
Open Work Session

Fiscal Years 2020-2024 Capital Improvement Program and Budget (CIP)

February 19, 2019

Mr. Wayne Strausburg, Director of Administration, and Mr. Weston Young, Deputy Director of Administration, came before Council. Mr. Cannon said Council may have questions about the CIP as far as particular areas. He said Council met with a couple of Departments to review some of their programs, but he always talks to Mr. Strausburg about the outstanding debt, the debt obligation, and things like that. He said Mr. Strausburg insists the County will be paying down debt as they are borrowing debt, and he thinks from they have actually gone to a total outstanding debt last year of \$119 million to \$117 million, which is good. He said the debt obligation, he guesses, is a little bit different because that depends on what the property assessments are, so that can go up and down, regardless of what they are attempting to do, just based on assessed values, to which Mr. Strausburg responded, in this coming cycle, what this CIP contemplates is that they will not borrow much more than they are paying down. He said he thinks they are paying down on the order of about \$10 million, and he thinks they are proposing to borrow a little bit north of \$12 million, so they are not changing that profile dramatically. He said interest rates are still down in a comfortable neighborhood, though they have increased a little bit, but, actually, not as much as they had anticipated they would increase, so he thinks they are on solid ground.

Mr. Kilmer said he saw on the news something about work starting next month at Poplar Hill, and he only read it, so he is not sure if that was a quote, or if that is what the news media was saying. He then asked if the work there is considered a capital expense because he knows it is not in the CIP. He said it seems a little early to know how much it would be, but it would seem to be a capital expense, so he is curious about how that would be handled, to which Mr. Strausburg responded, it would depend on where they land with the construct. He reported, they met last Friday with Mr. Steve Shue, and they need to circle back up with him and Lieutenant Governor Rutherford because they need to talk to them more about the actual construct, and how this would actually work. Mr. Kilmer asked if Mr. Strausburg means how it would work with the State, to which Mr. Strausburg responded, that is correct because there are different ways to approach it. He said they have their thoughts on it, and he is sure the State has their thoughts on it, so they really need to circle back with them to see where they can land in order to make this doable for both the State and County, and for whomever will be operating it for the County. He asked for Council to give him another 30 days, and then they may be able to come back before Council with something a lot more discrete than what they have right now. Mr. Kilmer said they were talking about the capital budget, and this could be fairly big, so he just wondered how this interacted with the whole planning process. He clarified, he knows this is outside it, but they were talking about capital, to which Mr. Strausburg responded, they are going to try to leverage the State for more money, to be honest, because they want to keep any investment by the County as minimal as it can be. Mr. Dodd said he thought there was going to be no County funds, to which Mr. Strausburg responded, minimal time and effort. Mr. Dodd said none and minimal have two different meanings, to which Mr. Strausburg responded, he has spent a lot of time on this, Mr. Young has spent a lot of time on this, and they get paid by the County, so there is a minimal investment. Mr. Dodd said he understands.

Mr. Cannon said there is something else he wanted to touch base on because they were talking about the accrued obligations they have year after year, and he understands completely that the CIP is a very flexible program, is just a plan, and not necessarily a solid commitment. He said, as far as the capital projects they are doing that are funded by the County, he applauds Mr. Strausburg for looking at the pay-go because they do have a lot of reserves, and they do have massive amounts of deferred

maintenance that has to be addressed, and he knows that is what Mr. Strausburg is doing with this. He said jumpstarting the Airport is a big investment, and they are seeing that, so he thinks that is a good way to be going. He said, however, in looking at the plan as a whole, the commitment for this year is in the range of about \$22 million total as far as what they are saying the County is going to be obligated to. He clarified, it is \$12 million as far as bonds, plus \$8 million in pay-go, and yet what really concerns him is what the planning will be for next year, and how obligated they will be to follow through with that commitment based on what they may initiate this year. He explained, in the plan, if he reads it correctly, they are going from about \$22 million of County responsibilities to about \$38.8, which is almost double next year. He said, again, this is a planning process, but it concerns him as to how far they are going to obligate themselves because, if they commit, obviously, they are beginning projects, which need to be followed through on. He said he is just wondering about the sustainability and recognizing that, and if they have given it any thought in that second year planning, to which Mr. Strausburg responded, their unassigned fund balance right now is just under \$33 million dollars. He said their rainy day is about \$7.6 million dollars, and he is working right now on the details of what they believe their revenue is going to be this year, and what they believe their Departmental operating costs are going to be. He said, with regard to the annual budget, they have asked their Departments not to go back and base it on last year's budget, but they gave them a five-year actual spending Excel, and they have asked them to go back to the five-year actual spending, and project their budget requests this year on actual spending. He said they are hoping to tighten down on the incremental projected expenses in light of what they really believe they are going to get in revenue, and they are looking pretty good on their property tax revenue. He said he is suggesting their income tax revenue is probably going to be flat to what they budgeted last year, which was \$52.5 million. He summarized, that is a long way of saying he cannot really tell him at this moment how much of the pay-go could be covered by this coming year's operating revenue, and how much would have to come out of fund balance. He said that is one of the things they do when they come to Council with the operating budget, and say this relates back to the CIP pay-go spending plan, and they would have that discussion then. He said he may be about two weeks away from being able to have that discussion with Council, and maybe the first meeting in March he could have some solid numbers, but he is still looking into some of the State revenues. Mr. Cannon asked, when he reviews those numbers, for example, with the \$10 million that he knows is going to be pay-go next year, does he know for a fact that maybe only 60 percent of that pay-go is really going to be a serious obligation, to which Mr. Strausburg responded, he will look at the individual projects, and come back to him on that.

Mr. Holloway said Mr. Strausburg stated income taxes might be flat. He then asked if that is concerning given the fact that, for the most part, the Country is in recovery from the recession, and the County has been increasing in income taxes, but now Mr. Strausburg is saying it is going to be flat. He again asked if that is concerning, and what they might see in the next year, to which Mr. Strausburg responded, he will explain the way they go about looking at the income tax revenue. He said the State lags about 16 months on their distribution of income taxes, so he really tries to relate what they think they are going to be generating in income taxes to their employment levels, and that tends to work fairly well. He said the issue they have is that it is hard to say what the impact of the Federal income tax changes are going to have on the State because people may file their State returns differently. He said he likes to be conservative because he would rather say that their income taxes are going to be flat than to get himself out on a ledge where he is saying they have been growing, so they are going to plan on them continuing to grow because he is not sure that is going to happen. Mr. Holloway said that is not reflected on the spending in the capital budget because that is going up and increasing. He clarified, the capital budget is showing that things are looking great, and they are going to be getting plenty of money, yet Mr. Strausburg is saying that income taxes might be flat, to which Mr. Strausburg responded, actually, what he is saying is that he and Mr. Young have tried to have the Departments come in on their operating

budgets with finding more savings operationally, and budgeting more accurately based on actual spending on a five-year run rate to see how much that trims from their actual operating expenses, and how much that frees up in revenue. He said, even if revenue is flat, they still may find that they may generate several million dollars more in terms of spending, and he would rather that spending go towards one-time capital projects right now than to have it go towards recurring spending because most economists are saying that they are probably anticipating a recession starting in June of 2020. Mr. Holloway said Mr. Strausburg has stated they will be saving money in their operating budget, but today they heard from people about the conditions of the roads, which they do not pay out of capital, but pay out of operating. He then asked if they are talking about cutting more money out of that Department, and which Departments he wants to cut to save, to which Mr. Strausburg responded, he is not far enough along on the budget yet to tell him, but he thinks he knows where they have some savings.

Mr. Strausburg said the primary problem they are having with Roads is attracting people, and they have ten vacant positions right now, to which Mr. Holloway responded, that was mentioned today during public comments, and he brought up the fact that maybe they need to reclassify some of those jobs to bring the pay up. He said he does not know whether that is possible or not, to which Mr. Strausburg responded, he thinks the State is going to handle that for them. Mr. Bob Culver, County Executive, then came before Council and said it is not so much the pay, but what they are having trouble with is finding qualified candidates who can pass a drug test, to which Mr. Holloway responded, that is a problem for every business in Wicomico County. Mr. Culver said, whatever the County pays, they also pay 42 percent benefits that the private industry does not, so, if they are paying somebody \$10 per hour, they are actually paying them almost \$15 per hour. He said private industries would just pay the \$15 per hour, and young people go towards the money rather than towards the benefits, to which Mr. Holloway responded, in the meantime, every business in Wicomico County or the State is having the same problems as far as hiring people. He said they realize that, so maybe they need to reclassify to get the pay up because Mr. Culver just said they go for the dollars instead of the benefits. He again asked if that is something they need to do, and said that is just a suggestion, to which Mr. Strausburg responded, he understands. Mr. Holloway said the Administration runs that side of business, but every year they continually hear about road problems, to which Mr. Culver responded, they actually spent over a million dollars more last year, he believes, and they did 20 percent of the roads, and that is what their goal is. He said they have had trouble with flooding, and they are still working on that diligently. He said, in reference to the \$15 per hour minimum wage, Ms. Michele Ennis has done calculations, and that will cost Wicomico County roughly \$7 million dollars more a year in their operating budget if it goes to \$15 per hour, to which Mr. Holloway responded, Mr. Strausburg said the State might take care of that, but that is not really going to take care of it because it just jacks everything up. Mr. Strausburg clarified, what he meant is they need to see what the State is actually going to pass into law with regard to the minimum wage because, when they change that minimum wage, and he does not think they would do it all in one year, but if they are going to take it from where it is now to \$15 per hour, they have to slide the entire County wages, and that is a big, big number. Mr. Holloway said that is not going to improve hiring because that will affect everybody in the county, to which Mr. Strausburg responded, that is absolutely correct. Mr. Holloway said they have to come up with something that gets people back, or they will have to go to contractors to get things done. He said he hears them when they say they cannot pave the roads until they do the tiles and dress the sides, and he understands that, and that is done by the County, but they hire contractors to do the paving. He explained, what the gentlemen here today were more concerned about, he thinks, is more than actual paving, though that is still a concern, but the tree branches all along the sides of the roads and in the ditches where those are not being maintained. He said that is the County's responsibility, but they could hire contractors to do that, to which Mr. Strausburg responded, he spoke with Fred Moore the other night, and they had a long discussion about

that, so he is going to circle back with him, and get together with Mr. Dallas Baker, Director of Public Works. Mr. Culver said many people will tell them that Athol Road was just done this last summer, and was done great, and they cut it back considerably. He said they have one tractor that cost \$188,000, and maybe that is where they need to put the money in the budget to get another tractor to start doing roads. He said they started out on Athol Road because that was the worst, and they are moving that tractor from one spot to another. He said they had to go to High Banks Estates because that had grown over, and people could not get into that area, so they are putting out fires. Mr. Holloway said it is all over the County. Mr. McCain said he thinks the independent contractor role might be a path they are going to have to explore, to which Mr. Culver responded, this particular tractor has a bush hog that goes up in the air, and there are not that many people who would have it. He said farmers have the off-arm bush hog to do the ditches, but they do not have the one that goes up in the air for the trees. Mr. McCain clarified, an independent contractor may not be for everything, but it may be for some of the maintenance. Mr. Holloway said they also get complaints from school bus drivers about it too.

Mr. Strausburg said, again, until they see what the State is going to do with minimum wage, there are some balls up in the air over which the Administration has very little influence, and, unfortunately, that comes in late on their budget planning process. Mr. Holloway said Mr. Strausburg stated they are not going to do it all at one time, so they will probably go up a dollar to begin with. He said, if they take that figure, and work it into the equation, that would give them a benchmark. Mr. Strausburg said they have to factor that in, and they are thinking that their real property taxes are probably going up, but they are constrained by the revenue cap. He said their maintenance of effort is going up as well, so some of the increases they are seeing are being met by spending pressures, which, again, they have no control over. He said, again, he is probably two to three weeks from having a much clearer idea of what the revenue picture is going to look like. He said expense input from the Departments is supposed to be done by the 28th of this month, so maybe by that first meeting he can give Council a better snapshot of what he thinks broad stroke of what the budget is going to look like this year. Mr. Holloway said they do have control over some the capital projects that do not necessarily have to be done, to which Mr. Strausburg responded, yes, they do. He said, again, back to Mr. Cannon's original point, they are very sensitive to that fund balance, and they are very sensitive to taking on debt and spending current year cash, but that is going to come together in about the next three to four weeks, and they will have a much better picture. He said maybe they will decide they cannot afford some of these things, and they will have to delay, but he cannot tell Council that right now because this is a planning document. Mr. Culver said he can tell them they do not know where the Kirwan Commission is going to land yet. He said they are talking about \$10 million per year just to start off, to which Mr. Holloway responded, that will not be until next year. Mr. Culver clarified, it will affect their capital budget plan further down the road. He said another thing that has not been brought up until this past year is OPED. He explained, they just had an audit, and Council all has the audit. He said they owe \$4 million dollars for Wicomico County, and the Board of Education is \$115 million dollars in the hole, and they are not even paying what it costs per year to do it. He said their dues are about \$1.5 million to \$1.6 million, and they are putting \$600,000 towards it per year, so they are becoming a million dollars in the hole per year. He said they have to prepare for that because it is going to fall back on the County. He said he does not know how they are going to do it just yet, but they just found that out this year from the new GASB report from the auditing procedures. Mr. Holloway asked if there is a State requirement that they have to meet a certain benchmark on that, to which Mr. Culver responded, no. He said the good side is they are not in the worst shape. He said Somerset pays their OPED as they go, and Worcester County School Board is \$330 million dollars in the hole. Mr. Holloway clarified, is there some benchmark the Board has to meet, to which Mr. Strausburg responded, he is not sure of that. He said his concern long-term is that what they may see on OPED is what they saw with teacher pensions where the State decides they cannot fund it

all, so they will downstream some portion of it to the Counties. He clarified, he does not know that, and no one has said that yet, but they have seen that happen before, so they have to keep those things in the back of their minds. He said those big dollar tickets like that can eat up fund balance very quickly.

Mr. Culver said what they are committing to on this year's CIP is just a wish book right now because he does not have any projects that he really is going to stay committed to outside of this year until they find out where things are going to fall in Annapolis. Mr. Holloway said the problem with saying they do not want to stay committed to a lot of these projects other than this year is that, as Mr. Cannon said, a lot of these projects are multiyear, to which Mr. Strausburg responded, they do not want to start it if they are not going to finish it. Mr. Culver said Mardela High will be another \$40 million dollars they will have to spend, and he does not know when that is going to come into effect because there is not enough land to build another school at that particular location, and yet they just spent \$1.2 million dollars on all of the athletic fields.

Mr. Cannon said he likes the commitment to the Applied Technology Building with Wor-Wic, and he thinks that is good because, the more they partner with Wor-Wic, the better.

Mr. Cannon said he made a note about the Health Department, and it has been in there before as far as the carpet for a quarter of a million dollars on carpet replacement, and he is assuming they are going to be holding off on that until they have a better idea of what they are going to be doing with the Hurdle Building, to which Mr. Strausburg responded, correct. He said they have to get to the bottom of that before they spend a lot of money cosmetically in that building.

Mr. Cannon said he was curious about the Airport when talking about Runway 1432 extension, which is a \$1-million-dollar commitment this year, and a \$4-million-dollar commitment next year. He said he was just curious that it was a pay-go commitment instead of a bonding commitment, and he did not know what the thought process was behind that, to which Mr. Strausburg responded, the thought process on that is they are really forward funding that, and they will recover that on the backend. He said the big hurdle right now with the runway extension is the FAA apparatus, and that is not moving along as quickly as they would have liked it to. He said, interestingly enough, Senators Van Hollen and Cardin have been very, very active with them. He said Senator Carper from Delaware has also contacted Wicomico County, and wants to be of assistance as well because he recognizes that Airport as a Regional Airport that is important to Southern Delaware, so they have as much political clout, he thinks, as they can bring to bear. He said they are just trying to wind their way through the bureaucracy.

Mr. Cannon said the only other notes he had were in reference to the restroom that needs to be converted, and Council wants to have access there. He clarified, it is a good idea, but they also need to make sure Council has access from Council Chambers, and also that there is security, to which Mr. Strausburg responded, he is trying to figure that out. He said, as Council knows, it is not a big space. He said, from the standpoint where they say it has to be done, they are, technically, in compliance with the Americans with Disabilities Act (ADA) because they have a handicapped facility in the basement. He said, however, there have been a number of interns who are disabled, and he has interacted with them in the men's restroom in terms of them trying to navigate in there, and it is really, really very difficult. He said, in good conscious, they should have an ADA compliant restroom on each one of the floors. Mr. Cannon addressed Mr. Pate Matthews, General Services Supervisor, who was seated in the audience, and asked if he had given any thought to making the restrooms they already have ADA compliant, to which Mr. Matthews responded, there is just not enough room. He said, if Council is concerned about access, the conference room in the hallway has a large space at the north end of it that is not being used for

anything, and could easily be made into a hallway and secure. He said they could, actually, steal a little bit of that room for the ADA compliant restroom if they needed it, so they have some room to work with. He said the thing about using those two restrooms is that the plumbing is there, and that is the major physical barrier they have to overcome, but they have some room. There was no further discussion.



John T. Cannon, President



Larry W. Dodd, Vice President, District 3



Ernest F. Davis, District 1



Marc Kilmer, District 2



Josh Hastings, District 4



Joe Holloway, District 5



William R. McCain, At-Large



Laura Hurley, Council Administrator