

## Open Work Session

### Fiscal Year 2020 Revenue Forecasting and General Fund Discussion

April 2, 2019

Mr. Wayne Strausburg, Director of Administration, and Mr. Weston Young, Assistant Director of Administration, came before Council. Mr. Strausburg said he will give an overview of what his thoughts are on this matter. He said, to start with, their per capita general revenue is ranked 22<sup>nd</sup> out of 24 jurisdictions. He said, when they look at that, there really are two functions, one being their tax effort, and the other being the wealth that is available to be taxed, so he will spin through that. He said their local income tax is the highest allowable in the State at 3.2 percent. He said, looking at their property tax rate, he gave Council several spreadsheets that show the ranks for the entire State, and show the rankings for rural Counties, and they will find that, for rural Counties, their property tax is higher than the rural County average. He said, when they look at their real property tax rate compared to other jurisdictions in the State, it is by and large a fairly average tax rate effort. He said their low revenue ranking, in his opinion, suggests what they really have at issue is a low wealth base, and the wealth available to them is, again, ranked anywhere 21 to 22 in the State. He said that is a significant problem because they have two very low taxing jurisdictions within an easy commute. He clarified, someone can be in Sussex County in 20 minutes, depending on traffic, or they can be in Worcester County in 30 minutes depending on traffic. He said Wicomico provides the employment and commerce center for a 4-County area, and he suspects that high wage income earners are inclined to live in lower taxing jurisdictions because of the impact on their wealth. He said, if they look at Worcester County, their local income tax rate is 1.75 percent, which is nearly one-half of Wicomico County's, and if they look at Sussex County, there is no local income tax. He said, if someone is a very high wealth earner, they are going to be inclined to want to live within a fairly easy commute, and those are easy commutes. Mr. Kilmer said he thinks Mr. Strausburg may even understate the case some. He explained, there was a report done at Salisbury University a few years ago that talked about it being a little misleading to only look at the County property tax because many people and many businesses are within the City, so they need to also count City property taxes, and then it is even worse. Mr. Strausburg said he was going to touch on that because, particularly when they look at businesses, they are, by and large, located within the urban core and municipalities because of the water and sewer, and, therefore, their property tax is double. He said, in some respects, he believes they have become somewhat of a commuter County. He said, from his standpoint, he is personally not inclined to suggest Council should be looking at imposing additional taxes and fees on wealth because he thinks that would actually work against them, but rather he thinks what they should be looking at is building their wealth base. He said they touched earlier on the growth north of the Delaware line, and that is water and sewer. He said he thinks they have the capacity in Salisbury to go a long way towards not only developing their designated growth area, if they can work out a suitable arrangement with the City of Salisbury, but they could also address the corridor along Old Ocean City Road where they are going to lose wealth because those homeowners, at some point in time, are not going to be able to continue to stay in their homes because of failing septic. He said he is encouraging them to really focus on how they can provide water and sewer to the designated growth area, and those areas that are going to need water and sewer that are already occupied.

Mr. Davis asked if Mr. Strausburg has talked to the people in Sussex because they do not have water and sewer, but they have companies come in and build developments that provide water and sewer, to which Mr. Strausburg responded, he has not done that yet. He clarified, he is not proposing they simply focus on utilizing Salisbury, Fruitland, or Delmar, but what he is saying is that he thinks they have to get very, very serious about how they provide water and sewer to the designated growth area.

Mr. Cannon said what Mr. Strausburg is talking about has been the highest priority as far as what Council has stated for the last four or five years, but the issue is where to start, and he thinks it has to be generated from the State level down because it is going to take funding. Mr. Strausburg said, when they mention the State, he is very seriously concerned about State finances because midway through this Legislative Session the State took a \$400-million-dollar write-down on their revenue estimate. He said Mr. Andy Schaufel from the Comptroller's Office presented to MACO, and he senses that they have already locally entered an economic slowdown because he tracks the employment. He said their income taxes are mostly holding up, but Council will recall that the income tax distributions to the local jurisdictions lag by about 14 months, so, when he is looking in real time at income tax distributions, that is based on employment and income from 14 months ago. He said he does not think they have yet seen the effects of the loss of jobs. He said they had their high point back in 2017, and he thinks since then they lost about 2,000 jobs, and then leveled out, but, at some point in time, he thinks that is going to catch up to them. He said they also have not yet seen the impact of the \$15 an hour minimum wage, which is going to come at them over the next five years. He said \$15 per hour on a 40-hour work week is \$31,200, and the median individual income in Wicomico County is \$35,000. Mr. Holloway said they are going to see a great jump in inflation when that starts hitting, and they are going to be paying \$8 for a cheeseburger at one of the local fast food places instead of \$6. He said he has talked to small business owners, and they are scared to death of this thing. He said he talks to people on social security, and they say they are not getting a raise. He said the people with the spending power, such as the elderly, are not getting a raise, so he thinks they are going to see terrible inflation and a drawdown in spending, to which Mr. Strausburg responded, he can almost assure Council they are going to see unemployment rise, and they have no idea yet what the State is going to do with regard to the Kirwan Commission.

Mr. Strausburg said two other things that concern him are that they have two fairly significant sources of income over which they have no control at all. He explained, they get about \$9.6 million from the State in their disparity grant, which is an annual negotiation, and really not codified, so, when the State is facing pressure on their own revenue and their own spending, that is necessarily going to come downstream. He said highway user revenue (HUR) has never been fully restored, and this coming year's budget for Roads is about \$10.2 million. He said they get \$1.4 million in HUR, and that is an \$8.8-million-dollar shortfall. Mr. Dodd asked what they used to get, to which Mr. Young responded, they were getting \$6 to \$7 million, but the last few years it has been about \$600,000, so they did get a slight bump. Mr. Holloway said they might as well forget about that. He said he knows the shortfall gets brought up every year, but it is over with, and they can only hope to get some more as it comes along. He said he sees all of the worries, and he hopes that is reflected in the spending when the budget comes along.

Mr. McCain said, back to sewer, they advocate for that, and they have the growth area up there, but his question revolves around improving their wealth situation. He said Mr. Strausburg was talking about growth, so his question becomes how that would generate revenue, to which Mr. Strausburg responded, it generates revenue through increased property taxes because their base would increase. Mr. McCain said they cannot go past 2 percent with revenue. He said they can increase their base all they want, but, if it is 2 percent revenue, it is 2 percent revenue, to which Mr. Strausburg responded, it is 2 percent on a higher base each year. Mr. McCain said it would still only grow at 2 percent. He said their property tax revenue could grow next year at 20 percent, but their revenue can only grow at 2 percent, to which Mr. Strausburg responded, 2 percent of the prior year. He said Mr. McCain can go through the revenue cap if he chooses, to which Mr. McCain responded, he is fully aware of that, but that is the whole issue. He said this is not a discussion on the revenue cap, but, like it or not, that is what they have, so that is the dilemma of trying to grow their way out of it. He said every other community in

America growing their tax base should generate revenue because their tax base grows, but Wicomico County's tax base might grow, but the revenue is only going to grow at 2 percent per year, to which Mr. Strausburg responded, but they would grow income taxes too. Mr. McCain said he knows that, but he is not talking about income taxes. He said he is talking about half of their money coming from property tax, give or take. Mr. Strausburg said that includes personal property and utilities. Mr. McCain said there are two main sources of revenue, which are income tax and property tax, and Wicomico County is, essentially, capped at both. He said they are capped in income tax in terms of rate, and they are capped in revenue in terms of the revenue cap on property taxes. Mr. Strausburg said his concern is, if they are already a high tax jurisdiction, which they are, how do they strategically position themselves to be more attractive to businesses and residential development when they have two very low taxing jurisdictions within a very easy commute. Mr. McCain clarified, he agrees with Mr. Strausburg in terms of growing their base, but, as their base grows, their tax rate will decline because of the revenue cap. He said this is a fact, and is not something to think about, but is just math. He said, if they grow at 10 percent, the revenue cap is at 2 percent, and their mil rate will go down every year. Mr. Strausburg said the first year new construction is a freebie each year, but it falls into the next year.

Mr. Young referred to his slide presentation with a map, and said the white area is agriculture land, for the most part, and is the majority of the County, which is probably a little over two-thirds. He said the light blue area is the designated growth area that is set in Zoning, and Council will see it kind of surrounds around each municipal area, with the exception of the Airport out there by itself. He said the municipalities are in yellow. He zoomed in on an area showing Salisbury City Limits and Pemberton Drive. He said the yellow has annexed bits and pieces along Pemberton Drive, and that used to make it fun in terms of snowplowing, but now they have agreements to handle that. He said the blue area to the northwest is all designated as growth area. He said Mr. Hastings brought up failing septic systems earlier in the meeting, and this map shows small lots that are all on septic at the moment. He said the point is, this is all potential for water and sewer expansion, and this is just to the west of Salisbury. He said, if he goes a bit to the south, they can see the designated growth area around Fruitland, and Riverside Drive Extended. He said the point is, when they talk about extending water and sewer, they are not talking about the entire County, but zoned areas where they would work with the municipalities to see where it seems to make sense so that, as these Cities grow, this is the way they would extend it. He said Mr. Davis brought up package plants, or water plants put together, and that is an option. He said Public Works has a study going out to bid soon that will look at that, in addition to the failing septic, so they are trying to put some sort of plan in place as to what is the best way going forward, and what their options are. He said they may find that Fruitland is more acceptable to extending their services out there in an Urban Service District format than another municipality. Mr. Davis said, with that in mind, if they do that, eventually those municipalities are going to do just what they did on Pemberton Drive and annex those places in, and take them right out of the County. Mr. Holloway asked how they could keep that from happening, to which Mr. Davis responded, they cannot. He said, if they do not have water and sewer, and they say they can offer it to them, they are going to take it, and then they will put their rates on these municipalities and force them to come into the City. Mr. Young said it could behoove them to get into the business themselves. He said the Urban Service Districts are paying 50 percent more, and, if Salisbury raises their rates by 5 percent for water and sewer, that is actually a 7.5 percent increase to their water rate if they are in an Urban Service District. Mr. Cannon said he has always been concerned about this, and, if this continues, the municipalities are going to grow and there will not be a County anymore, but he does not think that is necessarily a bad thing. He said they will have the municipalities expanding, and the services are going to be given to the public as long as they are willing to pay. He said the real trick is that the individuals who own the property have to ask to be annexed, and that is the problem, to which Mr. Davis responded, they are going to force them, and then raise the rates.

Mr. Strausburg said they have Public Works studying this because the first decision they have to make is, at the end of the day, what is the most efficient way to deliver water and sewer to that entire growth area. He said, whether it is expansion of the existing capacity, utilization of the existing capacity, coming to an agreement with the municipalities who own those systems as to how they might do that in a way that works for them and for the County, or getting into the water and sewer business themselves, he does not have the answer to that yet, but they really need that answer, and they need it soon. Mr. Holloway said they also need an answer on where to start. He said they know where the problem areas are, to which Mr. Strausburg responded, he would start with keeping people in their homes.

Mr. Cannon said Mr. Young talked about a study, but George, Miles, and Buhr did a study evaluating the entire scenario that very clearly says that using municipalities is pretty much the only option they have in Wicomico County. Mr. Young said that is going to be the cheapest option, but the question is whether they will work with the County. Mr. Strausburg said he thinks it is the least expensive, but that is before considering the points Mr. Davis brought up, and is that the least expensive to the citizens living in those areas, which he does not know. He said he thinks it is worth having a discussion with Mayor Day about some sort of a construct they could put in place where the City would extend services into the growth areas that need service, and they would do it on an Urban Services basis, but it would phase out over a period of time so that annexation would not occur for ten years, or whenever the property is sold.

Mr. Dodd said he talks to his people in his district all the time, and he has not talked to one person who said they want to be annexed into the City of Salisbury. He said, if they keep expanding, these houses are going to end up being forced at some point to buy water and sewer from the municipalities and be annexed, and they do not want to be doubled taxed. He said, if they keep expanding it, those people are not going to move further out in the County, but will move somewhere else where it is cheaper to live.

Mr. Kilmer asked, if the County wanted to pursue their own wastewater treatment plant, is that something that would even be possible, aside from the expense. He asked if the State would allow them to put another wastewater treatment plant on the Wicomico River, to which Mr. Young responded, he thinks it would be more realistic doing package plants for regions. He said it would not be the size of the City's treatment plant. He said, looking at the map they can see how it is like a harsh jigsaw puzzle, so it would be hard to run County sewer pipes down roads that would possibly have City sewer pipes, and it would be a mess, but in other areas it is possible. He said, honestly, he would think the ideal situation would be, if they do go with water and sewer authority, or whatever format that takes, putting all treatment plants under one organization. He said Hampton Roads Sanitary District is what he is most familiar with from his time down in Hampton Roads. He said all of their treatment plants, whether it is Newport News or Virginia Beach, are all under the same roof. He said that also allows for situations where, if one treatment plant is struggling with nitrogen, but other plants are over treating, from a regulatory standpoint, they can say they are fine, whereas, if it is just one plant and they are in violation, they are in violation. Mr. Kilmer asked if that would include the existing ones in Sharptown, Salisbury, and Fruitland, to which Mr. Young responded, correct. He said, just like it is cheaper to run pipe from existing, they have existing labs to test water quality, and they have existing staff. He said putting them all under one roof would be ideal, which may not be feasible or political. Mr. McCain said Mr. Young talked about Hampton Roads, but Virginia Beach is one municipality, and not a County. He said they have a couple like that in Virginia, to which Mr. Young responded, they do not have a County that oversees them. Mr. Holloway said, if they want to see a good model, they should look at Ocean Pines. Mr. McCain said, as part of this whole sewer plan, they have to address the zoning issue in concert at the same time as they develop sewer. He said a lot of that growth area is actually zoned agricultural, and

their zoning is pretty archaic in that they have one agriculture zone. He said they are one of the few Counties in the Country that has that, particularly in Maryland. He clarified, they do not have A1, A2, A3, etc., but just agriculture, and agriculture inside that growth zone is, obviously, very different than agriculture out in the far reaches of Nanticoke, Quantico, or Mardela.

Mr. Dodd said, at the last Tri-County Council Executive meeting, which was the night of the Budget Hearing, the last thing mentioned was that the Tri-County Council, with all three Counties, was going to form a committee to discuss water and sewer, so maybe that will be an option.

Mr. Cannon reminded everyone that this Work Session is about the general fund and revenue. He said this is a big topic, but they are running out of time on this topic.

Mr. Strausburg said, to paraphrase Governor Hogan, his personal opinion is no new taxes. He said he does not see where they are going to generate a lot of additional revenue through additional fees and/or taxation. He said, to Mr. McCain's point, income taxes are at the highest rate they can exert, and they are revenue capped on property taxes. He said, if they raise their property tax a penny, they get about \$625,000. He said, if they raise personal property mil rate, it is about \$39,000 a penny, and he thinks they can raise it about 17 cents right now. He said there is some money on the table, but he thinks that money would pale in comparison to some of the costs coming at them, and inflation he believes is going to come at them. He said he personally came to the conclusion that they really have to get very, very serious about how they grow this County in a way that makes it attractive for people to locate here residentially, and create businesses here, yet stay as competitive as they can with two very low tax environments within an easy commute. Mr. Holloway said the only thing they have, really, is the property taxes, and they are capped on their rate on their income taxes, but they are not capped on the growth, so they can grow income taxes, to which Mr. Strausburg responded, that was his point.

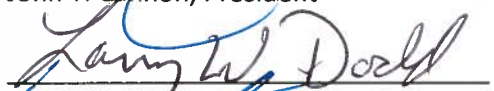
Mr. Kilmer said Mr. Strausburg passed out something about wealth per pupil, and this is something that was brought up at the Public Hearing. He said there was a question asked that, if they did not have the revenue cap, their wealth per pupil would be so low, and they would get so much State aid, but he thinks that is a little bit backwards. He said their wealth per pupil is low because they are a poor County, and the State aid formulas are based on that wealth per pupil. He said they could double their tax rate, but they would still get the same State aid because they are a poor County. He said, as long as they are a poor County, the State is going to keep funding their school construction at a much higher rate than Worcester County, and keep giving a lot more money to their per pupil revenue. He said, regardless of what their tax rate is, it is the wealth per pupil that really drives that, so there is definitely some confusion out there. Mr. Strausburg said the wealth per pupil in Worcester County is \$1,185,306, and the wealth per pupil in Wicomico County is \$290,096, and that is staggering. Mr. McCain said that is just math, and they cannot do anything about it because it is what it is. Mr. Strausburg said it also clarifies when people make comparisons for what Wicomico County spends per pupil versus what the wealthiest County in the State spends per pupil, which he thinks is a bit disingenuous, and that is his point. Mr. McCain said he thinks people get that, but, the flipside of that is they do not get the aid that Wicomico County gets, so it all balances out, and that is the whole idea behind the formulas. He said he does not disagree with Mr. Strausburg's comment about it, and they are not going to win this game in terms of property tax, or even income tax. He said, if the income taxes are rising for the County, it will be because the economy is doing better everywhere else as well, but they have not even talked about the other categories. He said he thinks they have to try to be creative, and find ways they can create revenue that does not affect their general populous. He said, for example, this is his second Council meeting today. He said he spent all afternoon at Sussex's County's meeting for business purposes, but it had to do with

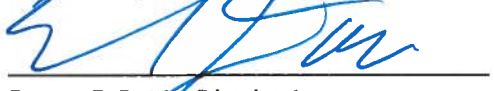
solar. He said solar is coming here, and they are one of the few Counties that has not gotten a major utility yet. He said it is in almost every single County on the Shore now, and the Counties have learned to adapt to it because they are making money off of it. He said Dorchester has changed Legislation, Caroline has solar plants that came with 1,000 acre solar farms, and there are utility companies. He said, when it first happened, it was still agricultural land, so all they were getting was agriculture tax, but they learned to tax that now. He said that is something Wicomico needs to look at because it is going to come to them soon, and it is just a matter of time because they are flocking to Delmarva. He said he just mentions this as an example, but they can look at other categories that do not affect their general populous, and not increase tax rates, to which Mr. Strausburg responded, he is happy to look at that.

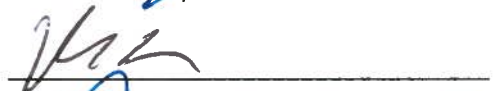
Mr. Holloway said it is a good idea they are looking at this today, but what may be a better idea would be to look at the County's spending outlook instead of the County revenue because it does not seem like they have a lot of options as far as bringing money in.

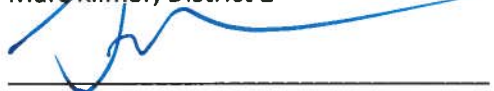
Mr. Cannon said they will hold a Work Session in the very near future on the wastewater management, to which Mr. Strausburg responded, once they get the budget and CIP behind them, they will do the best they can to put the jets on that discussion because it is very important. There was no further discussion.

  
John T. Cannon, President

  
Larry W. Dodd, Vice President, District 3

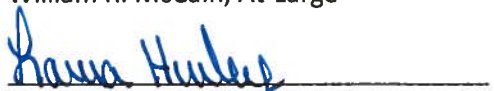
  
Ernest F. Davis, District 1

  
Marc Kilmer, District 2

  
Josh Hastings, District 4

  
Joe Holloway, District 5

  
William R. McCain, At-Large

  
Laura Hurley, Council Administrator