

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10th FLOOR CONFERENCE ROOM
2400 Washington Avenue
November 24, 2009
4:00 p.m.

PRESENT: Sharon P. Scott; Tina L. Vick; Joseph C. Whitaker; Dr. Patricia P. Woodbury;
Herbert H. Bateman, Jr.; and Joe S. Frank ----- 6

ABSENT: Madeline McMillan ----- 1

OTHERS PRESENT: Neil Morgan; Stuart Katz; Mabel Washington Jenkins; Alan Archer;
Cynthia Rohlf; Allen Jackson; Wanda Pierre; Michael Poplawski; Lisa Cipriano; Chad Pritchett;
William Keeler; Steve Carpenter; Robyn Rose; Monique Warren; LaVerne Lovett; Florence
Kingston; Al Riutort; Sheila McAllister; Michael King; Izabela M. Cieszynski; Brian Ramaley;
Kenneth Jones; Mike Nealer; Reed Fowler; Philip Hatchett; Fred Berry; Sharon Harold; Cathy
Grimes; Cleder Jones; Jerri Wilson; and Jennifer Walker

I. CIP Update

Mr. Neil Morgan, Acting City Manager, reminded that the recommended FY 2011 – FY 2015 Capital Improvements Plan (CIP) was presented at the October 27, 2009 Work Session to afford ample time for City Council to review the document and voice any questions or concerns. Acting City Manager Morgan advised the recommended FY 2011 – FY 2015 CIP met all of the City’s established financial management ratios. He reminded that the projects in the CIP could be revised, depending on the economy. Acting City Manager Morgan introduced Mr. Michael Poplawski, Director, Department of Parks, Recreation and Tourism, to provide a summary of the proposed FY 2011 – FY 2015 CIP.

Mr. Poplawski reported the recommended FY 2011 – FY 2015 CIP included \$32,232,460 in General Fund Cash; \$157,500,639 in General Obligation Bonds; \$35,552,450 in Grant Funds; and \$128,723,000 in Self-Supporting Funds. Mr. Poplawski stated the proposed 2011 General Obligation portion of the FY 2011 – FY 2015 CIP totaled \$30,150,000 and included the following projects:

- Stoney Run Recreation Center - \$12 million;
- Reserved for Schools - \$6.5 million;
- P-25 Radios - \$2.17 million;
- Radio Rebanding - \$280,000;
- Richneck Road - \$2.55 million;
- Ft. Eustis Bridge over C&O Railroad - \$300,000;
- Jefferson Park - \$1.5 million;
- Park/Recreation Facilities - \$450,000;

- Environmental Remediation - \$250,000;
- DEQ Sanitary Sewer Consent Order - \$2 million;
- Southeast Community Redevelopment - \$1.5 million;
- Fire Station #9 Repairs/Renovations - \$200,000; and
- Economic Development Projects - \$450,000.

Mr. Poplawski reported the proposed 2011 Cash Capital portion of the FY 2011 – FY 2015 CIP included the following projects:

- Southeast Community Redevelopment - \$220,000;
- USS Monitor Center Commitment - \$500,000;
- Fire Apparatus Replacement - \$960,000;
- Historic Preservation - \$100,000;
- Public Landscaping - \$170,000;
- Major Renovations and Repairs – Public Buildings - \$1 million;
- Carpeting – Main Street Library - \$140,000;
- Hurricane Shutters – Main Street Library - \$37,460;
- School Buses – \$1 million; and
- Arterial Street Reconstruction - \$1.1 million.

Mr. Poplawski inquired whether members of City Council had questions concerns, changes or suggestions regarding the proposed recommended FY 2011 – FY 2015 CIP. (A copy of the presentation, “Capital Improvement Plan (CIP) FY 2011 – FY 2015, City Council Review and Discussion, November 24, 2009,” is attached and made a part of these minutes.)

Mayor Frank recalled \$10 million per year had been committed in the CIP to the Schools, and inquired whether that had been re-negotiated. Acting City Manager Morgan replied the funding for Schools rose beyond \$10 million in the five year CIP. He stated the Schools agreed to limit their request during the first part of the five year plan due to the economy, but funding would increase in the later part of the five year plan.

Acting City Manager Morgan stated he had received inquiries from Councilwoman McMillan, regarding the FY 2011 – FY 2015 CIP. He stated Councilwoman McMillan felt funding for Community Development had increased and inquired why. She also voiced concern that Campbell Road, north of Bland Boulevard, was not included in the five year plan and inquired whether there was any prospect of it being added in the future. In response to Councilwoman McMillan’s concerns, Acting City Manager Morgan stated Community Development funding had decreased in the five-year plan, with the exception of funding for the “Ferguson/Jefferson Opportunity Site”, which increased significantly, and funding for “South Jefferson Park Redevelopment,” which had increased by \$1.5 million. He stated sidewalk and

crosswalk projects on Campbell Road were complete. It was true that Campbell Road widening, as envisioned by some, included curb, gutters, and sidewalk improvements, which was not in the five-year plan. Completion of Campbell Road projects could be reviewed annually in the capital budget; however, bridge replacement projects were of high priority and were reflected in the plan. Staff had applied for a Transportation Investment Generating Economic Recovery (TIGER) Grant, on behalf of the City, for the bridges over Fort Eustis Boulevard, and should such federal funding be received, the Campbell Road project could become possible. He felt the project could not be added within the next three years. The cost for the Campbell Road project, north of Bland Boulevard, was estimated to total \$6 million two to three years ago.

Councilwoman Woodbury inquired about funding for the "Upper Warwick Boulevard Streetscape Improvement" noted in the Cash Capital section of the recommended FY 2011 – FY 2015 CIP. Acting City Manager Morgan replied funding for the Upper Warwick Boulevard Streetscape would be used to address the deteriorating condition on Route 60, particularly in relation to the Second Access Road to Fort Eustis, and the changes at Fort Eustis. Fort Eustis corridor plan was developed several years ago that included some pedestrian, landscape and intersection improvement pieces and the funding reflected a down payment on that concept.

Councilwoman Woodbury inquired about the increase in funding for Economic Development Projects in the FY 2011 – FY 2015 CIP. Acting City Manager Morgan replied funding for Economic Development was held as a contingency for development projects that might materialize. He stated this category was substantially reduced. He argued that it was good policy to leave Economic Development funding in the plan because development projects were unpredictable.

Councilman Bateman inquired about fire apparatus equipment in light of the new fire station at the Newport News/Williamsburg International Airport. Fire Chief Kenneth Jones replied, funding in the CIP would be for the replacement of a used ladder truck that was purchased in 2002. Councilman Bateman inquired whether the City was purchasing enough equipment and adequately replacing it. Chief Jones stated the ladder truck was needed immediately; however, other equipment, such as pumpers could wait until next year. Fire Chief Jones replied the fire station at the airport was adequately equipped.

Councilman Bateman inquired whether funding was included in the FY 2011 – FY 2015 CIP for improvements to Old Oyster Point Road. Acting City Manager Morgan replied the original idea, 15 years ago, was to improve the intersection of Brighton Lane and tie it into the Virginia Department of Transportation (VDOT) project that would widen the last portion of Route 17 into York County; however, the VDOT project was delayed. The City began the project by purchasing property and removing utility poles. The project was delayed due to environmental concerns at an old gas station. He understood that part of the \$492,315 appropriation made at the October 13, 2009 Regular Meeting of City Council would be used for

the sidewalk portion of the project. He felt there should be a project to curb and gutter the intersection, after the VDOT design for Route 17 was complete.

Acting City Manager Morgan stated he planned to have the recommended FY 2011 – FY 2015 CIP available for Council adoption at the January 26, 2010 Regular Meeting of City Council.

II. Quarterly Report

Acting City Manager Morgan reported, of the four quarters, the first quarter report had the least information. He introduced Ms. Lisa Cipriano, Director, Department of Budget and Evaluation, to provide the FY 2010 First Quarter report.

Ms. Cipriano stated the first quarter of the budget cycle was difficult to predict due to the non-collection of real estate, personal property and machinery and tools taxes, which made-up 54% of General Fund Revenue. She reported only \$186,000 of \$171 million of projected real estate taxes had been received thus far.

Ms. Cipriano reported FY 2010 first quarter revenues were expected to be less than the \$421,096,000 budgeted by \$7,054,345, or (1.7%), which included \$1.6 million in State revenue reductions and a \$1.5 million shortfall in Telecommunications Tax. The State announced an additional \$300 million for this fiscal year and \$3 billion over the next biennium.

Ms. Cipriano explained the hiring suspension implemented in September 2009, and judicious spending by departments, had resulted in a projected savings of \$8 million in expenditures. She stated City management and staff was being as judicious as possible on spending to determine whether revenue projections would be better or worse by the end of November 2009.

Ms. Cipriano reported first quarter results projected a \$1 million surplus, which allowed a minimal level of comfort. She stated a more focused forecast for the remainder of FY 2010 would be provided in the second quarter, in light of the fact that major revenue sources would be collected along with additional receipts from consumer generated taxes and fees.

Ms. Cipriano pointed out there was a \$70,000 difference in sales taxes from July 2008 to July 2009. The City lost \$4,000 in sales taxes between July 2009 and August 2009, which noted stability.

Ms. Cipriano advised the State announced that a \$.5 million refund would be paid to telecommunications providers in FY 2010, rather than FY 2009. She stated those refunds were

currently being paid out appeared as though the City would lose \$1.5 million. In September 2009, the State informed it would reduce Other State Reimbursements by \$1.6 million, and of that, \$412,125 was HB 599 funding that the City would not receive. Almost \$400,000 in other state reimbursement was to Constitutional Officers that the City would not receive. It was anticipated that there would be a cut to State Aid for Libraries by approximately \$5,000.

Councilwoman Woodbury inquired about the cut for Constitutional Officers and whether the figures could be broken down. Ms. Cipriano replied there would be a 4.1% reduction in sales tax services for the Commissioner of the Revenue, Operations for local attorneys of the Commonwealth's Attorney's office, City Treasurer's operations and sales tax services by local treasurers. There would be a reduced distribution of rolling stock and recordation taxes as well as ABC profits and wine taxes.

Ms. Cipriano reported revenue for Human Services was expected to decline by \$3 million, but \$3 million would not be spent on the expenditure side. While any projected revenue shortfall was a cause for caution, the initial steps taken to reduce expenditures through the freezing of positions and other cost-saving actions amounted to a savings of \$7 million. Total expenditure savings to-date amounted to \$8 million. (A copy of the presentation, "FY 2010 General Fund Forecast," is attached and made a part of these minutes.)

IV. Questions and Answers

- Series 2008 VRA Bonds Prepayment

Acting City Manager Morgan reminded that City Council adopted Resolution No. 11917-09 on October 13, 2009, which terminated the King William Reservoir Project and directed the Acting City Manager to close out the project. He stated the action being requested on the evening's agenda would authorize prepayment of the Virginia Resources Authority (VRA) Bonds and appropriate \$20,000,000 to prepay the bonds. He advised that the City Attorney and Waterworks were able to negotiate an additional interest savings if the entire note was paid off by December 15, 2009.

City Attorney Katz explained the original bond document obligated the City to make payments on February 15, 2010. He stated he phoned a representative of VRA to inform that City Council terminated the King William Reservoir project and planned to prepay the \$20 million bond authorization. He inquired whether VRA would reduce the interest on the loan if the bond proceeds were prepaid earlier than February 2010. VRA agreed to reduce the interest if the outstanding balance was prepaid by December 15, 2009, which amounted to a savings of \$124,000.

- Sublease of Fountain Plaza Two – Retail Space

Acting City Manager Morgan announced a barber shop and hair salon was interested in renting a vacant 600 square foot space in Fountain Plaza Two. He explained the City master leased the entire gross area of Fountain Plaza Two, consisting of 80,473 square feet, from Newport News Town Center, LLC. The City reserved ground-floor space totaling 6,458 square feet for sublease to various retail businesses. All of the ground-floor space was leased, except for a 600 square foot space. Acting City Manager Morgan felt it was in the best interest of the City to sublease the entire retail square footage to the EDA, allowing them to negotiate the lease to avoid State law advertising requirements. He asked City Council to authorize a resolution, on the evening agenda, that would allow the EDA to become the City's subtenant for all ground-level retail space in Fountain Plaza Two, and direct the EDA to manage the retail space for the City and remit to the City's General Fund, all revenue collected through July 1, 2027. By taking this action, the EDA would be able to complete the lease of the vacant 600 square foot former dry cleaning space to the prospective business, to allow them the opportunity to open before the holidays. The lease of the 600 square foot space would generate revenue that more than covered the lease expense.

Councilwoman Woodbury inquired about the number of years the City was locked into the lease payment for the building. Ms. Florence Kingston, Director, Department of Development, replied the City was locked into the lease payment through July 1, 2027.

Councilwoman Woodbury understood the lease payment was approximately \$1.5 million per year and questioned how much space, managed by the City, contributed to the \$1.5 million. Ms. Kingston replied about \$110,000 per year of leased first floor retail space contributed to the \$1.5 million lease payment.

Councilwoman Woodbury inquired whether the Lunch Bell's lease payment was reduced at some point. Ms. Kingston replied the Lunch Bell's lease payment was consistent with the Lunch Bell's repayment plan and catch-up provisions.

- Circuit Court Clerk Appropriation

Acting City Manager Morgan reported the Circuit Court Clerk requested an appropriation of \$232,555 to purchase technology-related equipment and services. He stated the State Compensation Board, through its Technology Trust Fund, would provide the funding. He explained, as part of a legislative change in 2009, local Circuit Court Clerks could use up to \$200,000 of their annual State Technology Trust Fund allocation to support annual operations. He asked City Council to support a resolution, on the evening's agenda, that would appropriate \$232,555 for the purchase of technology-related equipment and ongoing contract services for the Circuit Court Clerk. (A memo to City Council, from the Acting City Manager, dated November 18, 2009, regarding the appropriation, is attached and made a part of these minutes.)

III. Health Insurance/Pension

Acting City Manager Morgan reminded of his recommendations to the Pension and Other Post Employment Benefits (OPEB) at the October 27, 2009 Work Session of City Council. He stated there were two outstanding issues to be addressed: 1) the calculation of overtime in the retirement calculation; and 2) the transition of new hires to the Virginia Retirement System (VRS).

Acting City Manager Morgan reported that City staff did an analysis of the overtime earned by employees, throughout all departments and, based on that review, it was his recommendation that the amount of overtime that could be used towards the calculation of an employee's average final compensation be capped at \$3,000 annually. He stated the proposal would include approximately 75% of the total number of employees who earned overtime. Seventy-five percent (75%) of City employees earned \$3,000 or less in annual overtime. He felt placing a \$3,000 cap on overtime was a reasonable compromise that took into consideration financial implications for the employee as well as limiting the ongoing financial burden to the City.

Acting City Manager Morgan stated he had come to the conclusion, if the City had to significantly reduce benefits for new employees, due to affordability, then now was the time to consider transitioning to the Virginia Retirement System (VRS). He stated the Retirement Board was asked to review the option of transitioning new hires to the VRS and provide a recommendation to City Council. In addition to the potential cost saving, there were management advantages to making the transition.

Acting City Manager Morgan stated the City was paying out approximately \$46 million in Pension benefits and only contributing \$22 million. He stated the question was raised on how to moderately reduce future benefit payments, with discipline, and how to maximize attracting and retaining quality employees. He felt the way to do that was to transition to VRS for new employees. He explained the pros and cons of transitioning new employees to VRS. (A copy of handout, noting "Comparison of VRS and City Pension Provisions," is attached and made a part of these minutes.)

Acting City Manager Morgan reported there were modest savings in transitioning new employees to VRS; however the main savings would be realized by reducing the City's retirement multiplier. He stated portability was the most persuasive advantage of transitioning new employees to VRS. He agreed the City's Pension system had been run well and served employees well; however, the workforce for the future was not looking for an employer where they could stay for their entire career; they were looking for portability. By transitioning to VRS, a perspective new employee would accept employment with the City knowing they had the

option of transferring their benefits to other localities should there be a need and/or opportunity. Acting City Manager Morgan felt it made sense to be a part of VRS, along with 95% of localities in Virginia.

Acting City Manager Morgan stated he was advised that the Retirement Board wanted additional information about the cost savings should the City retain new hires in the City's Pension Fund with the benefits package that VRS offered. Acting City Manager Morgan was advised by legal counsel that in order for City Council to act definitively on the proposed changes to the Pension and OPEB benefits a final position was needed from the Retirement Board. He was hopeful to receive a final position from the Retirement Board in December 2009, which would allow adoption of an ordinance in January 2010, to take effect in February 2010. (A copy of memo to City Council, from the Acting City Manager, dated November 19, 2009, regarding the final recommendations on Pension and Other Post Employment Benefits (OPEB), is attached and made a part of these minutes.)

Mayor Frank expressed appreciation for the work that had been done and felt the City was where it needed to be with the Pension and OPEB benefits. He inquired whether there was consensus among City Council to institute a \$3,000 cap on the amount of overtime that could be used toward the calculation of an employee's average final compensation and to transition new employees to VRS. There was consensus among City Council to institute a \$3,000 cap on the amount of overtime that could be used toward the calculation of an employee's average final compensation and to transition new employees to VRS.

Mayor Frank felt it would be appropriate, with permission of City Council, to write a letter to the Chairman of the Retirement Board, requesting their report to City Council no later than the first meeting in January 2010. That would allow City Council to vote on the issue for implementation in February 2010.

Acting City Manager Morgan introduced Mr. Philip Hatchett, Chairperson, Newport News Retirement Board, to offer his insight into the transitioning of all new hires to VRS.

Mr. Hatchett stated the reason the Retirement Board had not made a recommendation was because this was the biggest and most serious issue that City Council would make. He stated the decision to transition new hires to VRS was irrevocable; the City could not transition backward. He stated, in review of the matter, the Retirement Board felt transitioning new employees to VRS would not render any cost savings. From October 1, 2004 to September 30, 2009 the Newport News Retirement Board had a return on investment of 4.3%, while VRS had a return on investment of 4.4% from July 1, 2004 to June 30, 2009. The administrative per person cost of operating the City's fund versus VRS's fund were identical. In joining VRS, there would be no cost savings. VRS was increasing its contribution rate. The

City would pay VRS \$.12 per dollar paid to an employee. The Retirement Board's normal cost was \$.9 per dollar paid to an employee, less the accrued unfunded liability.

Mr. Hatchett stated VRS did not have a leave exchange option in its benefit plan. He felt there were other legal aspects that the City Attorney needed to review and indicated it would be hard to get that accomplished before April 2010. The Retirement Board wanted to review the matter further to note the cost savings of switching all new hires to VRS. He stated the transition would not decrease the unfunded liability. Mr. Hatchett stated that the City's retirement staff was impeccable. He stated the City had been audited many times and its actuarial reports were accurate. He stated one could not say the same about VRS.

Councilwoman Vick stated the most important factor to consider, was that the City would not find itself with an unfunded Pension balance in the future if it transitioned new employees to VRS.

Councilwoman Scott inquired whether the City would continue to have oversight if it transitioned new hires to VRS. Mr. Hatchett replied the City would not have any oversight since the VRS was an independent board. The City would not be able to hire or fire the director, without permission from the State, and would not control the investment or policy of VRS.

Acting City Manager Morgan noted the permanency of the decision to transition new employees to VRS and indicated the transition was irrevocable. He emphasized localities who were a part of VRS had done well. The State's oversight structure for VRS was not dissimilar to the City's oversight structure for its retirement plan. The staff of the Department of Finance would continue to be the people that City employees would interface with on a regular basis. The burden to the Department of Finance might be eased over time; however, they would continue to administer the City's current retirement plan. He stated many cities had made the decision to transition to VRS, i.e. Hampton and Portsmouth. The City would still have an unfunded liability issue to deal with; however, the liability would decrease over time.

There was consensus among City Council to have Mayor Frank write a letter to the Retirement Board, noting City Council's desire to move forward with the recommendations as submitted by the Acting City Manager, and to ask for a recommendation by the first or second meeting in January 2010.

Councilwoman Scott inquired whether the Department of Finance would need fewer employees once new employees were transitioned to VRS. Acting City Manager Morgan replied not in the short term. He stated the Department would continue to administer the current

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system for many years to come; however, it was conceivable that fewer employees would be needed ten to fifteen years in the future.

THERE BEING NO FURTHER BUSINESS,
ON MOTION, COUNCIL ADJOURNED AT 5:55 P.M.


Jennifer D. Walker
Chief Deputy City Clerk

Joe S. Frank
Mayor
Presiding Officer

A true copy, teste:

City Clerk