

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10th FLOOR CONFERENCE ROOM
2400 Washington Avenue
September 8, 2009
3:30 p.m.

PRESENT: Tina L. Vick; Joseph C. Whitaker; Dr. Patricia P. Woodbury; Herbert H. Bateman, Jr.; Joe S. Frank; Madeline McMillan; and Sharon P. Scott ----- 7

ABSENT: None ----- 0

OTHERS PRESENT: Neil Morgan; Stuart E. Katz; Mabel Washington Jenkins; Alan Archer; Cynthia Rohlf; Wanda Pierre; Allen Jackson; Lisa Cipriano; Collie Owens; Joseph DuRant; LaVerne Lovett; Brian Ramaley; David Morris; Richard Caplan; Leonard Wallin; Everett Skipper; Cathy Grimes; and Jennifer Walker

I. Property Matters

a) 494 and 496 Richneck Road Area BMP Project

Mr. Neil Morgan, Acting City Manager, introduced Mr. Brian Lewis, Stormwater Manager, Department of Engineering, to report on the Richneck Road Area Drainage Improvement project.

Mr. Lewis reminded through prior appropriation requests made at the December 12, 2006 and November 7, 2007 Regular City Council meetings, City Council was made aware of five stormwater drainage improvement projects needed to reduce the effect of flooding within the Stoney Run watershed, during unusually heavy rain events. The five projects collectively referred to as "The Stoney Run Watershed Improvements," were identified in a 2005 drainage study prepared by URS Corporation, which recommended construction of detention basins to provide storage of stormwater runoff, construction of inlets and storm drain pipes as well as widening of existing drainage channels to increase system storage capacity and facilities flow.

Mr. Lewis reported, among the five recommendations, "The Richneck Area Regional BMP (Best Management Practices) project" was identified as needing a stormwater retention basin. The proposed retention basin would receive runoff from approximately 260 acres of land. Based on the design prepared by URS, the acquisition of significant, undeveloped, flood-plain-restricted portions of 494 and 496 Richneck Road were required to construct the proposed regional stormwater retention basin as designed by URS. Engineering staff discussed the possibility of the complete acquisition of properties located at 494 and 496 Richneck Road with the owners, but were declined. Accordingly, the Engineering staff proposed negotiating for the portion of the properties absolutely necessary for the project.

Mr. Lewis reported appraisals were obtained from a certified State license real estate appraiser. The appraised value of the +4.99-acre partial at 494 Richneck Road was \$182,000 and the appraised value of the +2.83-acre partial at 496 Richneck Road was \$103,500. While voluntary sales were hoped for in both cases, condemnation could become necessary to complete the land assembly component of the project.

Mr. Lewis asked City Council to authorize the voluntary acquisition of, or if necessary, condemnation of the aforementioned partials at 494 and 496 Richneck Road for their appraised value of \$285,500 and the execution of all necessary documents to effectuate the transactions.

Mayor Frank inquired about the area that would be drained by the project. Mr. Lewis replied the project area would help to drain upstream, but Engineering also planned to over design the project to reduce the rate of discharge downstream. He stated the project would have an impact upon residents who were adjacent to the Chowan Ditch and the channel that ran downstream adjacent to the Colony Pines subdivision.

Acting City Manager Morgan inquired about the importance of the project as opposed to the five stormwater drainage improvement projects referred to as "The Stoney Run Watershed Improvements." Mr. Lewis replied of the five projects, the Richneck Area Regional BMP project was the most important, because it would do the most to hold back flood waters.

Councilwoman McMillan understood the City had reached some type of consensus with the owner regarding the price differential. Mr. Lewis replied the City's appraisal came back at approximately \$950,000 for the entire 12 acres. When the property owners received a certified mailed copy of the appraisal, and after several phone call attempts by the City to reach Mr. Perkins, it was confirmed that Mr. Perkins did not want to discuss the matter if the City was not talking \$12 million. Mr. Lewis stated the City hoped for voluntary acquisition, but there was no room for negotiation.

Councilwoman Scott inquired about the location of the project to the Artis property, whether it helped mitigate the problem Ms. Artis complained about, and whether the project would cause water to drain away from her property. Mr. Lewis replied that Ms. Artis would still have some drainage issues after completion of the project, but ultimately the project would tie into the Richneck Road improvements which would divert the drainage; however, there was not much the City could do about the snakes that frequented Ms. Artis property.

b) Diascund Shores Lane/New Kent County

Acting City Manager Morgan introduced Mr. David Morris, Natural Resource Manager, Department of Public Utilities.

Mr. Morris stated the Diascund Creek Reservoir was 1,100 acres in size and of the five reservoirs in the City, was the largest in area and second largest in volume. He reported, there had been no City-owned access by land or water for a portion of a major arm of the reservoir since the reservoir was completed in 1963. Throughout such time, illegal piers were built along the reservoir without City consent and building permits due to non-monitoring and control of the land.

Mr. Morris stated Waterworks had been interested in acquiring enough property to provide access to a portion of the reservoir, and a piece of property consisting of 25.68+ acres became available. The property was appraised at \$265,000, or \$10,319 per acre. New Kent County assessed the parcel at \$253,300. An offer to acquire the property for the appraised value of \$265,000 was made and accepted by the land owner.

Mr. Morris explained that acquisition of the land would enable Waterworks' staff to monitor land use activities and water quality of the reservoir. Acquisition of the property would also provide access for the State's game wardens and the New Kent County Sheriff's Office as needed. The property would provide much-needed access from Route 620 to the waters' edge. The reservoir's water depth at this location was sufficient for construction of a boat launching ramp. Waterworks would gain the necessary permits and construct a boat launch using its own crews. This would not be a public facility and would only be used for limited local and state government access.

Mr. Morris reported funds for the purchase of the property, in the amount of \$265,000, would be appropriated from Waterworks Restricted Land Fund. The Waterworks Restricted Land Fund was established by City Council in the late 1980's for acquisition of properties needed for protection and management of the City's reservoirs.

Councilwoman McMillan inquired about the total amount of funding in the Waterworks Restricted Land Fund. Mr. Morris replied the total amount of funding in the Waterworks Restricted Land Fund was \$4.1 million.

Councilwoman Woodbury inquired whether this project provided land and water access. Mr. Morris replied the project afforded both land and water access by a dedicated roadway easement to a State road.

Councilwoman Woodbury inquired about the illegal piers that had been built along the reservoir. Mr. Lewis replied the City was working with New Kent County on a way to deal with the illegal pier issues. He stated there were many grandfathered rights that people believed they had. He hoped to provide a report to City Council on the matter within the next several months.

II. Pension and OPEB Issues

Acting City Manager Morgan stated even though he would like to have additional time to study the issues and include his own stamp of approval, it was important for City Council to make a decision and take action within the next few months, hopefully by January 1, 2010. He felt it was important to demonstrate to the citizens, employees, and bond rating agencies that the City had the discipline to take meaningful action.

Acting City Manager Morgan stated one of the questions raised by City Council was “the big picture” as it related to funding the Pension and OPEB benefits. He reported the City’s FY-2009-2010 Operating Budget totaled \$500 million, in which \$21 million was dedicated to the Pension fund and \$9 million was dedicated to Other Post Employment Benefits. It was clear that Pension benefit funding would increase dramatically over the next few years. Based on the Actuarial studies, the current funding of \$21 million had to increase to \$50 million over time. In proportion to overall dollars, a \$50 million increase was more than the growth of the City’s operating budget in a normal year and, certainly, more than what was expected in the current economy. The good news in OPEB was that the City was not far behind what it was required to pay by the Actuary. Further good news was, by law, the City had absolute discretion on what it did with OPEB. The City was locked into what it did on the Pension side because benefits had already been earned. Acting City Manager Morgan noted the recommended proposals would have no impact on current retirees, modest impact on current employees, and a huge impact upon new employees. In relation to such impacts, the City was trying to achieve a savings of \$100 million on the Annual Required Contribution (ARC) on the Pension side. A \$100 million or greater reduction in the ARC, in terms of expenditure reductions, over a ten-year period, would be a significant and disciplined action. The City allotted \$21 million for Pension funding in FY-2010 and planned to expend \$46 million to retirees, which could not be continued over the next ten years. The yearly expenditure to retirees would be reduced, over the next ten years, if the \$100 million in Pension benefit savings were realized. The City had to increase its ARC, over the next several years, no matter what steps it took. He introduced Ms. Cindy Rohlf, Assistant City Manager, to report on the Pension benefit funding proposals and strategies.

Ms. Rohlf noted the following Pension Plan proposals tentatively agreed to by City Council: 1) Reduce the Multiplier to 1.85%, Prospectively; 2) Increase the Retirement Age by Five Years for New Hires; 3) Institute a 7-Year Vesting Period for New Hires; 4) Institute Spousal Annuity as an Elective for New Hires; 5) Exclude Overtime Earnings from Average Final Compensation (AFC), Prospectively; 6) Exclude Non-Salary Earnings from AFC, Prospectively; and 7) Use Time Actually Worked For Computing Retirement Eligibility, Prospectively. She stated the total impact of the proposed Pension benefit changes would project a cost savings of \$93,670,000 over ten years. Ms. Rohlf stated implementation of the above proposals would put the City within the realm of what the Acting City Manager proposed in regards to cutting Pension benefit funding by \$100 million within ten years.

Ms. Rohlf pointed out Pension benefit fund actions already implemented: 1) Leave Exchange Program – Reduction in Calculation of Credited Service [Employees can now purchase two months of credited service as opposed to three months of credited service]; and 2) Newport News Schools – New Hires Excluded from Newport News Retirement Fund. Savings for these proposals amounted to \$30 million over ten years. She credited the schools for including all new hires in the proposal and indicated the savings could be even greater. (A copy of the presentation, “Newport News Employees’ Retirement Fund – Pension & Other Post Employment Benefits (OPEB),” is attached and made a part of these minutes.)

Councilwoman Scott inquired about the number of employees eligible to retire early due to the Leave Exchange Program. Ms. Lovett replied there were many employees eligible to retire early due to the purchase of leave through the Leave Exchange Program.

Mayor Frank inquired whether the Acting City Manager had looked into the number of employees eligible to retire, their positions in the City, whether the proposal would trigger an early retirement and what impact it would have on the City. Acting City Manager Morgan stated the proposal was not related to the number of employees who would retire early. He stated the proposal dealt with the amount of time an employee could exchange for Pension benefit credit, which would only benefit an employee after retirement. There was an incentive for an employee to work longer to gain an increased Pension benefit.

Ms. Rohlf stated the proposal was prospectively. An employee who had 25 years of service and purchased three years of retirement credit would still have 28 years of employment service towards their retirement. Any time purchased, after the effective date of the proposal, would go towards an employee’s Pension benefit after their retirement. The City was not taking anything away from an employee that had already been earned.

Mayor Frank inquired about a study noting the total savings related to the Schools cutting all new hires from the Newport News Retirement Fund. Ms. Lovett replied she would provide the total savings to City Council.

Councilman Bateman indicated he wanted further study on reducing the multiplier to 1.75%. Ms. Rohlf replied independent savings for reducing the multiplier to 1.75% amounted to \$4.4 million for one year and \$47.5 over ten years; however, it could be less when all the proposals were included as a package.

Acting City Manager Morgan stated the City would realize a \$100 million reduction in Pension benefit funding over ten years if all the proposals were implemented.

Ms. Rohlf stated in relation to the \$100 million in savings, the City needed to look at a funding strategy to increase the ARC. It was not an immediate concern, but should be made

part of the FY 2010-2011 budget process. She hoped to report back to City Council within the next 30 to 45 days on whether the City needed to increase its ARC in FY 2010-2011. Staff was hopeful to fully meet the ARC within eight years; however, the Pension Board voiced concern that the City needed to meet its ARC within four years. Ms. Rohlf stated she, Ms. Lovett and Acting City Manager Morgan did not know whether a four year timeframe was realistic when one looked at the size of the ARC.

Ms. Rohlf reported staff was continuing to study a supplemental plan for Public Safety personnel should the City's multiplier be reduced to 1.85% to remain competitive with surrounding jurisdictions. She stated Acting City Manager Morgan suggested that staff report back to the Retirement Board to receive feedback on the issue. She introduced Ms. LaVerne Lovett, Director, Department of Finance, to report on OPEB proposals.

Mayor Frank inquired whether Ms. Rohlf was speaking in reference to the differential in how the City treated Public Safety employees as opposed to regular employees. Ms. Rohlf replied the City was studying whether to offer its Public Safety personnel a supplement just as what was done by the Virginia Retirement System (VRS).

Acting City Manager Morgan stated, although the bulk of savings was realized on the Pension benefits side, any suppression to OPEB costs would become a source for the Pension fund. Even a small adjustment on the OPEB side gave the City a way to move some funding into the Pension fund.

Mayor Frank understood any savings on the OPEB side could be used to reduce Pension funding, but voiced concern that instituting a cap on the City's health insurance premium contribution meant employees living on fixed incomes would realize reductions in their income. Post-65 retirees, who lived on fixed incomes, had a reduced capacity to absorb any additional cost. As bad as things were budget wise the collective community had a better way to absorb the reduction than retirees who lived on fixed incomes. He asked that staff be thoughtful as they deliberated the changes to OPEB, and that options be reviewed and presented to address such circumstances. Acting City Manager Morgan stated the cap only applied to Pre-65 retirees.

Ms. Lovett replied, under the current OPEB healthcare plan, the City's premium contribution was increased by a COLA. For 2009, the City contributed 69% towards the Pre-65 Healthcare Retiree Plan and \$260 each, per month, for the Post-65 Medicare Supplement Plan for a retiree and his/her spouse.

Mayor Frank inquired about the Healthcare Reform Bill proposed by President Barack Obama and whether it would impact the City's healthcare program. Acting City Manager Morgan replied Ms. Lovett was studying the issue.

Ms. Lovett noted the Pre-65 Retiree Plan included a 69% cap. She explained the cap was implemented to address the City's long-term liability by the retiree picking up the difference in coverage. She noted the projection of family coverage under the current provision would increase the retiree's portion and decrease the City's portion of premium per year. (A copy of the illustration noting the "Projection of Family Coverage Under Current Provision" is on page 6 of the attached presentation, "Newport News Employees' Retirement Fund – Pension & Other Post Employment Benefits [OPEB].")

Councilwoman McMillan reminded that she previously voiced concern about the Pre-65 Healthcare Retiree Plan. She inquired how many retirees would be able to afford healthcare insurance if insurance premiums increased by 10% each year as noted in the illustration on page 6 of the attached presentation. She inquired how many retirees would be able to afford a \$1,249 healthcare premium per month.

Ms. Lovett agreed that healthcare coverage for Pre-65 retirees was a huge problem for the City and retirees.

Councilwoman McMillan stated it was a big problem and inquired whether the City had calculated how much retirement income middle-level employees received and how much of their income would go towards medical insurance.

Mayor Frank inquired about the percentage of a retiree's Pension that went towards their healthcare premium. For instance, a retiree would not be able to afford healthcare if their Pension benefit amounted to \$800 per month and their insurance premium amounted to \$1,200 per month.

Ms. Lovett reminded that one-half of the Pre-65 retirees opted for the Retiree-Single plan, while one-half opted for Other healthcare plans (Single-Child; Single-Spouse; and Family).

Councilwoman McMillan inquired about the number of retirees that would retire under the Post-65 Medicare Plan as opposed to Pre-65 Retiree Plan. She felt Pre-65 retirees might still have dependents that needed medical care. Ms. Lovett replied there were approximately 700 retirees in the Pre-65 Retiree Plan.

Councilman Bateman inquired about the number of Pre-65 retirees, out of the 700, who were in the family plan. Ms. Lovett replied, out of the 700 retirees, 120 were in the family plan.

Ms. Lovett noted the two OPEB proposed alternatives for the Pre-65 Retiree Medical Plan: **Council Alternative #1** - A) No change to Current City Contribution Provision for Current and Future Retirees with 10 or more years of service; B) Decrease City Premium Contribution for Future Retirees with less than 10 years of service as of 12/31/2009; and C) No City Contribution for New Hires; and **Council Alternative #2** – A) No change to Current City Contribution Provision for Current Retirees; B) Decrease City Premium Contributions for Future Retirees; and C) No City Contribution for New Hires. Ms. Lovett stated **Council Alternative #1** amounted to a savings of \$1.1 million in the first year and \$12.4 million within ten years. **Council Alternative #2** amounted to a savings of \$2.0 million in the first year and \$24 million within ten years. Ms. Lovett noted the impact of **Council Alternative #1 and #2** to Pre-65 retirees. (A copy of the illustration noting the “Pre-65 Retire Impact” is on page 9 of the attached presentation, “Newport News Employees’ Retirement Fund – Pension & Other Post Employment Benefits [OPEB].”)

Councilwoman McMillan stated she had always been a proponent of the 10 or more year cut-off date. She supported Alternative #1 out of the two Alternatives because it was less disruptive to current employees that were getting closer to retirement. She inquired whether there was any possibility that the premiums for healthcare would not increase by 10% per year. Ms. Lovett replied it was possible that the premiums would not increase by 10% per year, and indicated the information provided in the presentation were estimates only.

Councilwoman McMillan stated the increase of the cost to the retiree was very dramatic. Ms. Lovett agreed and stated it was a major problem.

Mayor Frank stated Alternative #1 only impacted employees with less than 10 years of service, which meant they had more time to plan, accommodate and adjust to the changes.

Ms. Lovett felt Alternative #1 offered great savings to Pre-65 retirees. She noted Alternative #1 reduced the City’s claim expense by \$1 million.

There was consensus among City Council to support Council Alternative #1.

Mayor Frank requested further information on the cost of healthcare for retirees in relation to their retirement benefit as opposed to the percentage of premium. The information might help City Council understand the impact to various Pre-65 retirees.

Ms. Lovett reported staff proposed no change to the Post-65 Medicare Supplement Plan after studying various alternatives. The savings were not significant and the plan dealt with the most fragile retirement group.

There was consensus among City Council to make no changes to the Post-65 Medicare Supplement Plan.

Ms. Lovett reported staff proposed continuing to study the life insurance issue. She indicated significant savings had been realized in OPEB by proposals made and implemented, which warranted the recommendation that no changes be made to the life insurance provision. The life insurance issue was still on the table for staff to bring some alternatives that would be fair.

Acting City Manager Morgan stated the Life Insurance provision was a relatively modest percentage of the overall OPEB cost, and whatever savings that would be realized would not be dramatic. He understood the majority of City Council members felt it was important to retain the life insurance provision as its current level. He inquired whether there was any interest in setting a cap on life insurance, based on one's salary. He suggested employees that retired with a larger Pension would pay more for life insurance as opposed to those who retired with a modest Pension.

Ms. Lovett noted the two current Life Insurance provisions included: 1) the grandfathered group of retirees that received one-half of their final salary in life insurance coverage; and 2) Retirees who received one-half of their salary in life insurance coverage that decreased to \$10,000 over four years. Staff felt the second group should be left alone because they already had a provision that dealt with long-term liability; however staff was considering instituting a cap on the grandfathered group of retirees.

Mayor Frank stated he preferred leaving the life insurance as it was. He suggested that City Council review the savings and impacts on the proposals which they had met consensus on. Should further reductions become necessary they could revisit the life insurance issue. He suggested leaving the life insurance at its current level.

Mayor Frank asked staff to provide City Council with a list of the rejected proposals, should they have to be revisited in two to three years. He felt the progress made up-to-date was substantial.

Councilwoman McMillan agreed with leaving the life insurance provision at its current level. She stated City Council did not know what was in a retiree's portfolio. If a retiree had planned on a certain amount of life insurance then it should be left alone.

There was consensus among City Council to leave the life insurance provision at its current level.

Councilwoman Vick congratulated Ms. Lovett on the briefing package attached to the memo in the September 8, 2009 City Council Work Session agenda.

Acting City Manager Morgan stated he would meet with the Pension Board to obtain accurate calculations on the Pension and Other Post Employment Benefit proposals and report back to City Council by the first or second meeting in October 2009. He hoped to provide City Council with a definitive recommendation on the changes to the Pension and Other Post Employment Benefits to meet the City's deadline of January 1, 2010.

Mayor Frank thanked staff for the presentation and indicated it was clearer to understand. He stated, on behalf of the employees and retirees, it was important to bring closure to the matter as soon as possible. He hoped to conclude the matter in October or November 2009 for implementation in 2010.

City Council was in consensus to finalize the changes to the Pension and Other Post Employment Benefits proposals by October or November 2009 for implementation in 2010.

Miscellaneous Matter

City Attorney Katz stated Item D.7., on the September 8, 2009 Regular City Council agenda, regarding the Acting City Manager agreement, had been revised due to a concern raised by Councilwoman McMillan. He stated Councilwoman McMillan questioned verbiage on page 4, Item 9, of the agreement that stated attendance at meetings, conferences, seminars and continuing professional education programs "shall be paid by the City." Councilwoman McMillan inquired whether the Acting City Manager had requested that such verbiage be added to the agreement. City Attorney Katz stated the verbiage was pulled from the agreement of former City Manager Randy Hildebrandt. He stated a revised agreement would be provided to City Council, noting attendance at meetings, conferences, seminars and continuing professional education programs "were encouraged." (A copy of the revised agreement is attached and made a part of these minutes.)

THERE BEING NO FURTHER BUSINESS,
ON MOTION, COUNCIL ADJOURNED AT 5:10 P.M.

Jennifer D. Walker
Chief Deputy City Clerk

Joe S. Frank
Mayor
Presiding Officer

A true copy, teste:

City Clerk