

MINUTES OF WORK SESSION  
OF THE NEWPORT NEWS CITY COUNCIL  
HELD IN THE 10<sup>th</sup> FLOOR CONFERENCE ROOM  
2400 Washington Avenue  
November 9, 2010  
3:30 p.m.

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

ABSENT: Madeline McMillan ----- 1

OTHERS PRESENT: Neil Morgan; Stuart Katz; Mabel Washington Jenkins; Cynthia Rohlf;  
Alan Archer; Collins Owens; Wanda Pierre; Florence Kingston; Sheila McAllister; Lisa  
Cipriano; Steve Carpenter; Chad Pritchett; LaVerne Lovett; Joy Cipriano; Jessica Park; Brian  
Ramaley; Eileen Leininger; Thomas J. Murphy; Joe Lawlor; Jennifer Walker; and Kim Lee

I. FY 2011 First Quarter Report

Mr. Neil Morgan, City Manager, introduced Ms. Lisa Cipriano, Director,  
Department of Budget and Evaluation, to direct the present the FY 2011 First Quarter Report.

Ms. Cipriano reported the majority of semi-annual revenue collections of real estate taxes, personal property taxes and machinery and tool taxes were uncollected in the first quarter making it difficult to make long-range, full year projections. In particular, only \$111,000 of the real estate taxes was collected in September 2010; however, as of November 9, \$2.8 million had been collected. She pointed out that current year revenue projections were tracking directly month-by-month as they did during the fourth quarter of FY 2010. There was very little variance on the monthly collections, which showed increases in lodging, meals, and sales taxes. The \$20 million meal tax revenue estimation was only off by \$67,000. Meals tax revenue was tracking to projections, which was significantly lower than previous years. Without having a solid base for personal property, machinery and tool and real estate tax collections, a \$.5 million leeway was included in the projections for the potential of collecting lower taxes.

Ms. Cipriano stated a \$2.2 million revenue shortfall was projected in anticipation of a 0.5% decrease in taxes and \$1.6 million in revenue from the State; however, the shortfall may be rectified as more taxes were collected and as the year progressed. In response to the \$2.2 million shortfall in revenue, the City Manager indicated that the hiring suspension would be continued for all positions, with the exception of uniformed fire, police and sheriff personnel. The hiring suspension amounted to a savings of \$3.4 million in salary and fringe benefits. The \$2.2 million shortfall and projected expenditure savings amounted to a surplus of \$1.7 million. Ms. Cipriano voiced caution in that there had been four years of budget cuts, which left no leeway on what could be saved on the expenditure side other than salaries and fringe benefits. She shared the good news was a \$1.7 million projected surplus. Staff would continue to monitor spending closely.

Councilwoman Woodbury inquired about the \$12 million appropriated at the October 26, 2010 Regular Meeting of City Council for the Special Project Reserve Fund. Ms. Cipriano replied the \$12 million came out of accumulated surpluses from previous fiscal years that were unrelated to the operating budget. (A copy of memorandum to the City Council from the City Manager, dated November 3, 2010, regarding the First Quarter FY 2011 Financial Report, is attached and made a part of these minutes.)

## II. Merchants Walk Garage Bond Refunding

City Manager Morgan reported, on August 1, 2001, the Economic Development Authority (EDA), with the cooperation of the City, issued Variable Rate Public Facility Bonds in the amount of \$13,200,000 to finance the acquisition, construction and equipping of a 1,100-vehicle parking garage located under the five-story, 100,000 square foot office building known as Fountain Plaza One. The bonds were secured by the City's general obligation through a Payment Agreement between the City and the EDA. The bonds were issued as variable rate low floaters, which provided for the weekly remarketing of the bonds each Wednesday. This structure allowed the lowest possible interest rate. Since 2001, this method of financing saved the City almost \$2.3 million in interest costs, compared to the fixed interest rate at the time of issuance. When these bonds were issued, it was contemplated that the EDA and the City would convert the low floater bonds from a variable interest rate to a fixed interest rate when determined appropriate, based on market interest rates. Staff had seen historic low interest rates on Municipal General Obligation Bonds and believed, as the country emerged from the recession, both short and long-term interest rates would increase beginning in 2011. He introduced Ms. Florence Kingston, Director, Department of Development, to offer a briefing on the Merchants Walk Parking Garage Series 2001 Bond Refunding.

Ms. Kingston reported the City was looking to refinance and/or refund an EDA bond. She stated the original bond totaled \$13.2 million and was financed for a 25-year term. Although an EDA bond, it was secured by the City's general obligation through a Payment Agreement between the City and the EDA. The payment obligation under the Payment Agreement constituted a general obligation of the City to which the City's full faith and credit were irrevocably pledged.

Ms. Kingston reported the bonds were issued as variable rate low floaters. She stated this structure allowed the lowest possible interest rate as bond purchasers were making a short-term investment in one-week intervals. There were, however, recurring fees and remarketing interest rate risks associated with variable rate low floaters. A line-of-credit with SunTrust Bank provided funds for the payment of any bonds tendered weekly, but not remarketed. Since 2001, this method of financing saved the City almost \$2.3 million in interest compared to the fixed interest rate at the time of issuance.

Ms. Kingston reported, for the first six years of the bond, the EDA carried the debt service, which was two years longer than originally projected because the interest rates were so low. The City's General Fund provided the EDA money to pay the debt service since FY 2007. The EDA and City always contemplated the best time to refinance the interest rate. Interest rates were historically low and it made sense to convert to a 2.7% fixed interest rate that had only been slightly higher than what the City had experienced on the variable rate side. Refunding the bond would alleviate the risk of an increased interest rate.

Ms. Kingston stated SunTrust Bank had agreed to provide the refunding with a Payment Agreement. She stated the City had not issued debt in calendar year 2010. Under IRS tax exempt municipal bond regulations, SunTrust benefitted from the situation and had passed the additional tax benefit to the City and the EDA in a 2.70% fixed interest rate. SunTrust had, however, priced this based upon the EDA and the City closing on the transaction before December 31, 2010. SunTrust proposed to refinance the principal balance of \$8,940,000 over a 10-year term. The maturity of the existing bond would be shortened from 25 to 20 years, fixing the rate at less than 3.0%. The cost of issuance would be a one-time SunTrust Bank fee of \$5,000, plus an estimated \$35,000 for bond counsel and legal counsel expenses. Professional guidance indicated this was the appropriate time to fix the interest rate on the bonds. In addition, SunTrust was proposing to refinance the balance over a ten-year term, five years shorter than the maturity date. The shorter amortization term could save the EDA and the City an estimated \$405,000 in additional interest expense.

Ms Kingston indicated the City Manager recommended that City Council: 1) direct the EDA to call the outstanding bonds for redemption; 2) authorize the EDA to issue up to \$9 million in tax exempt bonds, the proceeds of which would be used to pay-off the existing bonds; 3) authorize and approve a Payment Agreement between the City and the EDA. The City agreed to continue appropriating and transferring to the EDA the amount sufficient to enable the EDA to pay the principal and interest on the bonds and which payment obligation constituted a value and binding general obligation of the City; and 4) authorize the City Manager to execute any and all documents approved by the City's bond counsel and the City Attorney to close the transaction by December 31, 2010. Two public hearings were required. The City Manager anticipated placing this matter on the December 14, 2010 City Council Regular meeting agenda.

Councilwoman Scott inquired about the \$35,000 cost to refund the bonds. Ms. Kingston replied \$35,000 was the fee imposed to refund the bonds and included specialized legal expenses to recall and put all of the bonds in place.

Councilwoman Woodbury inquired whether a comparison had been done on the cost if the City held off for another year versus the \$5,000 and \$35,000 in fees. Ms. Kingston replied staff had studied different options, but speculated what the interest rate would be if

they held off for another year as well as the added costs associated with low floater bonds. City Manager Morgan replied this was the best time to convert variable rate bonds to fixed rate bonds, due to low interest rates and because the bank was offering a lower rate due to IRS regulations.

Councilman Bateman inquired whether the EDA was extending the payment of the bonds. Ms. Kingston replied repayment of the bonds was being reduced from 15 to 10 years.

Councilman Bateman stated the debt would be paid off sooner by reducing the loan term from 15 to 10, which was a benefit to the City. He inquired whether the estimate of the amount of savings was based on a projection of what rates might be. City Manager Morgan replied the savings estimate was based on the difference between the City's fixed rate on general obligation bonds and the floater average.

Ms. Kingston stated going variable for the first ten years saved the City money and converting to a fixed rate for ten years would save additional money.

Councilwoman Woodbury inquired whether it was appropriate to consider the \$12 million contingency fund to pay off the bonds. City Manager Morgan felt the Capital Improvement Plan was a logical way to pay-off debt over a number of years. The CIP allowed the City to keep a cash reserve.

Councilwoman Woodbury inquired whether SunTrust Bank had the ability to call the loan at anytime. Ms. Kingston replied there was no call provision in the loan and the City could repay at any time.

Councilwoman Scott inquired whether there were any other maintenance fees to be incurred once the refunding modification was finalized. Ms. Kingston replied there were no other maintenance fees to be incurred.

### III. Homelessness Issues Review

City Manager Morgan reminded, in the spring of 2010, members of City Council requested a report about the day shelter for homelessness. He stated City Council had agreed, during their September 30, 2010 Retreat, to plan a Work Session for discussion of homelessness issues. He introduced Mr. Alan Archer, Assistant City Manager, to report on the homelessness issues on Virginia Peninsula.

Mr. Archer reported homelessness was caused by an array of circumstances: 1) lack of a living wage; 2) mental health disabilities; 3) domestic violence; 4) change in employment status; 5) serious illness or injury; 6) no access to family and social networks; 7) limited education and job skills; and 8) poverty. He stated widespread homelessness rates began to emerge in the 1980s due to the institutionalization of patients at State Psychiatric Hospitals

and loss of affordable housing stock. The following circumstances have affected the growth of homelessness over the past three decades: 1) Housing became scarce for those with limited financial resources; 2) Services that households needed for support and stability had become harder for people to afford; 3) Existing affordable housing stock was deteriorating, resulting in the decrease and supply of housing for low income families; 4) Social changes in the community had exasperated the personal problems of low-income workers, making them more vulnerable to homelessness; and 5) Access to illegal drugs.

Mr. Archer stated the United States Code, Title 42, Chapter 119, Subchapter 1, defined the homeless as: 1) An individual who lacked a fixed, regular, and adequate nighttime residence; and 2) An individual who had a primary nighttime residence at a supervised publicly or privately operated shelter, an institution, and a public or private place not designed for regular sleeping accommodations for human beings.

Mr. Archer referenced the Point in Time Count for 2009 and 2010, which noted the amount of homeless individuals, along with the number of homeless individuals who were sheltered and unsheltered. He reported the number of homeless individuals increased from 569 in 2009 to 607 in 2010; the number of homeless who had shelter increased from 514 in 2009 to 573 in 2010; and the number of unsheltered homeless decreased from 55 in 2009 to 34 in 2010.

Mr. Archer noted important pieces of federal legislation to help combat homelessness: 1) the Stewart B. McKinney Homeless Assistance Act of 1987 (later renamed the McKinney-Vento Homeless Assistance Act) - provided federal financial support for a variety of programs to meet the many needs of individuals and families who were homeless. It established the Interagency Council on the Homeless as an “independent establishment” within the Executive Branch of the Federal Government to review the effectiveness of federal activities and programs to assist people experiencing homelessness; and 2) “Opening Doors: Federal Strategic Plan to Prevent and End Homelessness” – plan goals were to: end chronic homelessness by 2015; better homelessness by 2015; and end homelessness among families, children and youth by 2020. Opening Doors provided review and oversight of all federal agencies involved in homelessness and homelessness assistance programs. The Open Door plan was important and would be a challenge to implement. As the plan moved forward and received wide-spread approval, broad rental assistance programs, such as the Homeless Prevention Rapid Re-housing would become available.

Mr. Archer reported that Virginia Governor Robert McDonnell announced a major initiative aimed at reducing homelessness and expanding affordable housing throughout the State of Virginia. He stated the Governor’s initiative would address homelessness by expanding affordable and workforce housing, economic development of neighborhoods, and effective coordination of transportation. It was anticipated that the Governor would announce the framework for his initiative in early fall of 2010; however, no announcement had been made.

Mr. Archer indicated the City had to stay focused on the federal and state requirements in order to be competitive in obtaining funding to combat homelessness. He stated HUD introduced the Continuum of Care (CoC) as the only model for funding homelessness projects. The CoC was a homeless assistance program planning network. HUD allocated homeless assistance grants to organizations that participated in a local CoC. HUD introduced the CoC concept to encourage support for local organizations in coordinating efforts to address housing and homeless issues. In 1994, HUD required communities in a region to come together to submit a single comprehensive CoC application, rather than allow applications from individual providers in a community. HUD's intent in creating a structured application process was to stimulate community-wide planning and coordination of programs for individuals and families who were homeless. The majority of HUD's homeless assistance funds were awarded through the CoC planning process. In order to receive funds, state and local governments must submit an annual CoC plan that drew upon extensive community participation and included identification for local funding priorities. The CoC plan should be long-range, comprehensive, strategic, collaborative, and based upon community needs and priorities. In FY 2010, HUD made \$1.6 million available to CoCs across the country. The application deadline was November 18, 2010. Ms. Jessica Park, Continuum of Care Coordinator, led the charge in submission of the region's (Hampton, James City County, City of Poquoson, City of Williamsburg and York County) application. Ms. Park was hired through a regional agreement that was in place with other participating jurisdictions. Some of the \$108,000 funding from localities was used for the CoC Coordinator to assist with the application process.

Mr. Archer noted: 1) HUD CoC funded projects for FY 2009; 2) Major funders summary of annual funds for FY 2010; 3) Update on local housing types; 4) Mayor's and Chairs Commission on Homelessness; 5) Agreement between the Virginia Peninsula; 6) Recent accomplishments; and 7) Enhanced partnership opportunities. (A copy of the Power Point Presentation and Notes by Assistant City Manager Archer, are attached and made a part of these minutes.)

Councilwoman Woodbury inquired about the regional effort, how the pot of funding was divided between the region's CoC, whether homelessness had decreased and whether a comparison was made of other localities, such as Norfolk, Virginia, who took care of their own homeless population. Mr. Archer replied that homelessness had decreased over the past year. He stated the City of Norfolk coordinated their own homeless issues because their structure was more advanced and they put forth additional resources to get results.

Councilwoman Vick felt the City of Newport News and the City of Hampton should consider coordinating efforts to end homelessness. She felt the Cities of Williamsburg and Poquoson, and James City County did not have the same magnitude of homelessness as Newport News and felt they could work together independently. Mr. Archer replied the suburban cities and counties participated and had an active role in discussions regarding the

homeless, although they did not have the same concentration of homelessness. City Manager Morgan indicated the Peninsula wide cooperation that had been achieved should be sustained, but felt there might be some opportunity with Hampton.

Councilwoman Scott inquired whether Newport News had looked at Norfolk's model to determine how they contained the process for themselves. Mr. Archer stated Newport News had a fair number of homeless that were Newport News residents. He stated Norfolk CoC was independent and had one person in charge of its program.

Councilwoman Scott inquired whether day services would be provided in each jurisdiction of our CoC region. Mr. Archer replied the idea was that the day support center would be supported by several or multiple entities, including several jurisdictions. He was thinking Newport News and Hampton could partner in such an initiative.

Councilwoman Scott inquired whether Mr. Archer was saying staff had not determined the particulars for a day center as yet. Mr. Archer replied there had been some planning; however, the question was whether there would be any support to proceed. City Manager Morgan stated he would not recommend Newport News opening a day center if other surrounding jurisdictions were not in support of offering day services in their communities. There was no other jurisdiction, including Hampton, prepared to create such a facility.

Councilwoman Scott respected the City Manager's comments, but inquired whether Newport News could look into a model for Newport News residents only if others were not looking into the initiative. Mr. Archer suggested that the City move to a more efficient structure. The Commission on Homelessness offered extreme benefits. He felt the City should cultivate its relationship with other jurisdictions in the region, such as the Veterans Affairs, and the City of Hampton. There were more strategies to be considered.

Councilwoman Woodbury felt that by creating different bodies one was creating bureaucracy. She voiced concern that little funding got to the people who needed it most due to administrative costs. Mr. Archer replied, in both cases, the Homeless Prevention and Rapid-Rehousing Program (HPRP) administration dollars were capped and NNRHA was the administrator of the funds that the City received.

Mr. Archer reported, the next steps of the Framework to Address Homelessness on the Virginia Peninsula included: 1) Adoption of Agreement between the Virginia Peninsula Localities on Homelessness at the November 23, 2010 Regular Meeting of City Council; 2) Scheduling a Work Session to review the white paper on Homelessness and other related homelessness issues; and 3) Receipt of the City Manager's recommendation on partnership opportunities with the City of Hampton and Veterans Affairs. (Mr. Archer provided the following handouts which are attached and made a part of these minutes: United States Inter-

agency Council on Homelessness - Preventing and Ending Homelessness in the United States - Ten-Year Plan Update; A Listing of Service Providers for the Homeless; and the Greater Virginia Peninsula Continuum of Care Task Force on Homelessness Annual Report 2009-2010.)

City Manager Morgan stated it was important to note that there was a system in place to deal with the issue of homelessness. He stated the system had imperfections, but there were many people in the community, and throughout the Peninsula, doing good work in support of the homeless. He felt there was no down side to continuing formal relationships, leveraging federal assistance, streamlining the process and engaging in a deeper relationship with the City of Hampton. He recognized and thanked Mr. Archer for his hard work on the homeless issue. He stated Mr. Archer had worked tirelessly in this effort since joining the City administration over the past three years.

#### IV. Public Utilities (Waterworks) Rates and Issues Briefing

City Manager Morgan introduced Mr. Brian Ramaley, Director, Department of Public Utilities, to report on the Waterworks Rates and Issues Consumption Rate.

Mr. Ramaley reminded, during the FY 2011 budget discussions, there was some conversation about the Summer Consumption Rate (SCR) peaking charge, where Vice Mayor McMillan asked that the charge not be increased. He stated more discussion was requested and that was the reason for his presentation.

Mr. Ramaley reported Waterworks FY 2011 budget totaled \$83.6 million, which came from water volume sales, applied reserves, meter/hydrant service charges, growth/development fees, interest, late fees, and billing for others. Waterworks FY 2011 budget expenses included: salaries and fringe benefits (\$23.0 million); debt service (\$21.8 million); payments to City (\$13.3 million); contractual/miscellaneous expenses (\$11.1 million); chemicals and power (\$6.5 million); cash capital expenses (\$6.1 million); and outside taxes (\$1.9 million).

Councilwoman Woodbury understood that 10% of the \$12.8 million for debt service was used to pay-off debt for the King William Reservoir project. She inquired about additional debt service paid out of the \$12.8 million. Mr. Ramaley replied the \$12.8 million also included debt service for the Lee Hall Water Treatment Plant, the Bonds for the Brackish Groundwater Desalination Plant, the Dam spillway improvements, Lee Hall Maintenance and Operations Plant, etc.

Councilwoman Vick recalled that chemical expenses had increased in FY 2010 and inquired whether they were anticipated to increase in FY 2011. Mr. Ramaley replied chemical expenses were wavering; however, the \$6.5 million budgeted for chemicals was a decrease from FY 2011.

Mr. Ramaley noted fees that Waterworks charged its customers: 1) Commodity Charges – Blocks 1 and 2; 2) SCR for usage from May to October that exceeded November to April average usage; 3) System Development Charges and Connection Fees; 4) Meter Service Charges; 5) Hydrant Rentals; and 6) Other Miscellaneous Charges.

Councilwoman Woodbury inquired about the System Development Charges and Connection Fees. Mr. Ramaley replied the System Development Charge and Connection fee was a charge imposed upon a developer or individual for the installation of a meter to obtain water from the City to a new residence or structure.

Mr. Ramaley reported the reduction or elimination of the SCR would reduce revenue, which had to be offset through budget reductions, increases in other rates, or use of reserves. He stated the SCR was implemented in 1989, and its goal was to reduce peaks on the water system and complement conservation efforts.

Mr. Ramaley felt the SCR could be modified or eliminated due to: 1) Peaking factor seemed to be holding steady – may or may not be attributable to the SCR; 2) Overall demand was down therefore peaks were lower; 3) There was sufficient treatment plant capacity; and 4) Overall cost of water (including sewer and HRSO charges when based on water use) may be more of a controlling factor than SCR.

Mr. Ramaley offered the following recommendation scenarios: 1) Completely eliminate SCR; 2) Only charge for June, July and August rather than 6-month period; 3) Charge for July, August, September and October; and 4) Lower rate to \$0.31/HCF from \$0.61 HCF.

Mr. Ramaley noted the following suggestions to replace revenue shortfalls caused by the elimination of the SCR: 1) Raise commodity rates; 2) Raise other rates, e.g., meter fees; 3) Take more from reserves; 4) Reduce transfer to General Fund; 5) Reduce personnel; and 6) Defer cash capital spending/projects.

Councilman Bateman inquired whether Waterworks could sell reserve land that was purchased for the King William Reservoir to help replace revenue shortfalls caused by the elimination of the SCR. Mr. Ramaley replied Waterworks was already selling King William Reservoir reserve land and they were looking into the matter further.


Mr. Ramaley stated Waterworks was working on its FY 2012 budget and many challenges existed. He stated Waterworks planned to include a reduction in the SCR, along with other adjustment to the rate structure. He indicated he would report back to City Council in the near future to offer further discussion on the entire rate structure. (A copy of the presentation, “Waterworks Rates and Issues Summer Consumption Rate,” is attached and made a part of these minutes.)

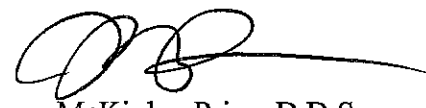
Councilwoman Woodbury inquired whether the SCR was charged to customers during the summer of 2010. City Attorney Katz replied the rate was there; however it was not increased.

Councilwoman Vick voiced concern about delaying capital projects due to increased future costs. Mr. Ramaley agreed that capital projects could not be delayed for long periods of time or they would become more costly, e.g. a leaking roof. He stated Waterworks was delaying replacement purchases of trucks by extending their life-cycle by 10,000 miles.

City Manager Morgan anticipated planning a February 2011 Work Session for further discussion regarding Waterworks rates and issues.

THERE BEING NO FURTHER BUSINESS,  
ON MOTION, COUNCIL ADJOURNED AT 5:35 P.M.

  
Jennifer D. Walker, CMC  
Chief Deputy City Clerk

  
McKinley Price, D.D.S.  
Mayor  
Presiding Officer