

**Open Work Session
Capital Improvement Budget and Program
January 5, 2016**

Mr. Wayne Strausburg, Director of Administration, and Leslie Lewis, Director of Finance, came before Council. Mr. Strausburg said it might be helpful as a start, to let Council know what projects we are proposing to bond. They are proposing to bond \$20,300,000. The projects are Emergency Management Systems Radio System-\$11 million; West Salisbury Elementary-\$7.5 million; Parkside High School Systemic Renovation-Mechanical Plant-\$332,000; Parkside High School Ceiling and Above Systemic Renovations- \$207,000 and the Wicomico Middle Roofing Project-\$161,000. The total for the Board of Education is \$8.2 million dollars. In addition to those projects, they have proposed bonding of \$1.1 million dollars for a building for the Board of Elections, coming from the standpoint that we can borrow money at 2.5% and our debt load on an annual basis would be lower than the rent that we perceived on the RFP and, if we bond it for 15 years, at the end of 15 years, we will own it. Mr. Matt Holloway asked if the Capital Improvement Program has been updated since the Council received it as the number on page 2 shows \$19,715,000. Mrs. Lewis and Mr. Strausburg explained that number is our borrowing and refunding which took place in October 2015. Mr. Joe Holloway asked how much of our current debt will be paid off this year: is there anything being closed out. Mrs. Lewis and Mr. Strausburg said they did not have that information with them, but they will get it to him. Mr. Strausburg said his recollection is that the debt begins to drop off in 2018; there is some serious drop off in 2018 and 2019. Mr. Cannon added, unless we borrow more. Mr. Strausburg explained that Mr. Holloway is asking what is being retired and what is being retired in those years is pretty substantial. Mr. Joe Holloway then asked where is the State on Westside Elementary right now, to which Mr. Strausburg said there is a Board of Public Works meeting on January 27th and that issue will be taken up at that meeting. He and the Executive are planning to attend that meeting. Mr. Cannon said right now everything seems to be on hold, but we will have to see what the state will fund. Mr. Strausburg continued; he said right now we have \$3,893,279 in pay-go, so the rest of the projects that we have proposed for funding in 2017 will be paid for out of our reserves. Continuing, he said Council may recall, we added \$3.6 million dollars to reserves as a result of our 2015 financial performance. Mr. Hall said he understands the Health Department has major problems, which were brought to light after the CIP was done. Mr. Strausburg explained they have known about those problems, the problem is you have the Health Department building essentially sits on a dry lake bed and, at some point in time, the County added two stories to that building, which adds further vertical downward load. The manner in which the foundations were done to support the upper two stories is somewhat problematic. We have hydrostatic pressure under the building, and the water has to find a place to go. We are finding that when the tides are high or when we have extreme rainfall, the hydrostatic pressure is causing what he calls a heaving in the slab of the basement level, and until we find a way to relieve that hydrostatic pressure and find a way to offload that tidal water, we have a problem that is very difficult to solve. Mr. Hall confirmed that we are

doing an engineering study, to which Mr. Strausburg responded, yes, they have engaged GMB, and we are looking at a couple of alternates to the lower level. One proposed solution involves obtaining a waste water discharge permit, so we are exploring what would be involved in obtaining that discharge permit. What we would essentially do is allow the water to come in but be offloaded, basically, a French drain on steroids. Mr. Hall said he had that same problem at his house in his basement, and it was very expensive to fix it. Mr. Strausburg said it is a significant structure issue, to which there is no easy answer. Mr. Hall then asked about the old courthouse. He said he understands that we will be doing renovations to the interior and if we are going to be doing renovations on the exterior, because there was nothing mentioned about much about how quickly the exterior was eroding, especially the bricks. Mr. Strausburg explained that we are doing renovations to the interior of the new Courthouse, where the State's Attorney's Office used to be, and we are doing those renovations to house the additional judge that is coming to Wicomico County. He said we just entered into a contract with GMB to provide construction details to begin structural repairs to the clock tower, roof and parapet, so we will start there. We have to render the roof and the down spout system water tight and next we propose to take the windows out of the courthouse, one by one, install new flashing throughout, reinstall the windows, and then we will deal with the brick. Mr. Strausburg continued, he said they have gotten several different opinions on the brick, one is that at some point in time, the brick was sealed, and it is a type of brick you are not suppose to seal. Mr. Strausburg said, according to this report, it is aggravating the cracking and trapping the water inside the brick as opposed to letting the brick essentially breathe. Mr. Strausburg said the real issue right now is the roofing, guttering, down spouts, and windows. Mr. Hall then asked if there would be renovations on the top floor for a storage area, to which Mr. Strausburg responded, no, that is not included. What is in the CIP is to render the old courthouse water tight and structurally sound. Mr. Davis asked what is the start date for the Jersey Road crossing? Mr. Redden, who was in the audience, said he is working on finalizing the contract and will let him know. Mr. Cannon said he has a question regarding how it is trending. He said we were about \$103 million dollars in outstanding debt two years ago, we increased that about \$10 million last year, and we increased it by about \$20 million this year, so we have gone from \$103 million in outstanding debt to \$133 million dollars in outstanding debt, which is about a 30% increase in two years. He understands it is only minimal from what the total capacity allows, but it has gone from 48% to 53% to 58% of total capacity, and he wonders what he sees as far as how it is trending, even beyond this year because these are pretty large numbers. Mrs. Lewis explained that the County used to do 10 or 15 year bonds, but then they were stretched out to 20 years and, in FY14, she thinks there was a 25 year bond and that is what has caused the increase in debt. Mr. Cannon then reiterated that he is interested in knowing the trend. Mrs. Lewis said if we bond the full amount, then we are looking at the higher number-58%. Mr. Cannon said what about after this year, what about FY18, to which Mr. Strausburg said it is a function of the capital needs we want to address. While the debt in total has risen, in 2018 the debt begins to drop off. With the low interest rates, we are still within our policy limit on principal and interest payments. You have one of three choices.

(1) you can stop capital spending of any real magnitude, (2) go after reserve funds for capital spending, he does not recommend that or (3) continue to aggressively prioritize what capital projects you want to undertake, and finance them in the best manner you can, which is what we have done this year. When you look at what we are funding, emergency management system radio is \$11 million dollars. We can't have our first responders out there not being able to communicate. That technology becomes obsolete within a 10 to 15 year cycle. Mr. Cannon said his concern is the pace we are escalating at now because, at some point in time, we are going to be at 100% capacity. Mr. Strausburg said we would not get to 100%. Mr. Cannon said, hopefully, we will be retiring enough and our capital needs will not be that extreme. Mr. Joe Holloway asked what portion of our capital dept is for education, with outstanding loans and everything. Mr. Strausburg said it is about 80% to 85%. Mr. Strausburg said what they will continue to do is what they did this past year that is balance what we are going to spend, prioritize it aggressively, and balance it so we are not going through our principal and interest policy. We have kept our principal and interest, which is reoccurring, so we want to keep it 12% or below, which they did this past year, and will continue to do. This means they will have to be very aggressive with capital spending in terms of how we prioritize. Mr. Strausburg continued, he said he believes it is very reasonable to expect that interest rates are going to rise. We will be in a rising interest rate environment so, if we are going to stay within our policy limit, we are not going to be able to spend as much money as we have been during this period of historical low interest rates. Mr. Strausburg further said we are going to be faced with some very difficult decisions in terms of what we can afford to do with our infrastructure. Mr. Cannon said the State has burdened us with a lot more debt than we should have. Mr. Strausburg said the Highway User Revenue is in the order of \$7 million dollars a year that we have to make up from the general revenue fund. This past year, the Disparity Grant, we got a ding for a \$1.6 million. This coming year because of reported increased enrollment, our maintenance of effort is going to go up \$800,000 dollars. Mr. Strausburg said when you start adding up those number that is about \$9.5 million dollars. Mr. Cannon said on page 3, it references the Wor-Wic Academic Building, asking Mr. Strausburg to please explain the 20% increase. Mr. Strausburg said he wished Dr. Hoy were here to explain that increase. It essentially has to do with the mechanical systems and the renovation replacement of those mechanical systems came in higher than what was expected. That was, unfortunately, a surprised to Dr. Hoy, but you have to have heating and air conditioning in the buildings. Mr. Cannon said he was not sure if the cost of construction had gone up or what the specifics were. Mr. Creamer said, fortunately, we have a partner, Worcester County, to help pay for that increase. Mr. Joe Holloway asked if Somerset County also helps to pay some too. Mr. Creamer said unless things have changed, the State pays Somerset County's share for student tuition, but he is not certain if that is true for capital improvements. Mr. Strausburg said he thinks the capital improvements are paid by the State, Worcester County and Wicomico County. Mr. Cannon continued, he said on page 5, under Sheriff, the Building Engineering Study, he is aware of the condition of the Sheriff's Office. They have the same problems as the Health Department. In the case of a real hurricane, it is not the greatest

building. He said he had this discussion with Hunter Nelms when he was the Sheriff. Mr. Strausburg said the roof is not rated to withstand a significant hurricane. Mr. Cannon said the CIP notes a \$25,000 engineering study; it seems to lead into a justification for a \$100,000 project study to replace the building. Mr. Strausburg said the \$25,000 was never spent, the study was never done. Mr. Strausburg said they did not spend \$25,000 and \$25,000 was pay-go. They would anticipate they would spend \$100,000 for the study; they would not spend \$125,000. Mr. Joe Holloway said when the County went to build the new Detention Center, they looked around and found a set of plans from another jurisdiction and, basically, built a mirror image of the Detention Center, asking if they can do the same thing for the Sheriff's Office. Mr. Strausburg said they have started that process. They have met with the engineering firm that did the Salisbury Police Station. They are the firm that will be doing the engineering study and we will be starting with that building as a premise. We are not starting from ground zero. Mr. Joe Holloway said there are other places that have built buildings too, but it depends on land we buy, where we buy land, that kind of stuff. Mr. Strausburg agreed. Mr. Cannon said the \$100,000 project study is looking at the very likely obligation of constructing a 10+ million dollar Sheriff's Office. Mr. Strausburg said they have an estimate of the total project from the engineering firm and, based on taking into consideration the Salisbury Police Department bringing it up to date on both size and construction costs, that is where they landed. Mr. Cannon said we also have another \$20 million that is coming up for Emergency Services, broken down into parcels, \$5 million, \$11 million, and \$4 million. Mr. Strausburg said the \$5 million is already bonded. We are going to bond another \$11 million, which puts us at \$16 million. Mr. Strausburg said based on the responses from the RFP, that system will probably come in less than what has been projected. Mr. Cannon said it appears on a regular basis we are increasing by those numbers. We are at 58% now and soon we will be at 60%. Mr. Strausburg said it depends on how much we pay off. Mr. Cannon continued, he said for the Clerk of Court, you put in for office furniture and office dividers, etc., very small stuff, the Board of Education has a lot of small stuff. Mr. Strausburg said if you go to the schedule and look at the board of education submission, in total, versa what we agreed to put forward in funding, you will see we were very aggressive in terms of prioritizing. Mr. Cannon continued, he asked are we still matching DNR with the watershed implementation projects. Mr. Strausburg explained they are grants. That is a moving target to the extent we can go out there and find grants that we can leverage what he calls seed money, and they will continue to do that. Mr. Matt Holloway asked if we are still okay with the dredge material placement sites, timeline wise for when the dredging is planned, to which Mr. Strausburg said we are hoping not to miss the cycle. Mr. Cannon said he noticed the Morris Mill Dam Rehabilitation project went from \$450,000 to \$2 million. Mr. Cannon said he was aware that is was \$1 million. He said when they held the public hearing in Fruitland, Charles Johnson was there as well as John Redden, he thought it was \$1 million, asking Mr. Redden, in the audience, if that is his recollection, to which Mr. Redden said he thought is was a little over \$1 million, like \$1.1 million. Mr. Redden said he does not remember it getting up to \$2 million. Mr. Cannon then read the summary paragraph from the CIP indicating the total cost for the Morris

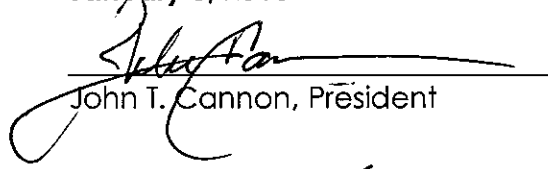
Mill Dam Rehabilitation is \$2,039,000. Mr. Redden said they do have to acquire some land, there is a right of way and there are three other pieces, but they do not know the price yet because they have not started the negotiations yet. Mr. Dodd asked if that is the property they have already looked at, to which Mr. Redden responded, you looked at one of the three but the costs of the other two we do not know yet. Mr. Cannon said these are the kinds of things he is just putting out there; he does not have any real and fast suggestions. He does not want to just get rid of project, but it warrants consideration when you look at costs that escalate like this. Mr. Cannon continued, he said that is the problem taxpayers have with government. The projects that start of as \$10 million dollars turn into \$30 million dollars overnight and it appears that we are falling victim to the same thing. He continued, he said there was a public hearing and at the public hearing nothing was said about the cost being \$2 million dollars. Mr. Strausburg asked what public hearing, to which Mr. Cannon said it was a meeting at the Fruitland City Hall. Mr. Redden said it was called a public information meeting. Mr. Strausburg said he could have Mr. Young come in at the next meeting and walk through the entire project. Mr. Cannon said if it served some purpose where we are prepared to say lets kill the project or reduce the costs, but he does not want to waste his time. Mr. Strausburg said it will not waste anyone's time for him to come in and educate Council on a project. Mr. Kilmer said the Naylor Mill Road project was in the CIP last year, but it is not mentioned this year asking if the project is dead. Mr. Strausburg said the project is on a hiatus as we looked at the priorities and that is one they felt they could delay. Mr. Cremer asked what is the price tag on the final portion. Mr. Culver spoke from the audience, he said it was \$1.8 million last year, almost \$2 million dollars. Mr. Kilmer asked if the land has been acquired, to which Mr. Strausburg responded, they have the right of way and the design is done too, we just need to build it. Mr. Strausburg said getting back to Mr. Cannon's point, we are going to have to make some very hard choices. Mr. Creamer asked if the last two sections were done largely with county forces, to which Mr. Strausburg responded, yes. Mr. Creamer then asked if the \$2 million dollar price tag anticipates using county forces. Mr. Strausburg said he would need to go back and revisit that. Mr. Cannon said on page 11, you reference the watershed implementation plan, he wonders about the \$200,000. Mr. Strausburg said that goes into their departmental budget, it is referenced in the CIP as public information. Mr. Kilmer asked if Mr. Strausburg could explain what the \$200,000 for expansion of athletic fields is for. Mr. Strausburg said that is essentially to purchase the land and the engineering study for the Henry S. Parker Athletic Complex. Mr. Cannon said he would like to have a work session on that some time. Mr. Strausburg said that would be fine. They are meeting with Brock Parker on Thursday. He has the surveys and preliminary layout done so they will have more information ready for Council at the next meeting. Mr. Joe Holloway asked if any of that could be bought with open space money, to which Mr. Strausburg said he was not sure, they are checking into it. Mr. Joe Holloway then asked if there was any open space money. Mr. Strausburg said they are meeting on the 27th with the open space people, and we are going to get the terms on what we can and cannot do with the open space money that we have and/or open space revenue that is being generating from the land we already hold. Mr.

Kilmer said in terms of the Recreation, Parks and Tourism issue, we have heard a lot on Pirate's Wharf and there are questions about what is going on at Cedar Point. He said he does not see anything in the CIP about either one of those, asking is there anything being planned. Mr. Strausburg said there is nothing eminent going on, the County has received the State Forrester's Report. Mr. Cannon asked if the 2014 document is the most current, to which Mr. Strausburg responded, yes, that is the latest we have. Mr. Strausburg said with the Pirate's Wharf forest, if something is not done with it, the forest is going to die, it cannot breathe and it does not have enough nutrients. Mr. Kilmer said he has been asked questions about campgrounds and tiny houses at Cedar Hill, and he thought was if that was going to happen, he would see it in the CIP in general. Mr. Culver said the Department of Recreation and Parks will have in their budget next year \$20,000 to \$25,000 for a study on the houses at Cedar Hill. Mr. Joe Holloway said the fellow who did the study on the timber is very thorough and, if he says the timber needs cutting, it needs cutting. Mr. Cannon said that is common practice. Mr. Strausburg said it needed cutting in 1998. Mr. Creamer said the problem is we think of the mature forest at a point-in-time and that point-in-time passes every second, and at some point they are going to die, they are going catch a bug or disease and they are going to die and then they will not be good to anybody. Forests need to be managed. Mr. Joe Holloway said he gets calls just about on a weekly basis from citizens on the east side of the County who are disturbed by a weak pine tree along the side of the road, as it creates a hazard. Mr. Joe Holloway said not long ago Lee Outen and a crew went out and cut down two big pines on Wango Road, and these pines had been dead for a number of years. If they had been cut 20 years ago, they may have been worth something. In this situation, they just ended up being a hazard. Mr. Davis about the basketball courts, etc. at the Billy Jean Jackson Park. Mr. Strausburg said they would not put that in the CIP, because it does not have a lifecycle that is required for CIP. He recalls discussing that project with them, and he thinks he asked them to put that in their departmental budget. Mrs. Harris said it is, as she recalls seeing it there yesterday from last year's budget. Mr. Strausburg said with the CIP, you are really looking at projects with a life of 15 to 20 years. Mr. Joe Holloway said what about the carpet that is going to be installed, is that going to last 15 to 20 years, especially in a building that is flooding. Mr. Strausburg said the carpet is not down in the lower level, but it is not truly a CIP, it will be in their departmental budget. Mr. Joe Holloway then said it is shown in the CIP. Mr. Strausburg said because it is a pay-go project, it comes from the reserve fund or planned annual spending, it is not being bonded. Mr. Cannon said he is pleased to see the rehabilitation on the airport t-hangers because they certainly need it, and we are tending towards getting some type of return on investment from the airport because it is underutilized. He said some of these are existing projects, but he hopes we can move some of these forward and get something done. Mr. Cannon said the fees increases that were implemented last year were going to be reversed and not implemented, asking has that happened yet, to which Mr. Strausburg responded, yes, they rolled those back. Mr. Strausburg said the thing with general aviation is that we have to determine if we are going to make an investment in general aviation and those t-hangers, then we have to find a way to get a return on investment. Mr.

Strausburg continued, he said that is a charge to the Airport Manager and Airport Commission. We have to say if we are going to make this investment to the t-hangers then show us the return on investment. Mr. Cannon said the t-hangers could almost be considered dilapidated. Mr. Strausburg said there are three issues with the t-hangers (1) cosmetics (2) the hanger doors-the roller assembly and tracks do not operate properly and (3) the aprons have deteriorated so there is an issue to damage propellers. Mr. Creamer pointed out that some of the airport projects have already been completed, such as the airport road project and the runway rehabilitation project 5-23 is completed. The Commission recently had the ribbon cutting ceremony to reopen that runway. Mr. Cannon said he would like to have a work session on the airport. Mr. Creamer said the Airport Commission would like to have a work session with Council at the airport. Mr. Strausburg said the Airport Commission is having a planning session next Thursday, so he would recommend having a work session in February. Mr. Kilmer said the CIP mentions that a portion of the projects will be funded by the Airport's Enterprise Revenue, asking if that is indefinite, will they ever need money from the general fund. Mr. Strausburg said that is one of the reasons they are having a strategic planning meeting. He said, in the CIP, there is a request for \$2.5 million to bring water service to the airport that will have to be bonded by the County, as the airport does not have the money to do that. Mr. Strausburg said if we are going to develop the airport and surrounding campus, we have to have water. Mr. Creamer said Mr. Kilmer's question requires a two part answer and Mr. Strausburg answered the second part. The first part is yes, the airport revenue will continue as long as the airport provides scheduled air carrier service. . The principal source of operating revenue from the airport is from parking and as long as we have air carrier service, we will have parking lot revenue. If our airport does not offer commercial air carrier service then there is a whole host of economic problems that could result throughout the community, so it is in our best interest to retain commercial air carrier service. As long we do, that revenue will accommodate it. Mr. Creamer explained the other major source of revenue comes from passenger facility charges, which is in essence a fee that is added to the airline ticket for anyone leaving or coming to the airport. That revenue source is 100% tied to commercial air carrier service. Revenue from Passenger Facility Charges can only be used for eligible capital projects. The airport will continue to generate significant operating revenue and provide the county share of FAA capital projects, providing we continue to have scheduled air carrier service.

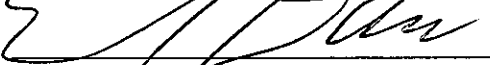
Signatures are on the next page.

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John T. Cannon, President

Matt Holloway, Vice President




Ernest F. Davis, District 1


Marc Kilmer, District 2




Larry W. Dodd, District 3



John B. Hall, District 4



Joe Holloway, District 5



Matthew E. Creamer, Council Administrator