

## **Open Work Session**

### **Fiscal Years 2020-2024 Capital Improvement Program (CIP) – Sheriff's Office**

**March 5, 2019**

Captain Tod Richardson came before Council, and said he will give Council an update on construction as far as where they are with the permitting. He said, for some history, on November 7, 2017, a purchase order was issued for Crosby and Associates to begin a feasibility study for the Wicomico County Public Safety Complex. He said, on December 17, 2017, they kicked off with the Wicomico County Sheriff's Office senior staff being interviewed by Crosby and Associates. He said several months later, after they did some extensive work, they made the presentation to the County Council, and, after that presentation, Crosby and Associates were redirected to bring their focus more into the Sheriff's Office needs, and a budget that had been put in place in the CIP. He said, meanwhile, after that happened, the Executive's Office as well as the Sheriff's Office began to focus their search for purchasing land in Wicomico County to build the complex. He said, on October 22, 2018, Crosby and Associates made their final presentation to the Sheriff's Office, and copies were forwarded to the Executive's Office. He said, on November 2, 2018, the settlement went forward for the purchase of land in the Westwood Industrial Park for the Wicomico County Public Safety Complex, and was purchased for \$587,832.96.

Captain Richardson said, on January 10, 2019, the County released a request for qualifications for the professional architectural civil and structural engineering for the new Public Safety Complex. He said a deadline was set for February 12, 2019, and a total of 14 requests for qualifications were submitted by the deadline. He said, currently, the Purchasing Department is in the final stages of individual evaluations, and, once completed, a group average will be compiled, and from that point the County reserves the right to start negotiations with the highest vendor. He said, finally, on February 22, 2019, he did a purchase order for George, Miles and Buhr to submit a sediment and erosion control permit application to the County Soil Conservation District for the grubbing of existing trees on site in preparation of the lot. He reported, today he spoke with Ms. Katherine McAllister of George, Miles and Buhr, and she advised they should be receiving the permit by April. He concluded, that is where they are as far as the current situation, so they are waiting on the final evaluations from the Purchasing Department on the request for qualifications.

Mr. Davis asked if they have a new design, to which Captain Richardson responded, the design will come. He explained, Crosby and Associates was simply a feasibility study, which, basically, came up with the fact that they were well under-spaced for their area, and they needed to be brought into the current time. He clarified, they were just the consultant.

Mr. Wayne Strausburg, Director of Administration, then came before Council. Mr. Holloway said they increased the pay-go amount from bonded money for the Sheriff's Department. He then asked what the purpose of that was, to which Mr. Strausburg responded, they were trying to keep their borrowing at, basically, the same level that was being retired in the coming year 2020. He said they also wanted to get Beaver Run underway, so, when they looked at what they thought they would be able to afford coming out of fund balance versus what they wanted to borrow with that parameter, they decided to split the public safety building funding for 2020 half out of pay-go, and half bonded. He said, frankly, as they are going through the budget right now, they are taking a very hard look at that. Mr. Holloway asked how that would affect their reserves, to which Mr. Strausburg responded, that is what he is looking at right now. Mr. Holloway asked if that money would come from reserves, or would it come from money that was not spent from the year before, to which Mr. Strausburg responded, reserves is, basically, money

they have not spent. Mr. Holloway said it is not the rainy day fund, to which Mr. Strausburg responded, it is not the rainy day fund because they cannot use rainy day fund for that kind of a project, so it would come from uncommitted funds. He explained, they want to take a look at just how far they want to go into that unassigned fund balance because of a number of things. He said, first of all, they know that the minimum wage Bill has cleared the House, he is sure it is going to clear the Senate, and that is going to have an impact on the County not only because they will have to raise those people up to the minimum wage, but they have to slide the whole scale. He said the other thing that really has their attention right now is the Kirwan Commission. He said they got a late email today stating that has been, basically, put on the fast track up in Annapolis, so they will be talking about that at MACo tomorrow. He said the other thing, of course, is that most of the economists, and the fellow from the Office of Budget Management, indicated that the State is expecting a recession mid-2020, so they have to go back. He clarified, when he was doing the CIP, he was really looking at finances differently than he is right now as he prepares the budget. He said they are going to revisit that, to be honest, to determine how much they are going to borrow, and how much they are going to use out of fund balance. Mr. Holloway said the State has also said they think they made some mistakes in their budget analysis, to which Mr. Strausburg responded, the State shortfall right now is \$346 million dollars. He said he spent most of his day today going through what he thinks realistic revenue estimates are, but also looking at what their proposed capital spending is, and determining whether they should really do that given what they are looking at on the horizon. He said they have not gotten to a conclusion on that yet, so Council may see some changes in those numbers. Mr. Holloway asked, before they move forward with the CIP, should they have an update on their revenue estimates, to which Mr. Strausburg responded, he would certainly be happy to do that with Council.

Mr. Dodd said Mr. Strausburg mentioned the pay scale with compression. He then asked if anybody has done figures to see what that is going to cost the County, to which Mr. Strausburg responded, they sent those figures up to MACo, and he will tell Council that it was on the order of \$7 to \$8 million dollars, which is recurring, and he is not quite sure where that comes from because they are revenue capped. He said he can tell Council, based on the figures he has right now, what he will call their new general fund revenue this coming year is on the order of just around \$2 million dollars, and maintenance of effort is going to take up \$1.2 million of that, so they have about \$800,000 in freeboard. Mr. Holloway said they know they have operating expenses, so maybe they need to take a lot harder look at the capital improvement budget, to which Mr. Strausburg responded, they have to take a lot harder look at everything. He explained, they gave the Departments a five-year actual spending history. He said they did not have the time to go back and actually start with a zero-based budget, but they did look at what they have actually been spending by Department, and by individual line over the past five years, and they grounded this year's budget request in that actual spending rate. He said they are still scrubbing that, and they are at level 3 right now, but he still thinks in that rollup they have some hiccups, and they are trying to scrub that.

Mr. Holloway asked, when Human Resources did their estimates for the increase in minimum wage, did they figure for the unfilled positions also, to which Mr. Strausburg responded, yes, they did. Mr. Holloway asked if it would be advisable, due to the fact they are under this type of pressure, that they wait on the capital budget until they do the operating budget, and do them both at the same time, to which Mr. Strausburg responded, he thinks Council has the authority to extend the date for approval. He said, if Council wants to extend that to the first meeting of April, he does not have any objection to that because he thinks he will have a much clearer idea of what the expense budget, the capital budget, and what the real spending affordability is going to be by the end of March. He said, if Council wants to do that, he does not think they would have any objections. Mr. Bob Culver then came before Council, and

said he is more than happy to do that, but, they need to find out more from MACo tomorrow with the Kirwan Bill. He said he has a Board of Education meeting on Thursday, but the problem they are running into right now is that they have supposedly committed \$9 million dollars for Beaver Run, and they may not be able to do any of that because, if the Kirwan Bill comes through, they will be looking at \$10 million dollars, and they will not be able to afford anything on the CIP. Mr. Holloway asked if he thinks they are going to initiate the Kirwan Bill immediately, to which Mr. Culver responded, they were not even supposed to come back and hear it this year, so it is all a surprise right now. He said he was also told, in reference to the \$15 per hour minimum wage, that there would be a carve out for Western Maryland and for the Eastern Shore, but that turned out not to be. Mr. Holloway said they are not going to do a \$15 an hour immediately anyway, to which Mr. Strausburg responded, in the House, it is phased through 2025 with 75 cents an hour per year. Mr. Holloway asked if the \$7-million-dollar calculation Human Resources did was based on the \$15 an hour, to which Mr. Strausburg responded, that was done to \$15 an hour, but it will be over five years. Mr. Holloway said extending this until they get closer to the operating budget is something Council will have to talk about because the operating budget is something they have to live by, to which Mr. Cannon responded, he thinks Council still recognizes that the commitment for 2020 is sustainable and reasonable. Mr. Culver responded, he would not find anything to be sustainable right now, to be honest, until they get more of these figures. He said they are missing one figure, and that is the personal property taxes. He said, until they get that figure, and until they know how the Kirwan Commission is going to be voted on, they may get carved out in the Senate. He said the State is not sending information, and he would like to say, yes, everything is okay to go, but he is afraid to bite that bullet until he knows more about what they have coming in.

Mr. McCain said there is no harm if they extend the CIP as it is a planning document, to which Mr. Strausburg responded, quite frankly, he would feel a lot more comfortable if they extended it and waited. Mr. Cannon said, even as a planning document, it is a pain to amend it, amend it, and amend it when they find out they have serious issues if they have such a serious shortfall.

Mr. Dodd said the State told them two weeks ago to expect a recession in 2020-2021, to which Mr. Strausburg responded, mid 2020. He said six months into this fiscal year they are anticipating a downturn, but right now he is looking at their income taxes. He clarified, for this current year they budgeted for \$52.5 million for 2019, but their actual audit for 2018 was \$50.4 million, and distributions year to date would indicate that their actual for 2018 is going to come in probably around \$52.2 million, so there might be a little bit of a shortfall there. He said they saw a bit of a falloff in jobs, and then it leveled out, so they may be in stasis right now. He said there are two problems that make it difficult. He explained, the State distributes 16 months lagging, and the other thing is, because of the change in the Federal tax code, a lot of high income earners delayed their filing, so 2019 is sort of a funky year to look at to determine where they are going to stabilize, and what the run rate is really going to be. He said he would urge them to be a bit cautious on what they project for income taxes, and he would rather err on that side than be aggressive.

Mr. Cannon said, from what he interpreted, the majority of the spending appears to be just pay-go through reserves, so it is still going to be there, to which Mr. Strausburg responded, depending on how far they want to take those reserves down. He said he thinks they are at \$39 million right now, and he thinks they planned to take \$9 million dollars out, so that takes them down to \$30 million. He said \$30 million with that percentage of revenue would still be the highest in the State, and it would cover them for three months operating. He said the Government Finance Officers Association says that is a good benchmark to use, but his concern is, if they see a downturn, that they might be compromising their ability in the future to fund projects. He said he is probably about a week away from being a lot more

certain about what he thinks is going to happen, and he agrees with Mr. Holloway that he would rather hit pause and be a little bit more certain of what they think is going to happen before they move ahead. He said they still have a bite at the apple when they pass the operating budget, and they still have a bite at the apple when they decide what they are or are not going to bond, but they should look at the five-year spending plan, get a better look at the macro environment, and see if maybe they should be a little more careful, or if they are okay. He said the State is a wildcard, in his opinion. Mr. Cannon said he was always more worried about 2021 than 2020 because there were some very big commitments there.

Mr. Cannon asked Mrs. Hurley what the process is for extending the CIP, to which Mrs. Hurley responded, the date has to be extended by Resolution. She said Council may recall that they extended the date to March 19<sup>th</sup> at the last meeting, so, at the next meeting, they can have another Resolution prepared extending that date into April.

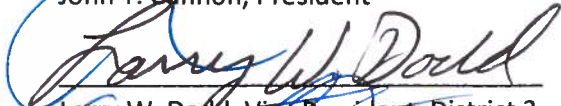
Mr. Culver said a lady from the Board of Education spoke at MACo, so he talked to someone about how they are \$115 million dollars in the hole, and she said there is no way the State will make that up. He said they were talking today about whether or not that will be passed down to the County just like the pension Bill was passed down. He said they have a great savings account, and he just does not want to spend it all in anticipation until they know more about this, to which Mr. Holloway responded, but the County also gets criticized for having a great savings account. He clarified, he is not saying they should get rid of it. Mr. McCain said they would not spend it all, but it would be a big chunk. He said, not to try to change what is in the plan, but because of the fact that the interest rates are still very low, he has no concerns, frankly, if they borrowed even more. He said he knows they only try to borrow what is coming off the books, but that is not a set rule or anything. Mr. Strausburg said he did that math, and their principal and interest (P&I) policy is 12 percent of recurring revenue, and they are at 10.9 right now, so he did a sensitivity study. He said he assumed that the market this year would be 4 percent over 20 years, but that is probably a little bit of a high interest rate, but he would rather be there. Mr. McCain asked if Mr. Strausburg means the P&I he mentioned is what is proposed, or right now, to which Mr. Strausburg responded, right now. He said he looked at if they wanted to move that a little bit, and, if they borrowed 4 percent for 20 years, the constant on that borrowing is 0.0727, so, for every million dollars they borrow, their annual principal and interest payment is \$72,700. He said, if they borrowed another \$10 million dollars this year, that would mean their P&I would go up to, essentially, \$735,000 on top of what they have now, and that would take their policy limit up to 11.25 percent. He said that is okay because they are still under 12, but then they have to look at the out years, and rates are going to be going up, and he thinks their revenue curve is going to be bending down, or at least flat, so they are going to limit their ability unless they modify that policy, and he is not too sure they want to do that in a recessionary cycle. He said they could do it, but he is not too sure he would be comfortable recommending to Council that they do that. Mr. Holloway said they also have to remember that every dollar they pay in interest is one that comes out of operating, to which Mr. Strausburg responded, he is absolutely right. He said he would welcome a two-week delay because he thinks he could talk to Council a lot more intelligently and factually in two weeks, and give them more comfort with what they really ought to do. Mr. Cannon said there is the Sheriff's Department, the Board of Education, Beaver Run, and the Airport, so, however they put those pieces together, they are high priorities, to which Mr. Strausburg responded, that is the issue. He clarified, there are a lot of priorities, and they wanted to cover as many of those priorities, particularly the ones that impact public safety, and the ones that would generate economic development, so that is what they tried to do in this CIP. He said he is just not quite comfortable yet that the plan they proposed back in February is one that he is comfortable proceeding with in this coming fiscal year, and he just has to do more math. He said he thinks tomorrow

at MACo when they get a better handle on where Kirwan is really going to land, that will really help with their thinking. There was no further discussion.



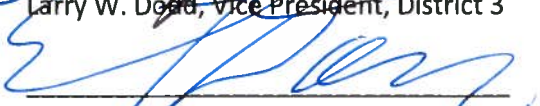
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John T. Cannon, President



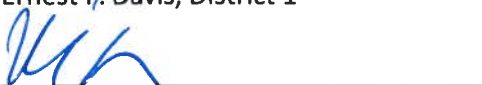
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Larry W. Dodd, Vice President, District 3



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Ernest F. Davis, District 1



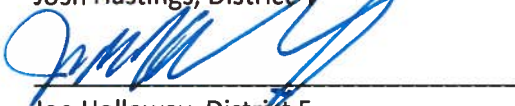
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Marc Kilmer, District 2



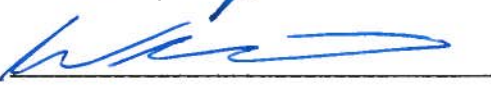
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Josh Hastings, District 4



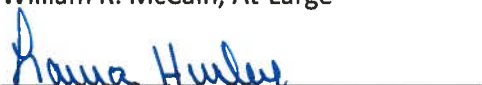
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Joe Holloway, District 5



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William R. McCain, At-Large



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Laura Hurley, Council Administrator