of the completed projects for Beaver Run Elementary so they can keep that project on schedule.

Mr. Holloway said he has heard Mr. Strausburg say multiple times that there is reason for caution, but in the operating budget they have put \$700,000 in for the Airport. He then asked if Mr. Strausburg is planning on pulling that because they are getting the \$18 million, to which Mr. Strausburg responded, he thinks the \$700,000 that is in the existing budget can be supplanted by the FAA funding they are going to be receiving. He said he is not the expert on the accounting, but his suggestion to Council would be to take that general fund support for the Airport and replace it with the FAA funding to the extent that it is needed, and put that \$700,000 into contingency because, again, as they move forward, they are going to need contingency funds because they are going to get some surprises along the way.

Mr. Dodd asked if the \$6 million that has to be repurposed has to be voted on and approved by Council, to which Mr. Strausburg responded, yes, it has to be appropriated by Council. Mr. Dodd asked if any money has been spent on the Mardela project, to which Mr. Strausburg responded, the money spent was for the conceptual investigations as to what the BOE and the School Building Commission felt was the best plan for either renovation or replacement of the school, so the funds that were appropriated and spent were for that due diligence. He said he knows the question is whether that money was wasted, and that money was not wasted. He said the BOE and the School Building Commission had to go through that evaluation, so that is what occurred. Mr. Dodd said he was not asking if that money has been wasted, but his question is whether that would be considered a project that has already been started so they can include it in the CIP based on the standard Mr. Strausburg stated earlier, to which Mr. Strausburg responded, they can include it in the CIP, but he would again say, in that budget year, which is the first year, that is real money that will be in the operating budget and appropriated. He asked if they want to spend that money on a scope of work the County Executive has not signed off on, and has indicated he will not sign off on. Mr. Dodd asked, what happens to the \$18.2 million they get, and the money they are allocating towards the Airport, to which Mr. Strausburg responded, the \$18.2

million dollars can only be spent at the Airport, and has nothing to do with anything else. Mr. Dodd clarified, the question is about freeing up that money and reallocating it maybe to Mardela, to which Mr. Strausburg responded, again, the issue is the scope of the project itself. Mr. Dodd said Mr. Strausburg is going to hear a lot from the citizens, and Council is already hearing a lot from the citizens, to which Mr. Strausburg responded, he fully understands that, and they fully understand that that school has to be addressed. He said it is a function of a project scope that the BOE and the Executive can agree upon, and then get more learning with regard to what the fiscal outlook is going to be. He said he will put it in terms of a household budget. He said, if he was looking at his household budget and he did not know whether or not he was going to have a job or whether he was going to be laid off, or he did not know whether his payrate was going to be lowered, would he go out and borrow money to build a new home? He said he is just trying to distill it down to reality. Mr. McCain said he gets that, but with capital projects they are talking about 20 and 30-year commitments, so he feels like the mentality they are applying to the capital budget is their operating budget mentality. He said they need to be concerned about their operating budget because that is an annual budget, but when they are making commitments from the capital perspective, these are 20 and 30-year commitments, so they need to look at a generation like any capital project. He said he disagrees with that, and this is why they go to the bond market in times like this because this is the time to borrow money, not the time to run from it. Mr. Strausburg said he had a discussion yesterday with Davenport and Associates because he was concerned about what the credit rating agency's perspective was on State, local, and municipal bond issuances, and, as they might expect, that is pretty cloudy, so he is not too certain it is a good time to go to the bond market. He said, at this point in time, knowing what he believes they are going to be looking at over the next 20 years, he would be very reticent to take on 20 or 30-year debt not knowing where this economy is going. Mr. McCain asked, so they are going to wait five years to do a project in Mardela, to which Mr. Strausburg responded, he did not say five years, he said until they have clarity. Mr. McCain said he guarantees construction rates will be higher and interest rates will be higher, and it will cost them more money in four to five years to do that project than starting it today, to which Mr. Strausburg responded, his crystal ball is not that clear, and he does not know what is going to happen.

Mr. Cannon said three members of this Council were also on this Council during the last recession, and the County did not cease to go to the bond market, and did not cease to look at what future lending might be necessary for the schools in Wicomico County. He said he thinks that is what Mr. McCain is saying. He said there are good times and bad times, but they still need to continue to be forward thinking. He said the confusion he has is when Mr. Strausburg talks about Mr. Culver not agreeing with the scope, but Mr. Culver went to Annapolis to support the Mardela project, so what has changed since then? He said he recognizes the concerns with the condition they are in now, but Mr. Culver took this school out of the CIP back in December in the initial CIP, so it was not removed because there were concerns over the coronavirus. Mr. Strausburg explained, Mr. Culver went to the IAC in support of the need for something to be done at Mardela, but he did not support the option that was chosen. Mr. Cannon said his understanding is that when they go to the IAC it is a little bit more definite as far as what they are asking for, to which Mr. Strausburg responded, this was an informal meeting with the IAC, and it was not the meeting where they formally decide what they are and are not going to fund. He said Mr. Culver went to meet with them, and they wanted to have a better understanding of what Mr. Culver's thinking was, and what their thinking was, so it was not a formal IAC meeting where they make decisions with regard to which projects they are and are not going to fund. Mr. Cannon said he thinks

the IAC has approved this project since then, to which Mr. Strausburg responded, yes, they have. Mr. Cannon then asked what has changed with the scope because he is not familiar with it, to which Mr. Strausburg responded, the scope that came from the BOE and the School Building Commission is a total replacement of the school, and the Executive feels there is a lesser scope that could be effective. Mr. Cannon asked, when they went to Annapolis, is Mr. Strausburg saying they were presenting a renovation instead of a replacement, because he is kind of confused as to how things have changed, to which Mr. Strausburg responded, nothing has changed. He explained, what the BOE put forward is a complete replacement of the school, and that is what went to the IAC. Mr. Cannon asked, in last year's CIP, was it just a renovation, and not a replacement, to which Mr. Strausburg responded, it was renovation/replacement, so it was not discrete at that point in time. Mr. Cannon said the figures they had in last year's CIP for the State of Maryland are identical, if he is not mistaken, to the funding they committed to in this year's CIP, to which Mr. Strausburg responded, no. He said, if they go back the past three CIPs, the funding for Mardela has moved dramatically.

Mr. Holloway said he knows what Mr. Strausburg said about the cloudy situation as far as borrowing money. He then asked if it would look better if they could pay down more of their bond debt out of their reserves this year than they planned on to give a better picture of where the County stands, so if they need to go to the bond market, that could make their credit rating look better, to which Mr. Strausburg responded, he would have to talk further with Davenport about that. He said they have really retired the higher cost debt the County was carrying, and they are at a juncture now where they are going to rapidly pay down debt. He said he suggests, based on the discussion he had with Davenport yesterday, that one of the strongest credit positives they have is their fund balance, and protecting that fund balance. He said, going through whatever the next couple of cycles are going to look like, a strong fund balance is going to be critically important for their credit rating. He clarified, their credit rating does not necessarily tell them what is going to happen out in the market when people are actually going to buy these bonds, so that is why he says, from his standpoint, it is a bit cloudy right now as to what the interim financial picture and the longer-term financial picture is going to look like. He said COVID and the ensuing economic impacts of COVID are going to be with them for quite some time, in his opinion.

Mr. Dodd said they need to keep in mind that they have to vote on this CIP by June 15, 2020.

Mr. Taylor said, on the \$18 million-dollar Airport grant, he has seen some news reports suggesting that the FAA is reconsidering how that is to be allocated, and he is just wondering if they have any concern about the total amount, or how that should be spent. He said, secondly, in this year's fourth quarter he imagines the Airport has taken a real hit in terms of operating revenue, so are they going to want to use some of that grant money to tide them over this year? Mr. Strausburg said he will answer the first question first, and that is exactly the reason he said at the outset that he wants the FAA guidance in writing before they make any firm decisions. He said, to the second question, the Airport is going to take a hit in the fourth quarter, but the good news is that the FAA operational funding out of this \$18.2 million allows them to look back to the beginning of the state of emergency, so any backfilling that they may need in the fourth quarter for the Airport can come from this FAA funding.

Mrs. Acle said Beaver Run was initially at \$7 million in the CIP, and then was dropped to \$6.5 million. She then asked if the scope of work changed, to which Mr. Strausburg responded, no. He explained, he

thinks \$1.5 million for Beaver Run is not going to be needed until 2022, so that is the reason the number is lower for 2021. He clarified, the total cost of the project has not changed, it is just the timing of when the cash is going to be needed.

Mrs. Acle asked if the Executive and Superintendent have any plan of working on some modifications to the renovations at Mardela that would make it possible to put it back in the CIP, to which Mr. Strausburg responded, he thinks the Executive is fully prepared to continue discussions with the BOE with regard to how they proceed with Mardela. He said Mr. Culver recognizes there is a need to address that facility. He said he spoke with Mr. Culver yesterday evening, and Mr. Culver feels he would like to make a decision with regard to funding both for the budget year and moving forward sometime in late December or early January because he feels they will have a much better idea of what the fiscal outlook is going to be by that point in time. He said the project certainly is not being abandoned, and they are not walking away from the project. He said the concern is the fiscal 2021 budget year, and if they are going to expend funds, those are real dollars, and they want those real dollars to go against a scope of work the Executive and the BOE are comfortable with, so there is a nuance there.

Mr. Cannon asked what happened with the original \$291,000 that was for planning at Mardela, to which Mr. Strausburg responded, that was the investigation into what the best course of action for Mardela should be. He explained, that was where the BOE and the School Building Commission undertook a feasibility study to really determine what the most effective means of addressing that school both from an educational standpoint and from a cost standpoint would be, so that was money well spent. Mr. Cannon asked, if they do not act on Mardela in the next year or two, will those same studies have to be done again, to which Mr. Strausburg responded, he does not think so. He said, to Mr. McCain's point, the risk they take is they have to balance the potential increase in costs against what may happen in the credit markets. He said, again, from his personal standpoint, if it were him, he would like to see a bit more learning with regard to how the economy is going to recover, at what pace it is going to recover, and what the credit market is going to look like.

Mr. Holloway said they heard about Barren Creek earlier today during Public Comments, so what about that, to which Mr. Strausburg responded, they just recently got the requisite approvals they need from the State of Maryland in order to proceed with that project. He said he spoke with Mr. Whitelock last week and asked him how soon they can get underway with that project. Mr. Holloway asked if that is in the capital program, to which Mr. Strausburg responded, that money has already been appropriated. He clarified, that is a past appropriation. There was no further discussion.

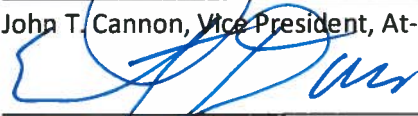
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Larry W. Dodd, President, District 3



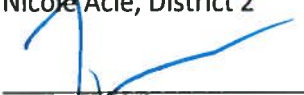
John T. Cannon, Vice President, At-Large



Ernest F. Davis, District 1



Nicole Acle, District 2



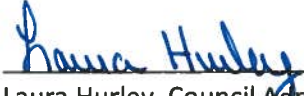
Josh Hastings, District 4



Joe Holloway, District 5



William R. McCain, At-Large



Laura Hurley, Council Administrator