

**Open Work Session
Capital Improvement Program (CIP) for Fiscal Years 2021 through 2025
February 4, 2020**

Mr. Wayne Strausburg, Director of Administration, and Mr. Weston Young, Assistant Director of Administration, came before Council. Mr. Strausburg said, at the outset of this Work Session, he will reiterate that they really do not know what in this plan they can afford and what they cannot afford until they get further clarification on what fiscal impacts are going to come down from the State. He said Council may recall that he gave them a ten-year forward forecast on how things looked, and Council may recall some of the assumptions he made in that forecast, and Council may also recall that capital spending was going to become very, very difficult after 2022. He reported, so far, the underlying assumptions they made when they ran that ten-year forward forecast are pretty much spot on. He said, actually, he had put an 8 percent increase in healthcare costs, and the County's premium for this coming year is estimated to increase 13 percent, so there are a couple things that just are not going in the right direction. He said, again, he just wanted to preface all of this with the fact that they are in a very fluid situation, and until certain things are clarified, it is going to be difficult to make final spending decisions.

Mr. Strausburg said he would like to make a couple of comments with regard to the Board of Education's CIP. He said, in the current fiscal year, they have \$7 million dollars programmed for Beaver Run Elementary. He said he met with Mr. Stauffer, Mrs. Ashby, and Mr. Reid last week and asked them for a cashflow forecast, and they are going to need that funding by December 1, 2020, so they are in some time compression. He said Ms. Michelle Ennis and Mr. Reid got together and scrubbed the bond issues, the projects that could be closed out, and they can repurpose \$6,144,348. He clarified, they need to check with bond counsel Lindsey Rader to double check the language in the specific bond Bills to be sure they have the flexibility of repurposing those funds, but he would think that because they are being repurposed for a school construction project, they should be okay. Mr. Cannon asked if that was part of Bennett Middle School, to which Mr. Strausburg responded, it is several projects. Mr. Young added, it is primarily Bennett Middle at \$4 million. Mrs. Acle asked how it is they have \$6 million, to which Mr. Strausburg responded, projects have to be formally closed out before they can do anything with the money, and he went through that at the last Council meeting. Mrs. Acle said Mr. Strausburg did not clarify if it was the County's budget or if it was the School Board's budget, to which Mr. Strausburg responded, it is the Board of Education's projects, and they have to certify that the projects have been closed before the County can do anything with the money. He explained, until they certify that the projects are closed or abandoned, the money is in stasis, and they have scrubbed all that. Mr. Cannon said he believes there was \$1.3 million that was overstated, to which Mr. Strausburg responded, that was for 2022 for Beaver Run. He clarified, he is going by memory, but the estimated need is going to come down in 2022 by \$1,279,000, so that is not impacting the cycle they are in right now.

Mr. Strausburg said the other thing he wants to point out to Council is that they will recall they had a 2019 surplus of \$4,146,224, and, from that, Council previously appropriated \$2,516,150 for Airport water, Morris Mill Dam, and the Corrections roof project. He said, when they net those numbers, they come to \$7,774,422, so he thinks, absent them being able to go to the market and borrow money, they do have cash on hand. He clarified, if he can get certification from Lindsey Rader, they will have close to \$7.8 million dollars available to keep Beaver Run on task and not hold that project up.

Mr. Strausburg said he had further discussions with the County Executive, and the Mardela project is open for further discussion, but, again, they need further clarification from Bob Gorrell at the

Interagency Commission on School Construction (IAC), so they are going to try to get together with him. He said they will be in Annapolis tomorrow, and they do not know his availability, but they would like to have a discussion with him about what the State's actual fiscal situation is with regard to these projects. He said they also, again, need to understand what the fiscal impacts are going to be as it relates to the overall affordability of all the projects they have put forward in the CIP. He said they are trying to update this almost on a daily basis getting as much information they can from day to day so they can provide Council with the best information they can to where they think they are going to land on this.

Mr. Holloway asked if there were projects they forward funded and were supposed to get reimbursed on, not just from the Board of Education, but other projects. Mr. McCain asked if the Airport was one, to which Mr. Strausburg responded, they have not forward funded anything, and he will get to the Airport because he knows that is one of the specific areas Council wants to talk about this evening. He said he will have to look back for Mr. Holloway because he really does not want to talk off the top of his head. Mr. Holloway said he recalls something a year or so ago, to which Mr. Strausburg responded, there was some forward funding, but he is drawing a blank, so he will look that up and get back to him tomorrow.

Mr. Cannon said, similar to what Ms. Smith said, a lot of the impact for Kirwan does not hit them until 2026, though he assumes they would start looking to have a sinking fund for it, to which Mr. Strausburg responded, the issue is Kirwan has not been decided yet. He clarified, Annapolis has not decided how they are going to fund their portion of Kirwan, and has not decided whether the proposed loading will be frontloaded or backloaded, so that will all be discussed. He said the Kirwan Commission put forward their recommendations, but the General Assembly is going to make those decisions, and they are nowhere close to making those decisions. He said his reading on that is they will not have any real clarity until early April, so it is sort of foggy right now in terms of what that total impact will be, how it is going to be funded, and the timing of what those mandates are going to be. He said they need that in order to really take a look at this five-year plan because they do not know what the impacts are going to be.

Mr. McCain said Mr. Strausburg was talking about cash on hand and so forth, but he also made the reference "If we do not go to the bond market". He then asked, why would they not be going to the bond market when they have two school projects, and when Governor Hogan has made millions of dollars available for school construction? He said they have a record amount of State dollars available, a low interest rate environment, and they always go to the bond market for large capital projects like that, to which Mr. Strausburg responded, he was not going to bring this up, but he will respond to that. He said the elephant in the room is, in order to pass any bond Legislation, they need to certify that they have a duly appointed County Attorney and a duly appointed Finance Director. He said it is problematic, and that is unfortunate. He said they are talking with Lindsey Rader, but the reality of it is, when they have that difference of opinion between the Executive and the Council as to whether or not those sitting appointees are duly appointed, they cannot go to the market, to which Mr. Holloway responded, it is not a difference of opinion between the County Council and the County Executive, it is the Charter. He said it is what the Charter says, so it is just not being followed. He clarified, he was not trying to be sarcastic, to which Mr. Strausburg responded, he understands that, but his point is that he cannot go to the market. Mr. McCain asked when they would normally go to the market, to which Mr. Strausburg responded, they would have already been up there. He said they tended to sell early in the past several cycles because of the direction of the interest rates in the market, so they would have probably sold in October or November. Mr. McCain asked how late they can go, to which Mr. Strausburg responded, they can go as late as they want, but the later they go, they take somewhat of an interest rate risk, although he does not think that is a great risk right now as he thinks that risk will occur after the next presidential election. He said they begin to run out of time because they have to get in front of the

credit rating agencies, they have to go through the entire public process, and then they have to advertise the issue, and then they have to close the issue and have it funded, so he will tell Council, quite frankly, that they are probably very, very close to fail safe. Mr. Cannon asked if they would be very close to fail safe if they were to change course and do the funding with a local bank, to which Mr. Strausburg responded, they would still have the same issue. Mr. Cannon said they would, certainly, on the certification, to which Mr. Strausburg responded, he thought about that, but they still have that same issue. Mr. Cannon said he did not know if somehow or another they could manage to get the right people in place and begin this process, then maybe the window would not be quite so tight with local funding as opposed to the procedure they have to go through at the market. Mr. Strausburg said, as Council knows, they have a healthy fund balance right now, so the other alternative is, to Mr. Holloway's point, for the projects that are critical they could forward fund those out of fund balance, basically loan that money, and have it repaid when they go to the bond market. He said he is not crazy about that idea, but, on the other hand, he does not want to see critical projects held up when they are sitting on the cash that could keep them moving. Mr. Cannon said they were going to bond \$12 million, and then they were going to use about \$9.6 in pay-go, to which Mr. Strausburg responded, then it starts to get sketchy. He said, if they go to fund balance for all of that, those numbers do not work. He said his major focus right now is keeping Beaver Run on track, and he thinks this is a good way for them to keep that project on track not leaving what he will call idle fund balance sitting in place when they have that need. He said, if Lindsey Rader can give them an opinion that they have the legal authority to repurpose the \$6.1 million dollars, then he thinks they have a solution right there for Beaver Run and it stays on track.

Mr. Strausburg said, moving forward into 2021, in these Work Sessions he would like to accomplish good discussions with Council about the relative necessity of each one of the projects that have been listed, particularly with the Airport because he knows there is a lot of money in play at the Airport. He said he thinks the suggestion was made at the last meeting to push some of that spending out a little bit further than five years, and he will be sitting down with the Airport staff and taking a very, very hard and realistic look at what the real construction time is. He explained, for instance, there are certain things they cannot do out there until they have Airport water, but right now they still do not have closure on that. He said he also cannot do anything with the extension of the runway until the FAA approves their Master Plan, and they are telling him they might have that approval by March 31, but he has heard them give him dates before. He said he is going to try to do as good a job as he can to say what a realistic timing for these projects is, and try to dovetail the funding of those projects, and that may spread the timeline out further. He clarified, that is a work in progress, and he has not been able to sit down and do that yet, but they have a weekly Airport meeting, so he intends to start that process this Thursday.

Mr. Strausburg said, with that background, they are here, they have Mr. Tony Rudy here from the Airport, and they have Mr. Dallas Baker here from Public Works, and it was his understanding that Council wanted to talk about Education, Public Works, and the Airport, so they have the people here to talk about that, and they will be happy to answer any questions and provide any clarification they can.

Mr. Holloway asked if they are having a hang-up with the City on the agreement for the Airport, to which Mr. Young responded, he would not say a hang-up, and Mr. Wilber and Mr. Tilghman are meeting in the near future. He said, if they watched the City Council Meeting last night, they were all in favor of supporting this project, so now it is about how to work out an agreement both sides are okay with, and they have both been tasked to sit down and hammer something out that makes sense. Mr. Holloway asked if that is an annexation, to which Mr. Strausburg responded, it is the pre-annexation agreement.

Mr. Cannon asked if it is premature to close Walston Switch Road until they are a little further along, to which Mr. Strausburg responded, that is going to be a requirement in any event to get the Airport Master Plan approved. Mr. Young clarified, that is not tied to the water. Mr. Strausburg said the reality of it is that the FAA has not been happy with the Walston Switch Road alignment for years. He said the FAA has, basically, winked at it, but when they go in every ten years for their Airport Master Plan update, the FAA says now they have to address these things. He explained, the problem with Walston Switch Road is that they have stopped traffic in the runway protection zone (RPZ), the landing zone, and they just do not allow that, so the alternative was for them to totally realign Airport Road. He said that does not work because it is very expensive, so, from their standpoint, the FAA is saying they have to close through traffic on that road. He said, from his standpoint, he thinks it also lessens the possibility of accidents at that intersection of Walston Switch and Mt. Hermon Road. He said they will keep it open to the point where that lady's home is, and the subdivision on the left-hand side would still have access, so he thinks it is fine for the residents. He said they spoke with the fire and EMS, and they are perfectly comfortable with going up Mt. Hermon Road. He said it is unfortunate, but it is a necessity they do that. Mr. Holloway said the concern he is hearing from folks in the Quail Ridge neighborhood is that they were worried it was going to get closed off at Mt. Hermon Road, but now he has seen the map, and he talked to Mr. Baker about it earlier. Mr. Strausburg said the only issue with the FAA is the incursion of traffic and stopped traffic in particular in the RPZ. He explained, they have aircraft coming up and down, and they do not want a stopped vehicle or a transiting vehicle to distract a pilot, or perhaps being an obstruction if the pilot comes in too low, or if the aircraft is disabled on takeoff or landing.

Mr. McCain said he has one last comment regarding schools, and he just cannot emphasize enough the importance of finding a way, whatever alternative they are going to have to do, to keep Beaver Run and Mardela on track. He said they are in a situation where they have dollars available that they have never seen before, so they need to utilize that. He said these school problems are not going to go away, so the longer they delay it, that just means it will cost them more in the future. He said they have the capacity, so he just cannot emphasize that enough that they have to figure this out to keep those on track. Mr. Strausburg responded that he understands. He said they have had further discussion with Executive Culver, and he is open to further discussion on Mardela Middle and Senior High School, but their first step is to talk to Bob Gorrell at the IAC. He said they want to also in the very near future have a meeting with Dr. Hanlin, Mr. Stauffer, Mrs. Ashby, and Mr. Reed to see if there is some way they can coalesce and have a mutually acceptable solution for that school because they know a solution is needed.

Mrs. Acle asked if they are on track for funding for the Westside Intermediate roof, to which Mr. Young responded, they are proposing their portion, the local match, but, according to the IAC documents, the State has deferred that. He clarified, their County portion has been put forward just like last year, but the State is deferring the project due to fiscal constraints, which is the same thing they are saying about Mardela right now. Mr. Strausburg added, that is also part of the discussion they will have with Bob Gorrell, and they need to get their bearings on where they are. Mrs. Acle asked, if this is the County's portion and the State does not approve it, do they get their money back, to which Mr. Young responded, the County keeps it. Mrs. Acle asked if they reallocate it, to which Mr. Young responded, as Mr. Strausburg described the bond projects being closed or abandoned, this would be abandoned, and then they would put it forward next year as long as it remains a priority with the Board of Education, and it would not go anywhere else unless they transfer it. Mr. Strausburg said they have to find a way to get that project funded, but unfortunately the winds in Annapolis want to see local governments pick up the costs of limited and systemic renovations. He said the State wants to put their money into new school construction, and he thinks they all know that the metroplex Counties are in very sore need of new school construction as well, and there are a lot more votes in the metroplex Counties than there are in

the rural Counties, so there are political balls in the air, there are fiscal balls in the air, and some of that is beyond their control. He said, when they look at these projects, they understand they cannot have a school that has a leaking roof, so they have to find a way to figure that out, and they are trying to get their bearings with the IAC. He said, if need be, they have to get with their Legislators and see to what extent they can lobby and negotiate for a better share of those funds. He said the things he is hearing each week when he goes up for the Legislative Subcommittee and the Education Subcommittee is that the metroplex Counties are going to get the lion's share of school construction funding, and that should not come as a big surprise, particularly in the leadup to the 2022 election. Mr. Cannon said that is kind of what concerns him, similar to what Mr. McCain was saying. He clarified, if the money gets committed, Wicomico County could really be left out. He said the State could say they have not heard from Wicomico County, so what did they expect the State to do, and it will not take long for that to possibly go in the wrong direction, to which Mr. Strausburg responded, they need to get up there, absolutely.

Mr. Cannon said he does not know where to go forward from here because it sounds to him like they really have to regroup the entire CIP. He said they could have Work Sessions with either one of the gentlemen here tonight, but his concern is it is going to spend an awful lot of time when they do not even know what is going to be a reality in this CIP. Mr. Strausburg said he wanted these gentlemen to be available if Council had looked through their project lists and had specific questions about the projects and why they are important, so they are happy to have that discussion. He said, on the other hand, if Mr. Cannon thinks it is a bit early, they are willing to go home. Mr. Cannon said a broader question is, in the CIP, they are planning about \$7.8 million dollars for 2021, and \$2.5 million of that is old money, and then the other \$5.2 million is pay-go. He then asked if they still see that as a reality, or are they tied up with the fact that the next \$17 million for 2022 could cause them to be at risk? He clarified, in other words, why spend \$7-\$8 million now if they cannot finish the second phase of the project, to which Mr. Strausburg responded, absolutely. He said he cannot tell with any certainty until he gets better information from the General Assembly because the thing they do not want to do is borrow money and/or take money from the general fund and begin architectural, engineering, and other soft costs on a project that may not be able to be executed because of the fiscal constraints, or because the State says, no, they are not going to support it. He said the timing is atrocious, and that is all he can say. He reiterated, the timing is terrible, and, again, they are trying on a day-to-day and weekly basis to look at as many options they may have so the critical projects stay on track, and also looking at other funding opportunities. He said he had email traffic today that he forwarded to Chris VanHollen's office and Ben Cardin's office about some \$906 million dollars in federal funds that are available for transportation projects. He said he does not know whether or not they can tap into those, for instance, for the runway extension because that is the most expensive project they have at the Airport, and of course the primary driver for doing that runway extension is for retaining Piedmont Airlines headquarters here in Salisbury, which he thinks is extremely important. He said they are looking for different funding sources, they are looking to get as much information in fiscal mandates from the State, and they are looking very closely at trying to value engineer each one of these projects. He said they have identified several projects at the Airport that they think can be value engineered and can be delivered, perhaps, at a lower cost.

Mr. Cannon said he likes the Airport parking lot idea and thinks it is a very progressive line of thinking, to which Mr. Strausburg responded, it has a one-year payback, so it is a great idea. Mr. Cannon then asked if they will completely abandon the group managing the costs, to which Mr. Strausburg responded, that group expressed an interest in participating in the whole project. Mr. Cannon said the Airport pays them to participate in the project, to which Mr. Strausburg responded, they will see what the best way to go is. He said Airport solar is still a possibility where they think they can do what Dr. Hoy did at Wor-Wic to

generate enough electricity to run the entire Airport. He clarified, they have to get a solar partner for that, but those are ways to try and mitigate operating costs and improve the Airport experience as well.

Mr. Cannon said he thinks Council is looking for a structured detail of where the County is really going, and how it is going to be sustainable from year one to year five, but he thinks the verdict is still out on that, to which Mr. Strausburg responded, it is. Mr. Cannon said, as far as specific details of the reason for the expansion of the runway, Council recognizes the state of the Airport and the fact that so many hangars need work. He said Council received Mr. Strausburg's email referencing there is competition, so they need to move forward. He said Mrs. Veatch's letter to the FAA explaining the sense of urgency, not only for Wicomico County, but for Piedmont, is something Council recognizes, but trying to portion out the five years to make sure they are pacing themselves properly was suggested at the last meeting, to which Mr. Strausburg responded, he could not agree more. He said it is very daunting, and, from their standpoint, they look at it and forward forecast, but they go to Annapolis each week and see the direction things are taking. He explained, they look at the cost of projects, and the need for these projects across all Departments because their infrastructure is in a bit of trouble, but they have to be able to afford it. He clarified, if he was asked today whether or not they can afford it, he could not tell them because he does not know what is going to happen to the County. Mr. Cannon said, again, he does not think they are going to see the impact of Kirwan for several years, and Council is just looking for the next five years, to which Mr. Strausburg responded, but they still have to look at the ten-year impact because they are going to go out and bond for 15 years minimum. He said he will try to update that ten-year forward forecast based on the learning they have had since he presented it to Council, but it puts an awful lot of pressure on capital spending unless they find something to cut someplace else. He said, with 83 percent of their budget being Public Safety, Health, and Education, there is not a whole lot left to cut. Mr. Cannon said he thinks their income tax receipts are going to be up, to which Mr. Strausburg responded, Andy Schoeffel, who is in the Comptroller's Office and does all of the revenue estimates, presented to MACO on Friday, and he went to that presentation, which he has a copy of and can give to Council. He said Mr. Schoeffel said they had a very healthy increase in their income tax receipts in 2019, and that is principally a lot of what generated that surplus, but he is calling that an anomaly that had to do with taxpayer behavior with regard to two things; timing of capital transactions, and also people not being up the learning curve yet on the federal standard deduction and its impact on their State tax return. He said State refunds are the lowest Mr. Schoeffel has ever seen and that is because of people like himself where the standard federal deduction was very attractive, but he knew by taking it he was going to pay more in State income taxes. He said State income tax returns were split about 50/50 between Maryland taxpayers who were taking the standard deduction versus the itemized deduction, but itemized deduction returns have gone down to 25 percent. He said Mr. Schoeffel is anticipating a change in taxpayer behavior and advises for 2021 not to count on the big November distribution they received. He said they are trying to go back and correlate the tax receipts they had in 2018, which were more of a normalized tax receipt, factor that up for what Mr. Schoeffel believes their net GDP and their net personal income tax increases are going to be, take out that November anomaly, and then see what that looks like. He said he does not anticipate that trend continuing, and Mr. Schoeffel believes it is going to level out and they are looking at a third quarter 2021 into second or third quarter 2022 economic slowdown. He clarified, Mr. Schoeffel did not call it a recession, but said they are already seeing the earmarks for an economic slowdown and he believes it will be a typical recession as opposed to the recession they endured for the better part of ten years. He explained, this is more of a structural recession, and, in some respects, because that kind of recession is structural, it is perhaps harder to climb out of because it was not generated by a speculative bubble, but is just a slowdown in the overall economy, and they have to grow themselves back out of that. Mr. Cannon said he is not sure how extreme those numbers are going to be, but he thinks they will be fine.

Mr. Cannon said, all of that aside, they have a CIP that Council is going to have to approve, but there is really not a procedure in place for an amended CIP. He said last year they must have had three or four amendments at one time, but there has never been a process to amend a CIP once it is given to Council, outside of what Council may request be changed. He said, if that were the case, their initial deadline would not have been back in December, but could have been March, so he does not know where this is headed because Council already has the CIP, and there is not any process in place for the Executive to take this one back and present a new CIP. He then asked what the timeframe is because there has to be a resolution, to which Mr. Strausburg responded, having an amended CIP that he thinks has legs and can be funded is going to be April. Mr. Cannon said that does not make sense because Council will have to approve it, to which Mr. Strausburg responded, Council extended that to June 1, 2020 by Resolution. Mr. Cannon said they will still have to do the borrowing, to which Mr. Strausburg responded, that is an issue right now, and he does not have the answer. Mr. Holloway said there is a solution, to which Mr. Cannon agreed, there is a solution where they could probably get right back on track in about a week.

Mr. Hastings said he echoes Mr. McCain's points that Mardela has to stay on track. He said he knows the winds of Annapolis are always blowing towards the big six Counties, and they are always going to want to look after themselves, but Speaker Pro Tempore used to sit on this Body for quite some time, and she has some sway now. He clarified, he is not saying anything they do not already know, but as much as they can lean on that, she is a great resource. He then thanked Mr. Strausburg and Mr. Young for their hard work. There was no further discussion.

absent
Larry W. Dodd, President, District 3


John T. Cannon, Vice President, At-Large


Ernest F. Davis, District 1


Nicole Acle, District 2


Josh Hastings, District 4


Joe Holloway, District 5


William R. McCain, At-Large


Laura Hurley, Council Administrator