

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10TH FLOOR CONFERENCE ROOM
2400 WASHINGTON AVENUE
FEBRUARY 14, 2006
3:15 P.M.

PRESENT: Herbert H. Bateman, Jr.; Joe S. Frank; William F. Haskins; Madeline McMillan; Sharon P. Scott ; Joseph C. Whitaker; and Charles C. Allen -----7

ABSENT: None -----0

OTHERS PRESENT: Randy W. Hildebrandt; Stuart E. Katz; Neil Morgan; William P. Mitchell; Iza Cienzynski; L. A. Wallin, II; Mabel V. Washington; K.M. Blanks; Florence Kingston; LaVerne Lovett; John Hartman; Cleder Jones; Kim Lee; Lottie Vincent; Brian Ramaley; Nancy Howard; Karen Levy; Karen Wilds; Everett Skipper; Chris Morrello; Representative of the WFP-OPP Steering Committee; and Jennifer Walker

I. Status of the Year-End Financial Report

Mr. Randy Hildebrandt, City Manager, stated the Charter required that the City Manager provide the City Council with a financial report by the first meeting in November of each calendar year. He introduced Ms. LaVerne Lovett, Director, Department of Finance, to brief City Council on the year- end results as well as issues the City had with completing the financial report.

Ms. Lovett noted the audit had not been completed in November 2005 due to the delay in receipt of financial information from the Peninsula Airport Commission (PAC). The PAC was a component unit of the City and was included in the City's financial report. She proposed booking PAC as a liability, rather than a component unit.

Councilwoman McMillan inquired whether recording PAC as a liability would have a negative impact on the City. Ms. Lovett replied it would not negatively affect the City because such liabilities were not recorded on the general fund side.

Councilman Bateman suggested that the liability be recorded with a note showing the amortization of the loan payment. Ms. Lovett agreed with the recommendation. City Manager Hildebrandt explained another solution was to require PAC to hire an auditing or accounting firm to prepare their financial statement for submission to the City on or before the deadline. He understood from PAC's staff that they were overburdened and did not have time to prepare a financial report for submission to the City by its deadline date. Councilman Bateman noted a yearly audit was done by PAC. Mr. Hildebrandt agreed, but noted a financial report was not prepared yearly.

Mayor Frank felt the City should have supervisory control over PAC's bookkeeping and auditing. The City appointed the majority of the board who had responsibility and accountability as trustees to manage PAC's funds. He was nervous that PAC did not have enough personnel to keep up with there bookkeeping and produce financial reports in a timely manner.

Councilman Bateman stated he received a financial statement from PAC on a monthly basis as a board member.

Ms. Lovett explained Finance deadline to qualify for the Government Finance Officer's Association (GFOA) certificate was December 31. Two extensions were filed with GFOA due to PAC's inability to meet the City's deadline.

Mayor Frank instructed City Manager Hildebrandt to with the Executive Director and Chair of PAC to discuss the problems the City was having in obtaining financial records a timely manner, and report back to City Council whether the City should continue to keep PAC as a component unit. Mr. Hildebrandt believed the City could take PAC out as a component unit and still impose certain requirements as a supporter and appointee of their board.

Vice Mayor Allen inquired whether there was a statutory requirement requiring PAC to submit their financial report to the City on a yearly basis. He did not understand PAC's inability to submit a financial report to the City in a timely manner. He felt PAC should continue as a component unit, and be required to adhere to the statutory requirement or be dealt with legally.

Ms. Lovett explained in spite of the PAC issue, the City's financial position was sound as of June 30, 2005. She noted the General Fund Balance at the end of June 30, 2005 was \$93 million. Total revenue was \$331.4 million with the bulk coming from real estate). Expenditures were \$297.6 million with the greatest portion related to public safety and education. Other financial sources amounted to a surplus of \$12.7 million. (A copy of this report is attached and made a part of these minutes.)

Ms. Lovett explained out of the \$331.4 million revenue there was a reserve of \$7.3 million which could not be used because of purchase order encumbrances. This left an unreserve of the following: FY 2006 budget - \$1.7 million for debt service (\$1.3 million of that not designated); Self-Insurance Activity - \$8 million (related to future auto, general liability and worker's compensation); Debt Service - \$6.4 million; Applied Research Center - \$17.4 million; and Specific Projects - \$20.1 million, i.e. vehicle replacement, retirement supplement, and software for Treasurer's office.

Councilwoman McMillan questioned the \$1.7 million designated for debt service in FY 2006 and a second ongoing debt service of \$6.4 million. Ms. Lovett replied the \$1.7 million was an estimate of increased debt service in FY 2006. The \$6.4 million was estimated increases for FY 2007 - 2008. Mr. Hildebrandt explained that the \$6.4 million was available money that could be used to reduce new debt service obligations.

Councilman Haskins inquired whether the Self Insurance Activity was committed to healthcare. Ms. Lovett responded no, and explained self insurance category included worker's compensation and auto liability. Seven million dollars of healthcare was included in the \$20.1 million Specific Projects category.

Mayor Frank appreciated the work done by staff, but indicated it would be helpful to footnote category amounts in more detail. City Manager Hildebrandt stated he would provide City Council with additional detailed information.

Councilwoman Scott inquired about the Specific Projects category. Ms. Lovett replied Specific Projects included vehicle replacement - \$1.7 million, retirement supplement - \$4 million, software for treasurer's office etc., which had already been appropriated. Mr. Hildebrandt indicated he would provide an itemization of Specific Project category appropriations made by City Council since January 2006.

City Manager Hildebrandt reported he would provide City Council with projections as to how the City was doing, compared to last year, in March 2006. He wanted to provide City Council with a financial report in December of each calendar year noting what the audited figures showed in terms of the City's year-end balances, to be followed by a sixth month review. Additionally, Mr. Hartman, Director, Department of Budget and Evaluation, would provide City Council with a report noting what budget expectations were in terms of matters carried forward. He felt such information would help City Council see how budget decisions would shape upcoming budget cycles. This information would be provided to City Council, on a yearly basis, before the budget process began in April.

Ms. Lovett noted how the fund balances had changed over the last five years, 2000 - 2005, from \$83.5 million to \$93.0 million. Mr. Hildebrandt indicated he and City Council needed to decide on a cap for the fund balance and in what cash reserve should be best to keep as a goal. The present goal was between 5% - 10%. The City was fairly close to 10%. Mayor Frank instructed Mr. Hildebrandt to get feedback from the bond rating agencies in terms of where the balance was set.

Councilwoman Scott inquired about the \$13 million difference in the fund balance between 2004 and 2005, and whether it was due to real estate. Ms. Lovett replied it was due to taxes, programming funds for the Bon Secours Program and spending restrictions imposed throughout the year.

Ms. Lovett stated the City's total bonded debt decreased by approximately \$4.9 million during FY 2005, due to the issuance of \$45.1 million of General Obligation Bonds and a payment of \$50 million. Bonds outstanding totaled \$394 million with \$31 million due in FY 2006 if no new bonds were issued. The City maintained an Aa rating from Standard & Poor's, and an Aa2 rating from Moody's.

Ms. Lovett explained the results of the Enterprise Funds for FY 2005 included the following: Public Utility had a surplus of \$14.5 million, approximately the same as the previous year; Parking Authority had a surplus of approximately \$77,000, compared to a loss of \$13,000 from the previous year; and Internal Service had a surplus of \$587,000, compared to a loss of \$841,000 the previous year.

Ms. Lovett stated the Pension & Post-Retirement Health funds asset value as of June 30, 2005, totaled \$698 million. As of February 1, 2006, the fund totaled \$759 million, which changed on a daily basis due to market conditions.

Councilman Haskins questioned the liability value of the Pension & Retirement fund. Ms. Lovett replied the long term liability was roughly \$208 million more than the asset value. She noted income for the year included employer contributions totaling \$13.6 million: \$8.9 million - City; \$1.1 million - Waterworks; \$3.6 million - Schools; \$1.5 million - Leave Exchange; and \$0.9 million -

Employee Buyback. Expenses for FY 2005 amounted to benefit payments of \$38.8 million.

Vice Mayor Allen questioned the return on investments of the Retirement fund. Ms. Lovett replied the return of investments for FY 2005 was 10.8%, but the assumed rate was 8%.

Mayor Frank recognized a group of students and their teacher from the Student Council Association of Orcutt Baptist School, Baxter Lane, Newport News, who were touring the City to learn more about local government works.

II. Staff Presentation: Water for People Campaign in Oyster Point Park

City Manager, Randy Hildebrandt, explained in early 2005 an employee-directed Waterworks' Team conducted its first annual campaign among its employees to contribute to "Water for People" (WFP), a non-profit foundation that built water and wastewater systems in developing countries. Mr. Hildebrandt introduced Mr. Brian Ramaley, Director, Waterworks, to brief City Council on the WFP campaign in Oyster Point Park.

Mr. Ramaley explained WFP was formed in 1991 and an international organization that was a spin-off from the American Waterworks Association. WFP helped impoverished people worldwide improve their quality of life by supporting locally sustainable drinking water, sanitation and hygiene education projects. Ms. Nancy Howard, Water Resource Planner, spearheaded the workplace giving campaign for WFP. Waterworks raised more than \$2,000 for WFP in 2005. Ms. Howard and Ms. Karen Levy initiated the option of extending the WFP campaign to businesses in Oyster Point. Mr. Ramaley recognized representatives from various businesses throughout Oyster Point who were present. He introduced Ms. Howard and Ms. Levy to continue the briefing. (A copy of her presentation is attached and made a part of these minutes.)

Ms. Howard stated WFP projects were a clear and pressing need that was simple to achieve. WFP worked with non-governmental agencies, throughout developing countries, such as CARE AND UNECEF, that designated certain areas for WFP projects. She shared the following statistics: over 1.1 billion people worldwide did not have access to safe drinking water; nearly 2.4 billion (2 out of every 5 people) lack adequate sanitation; 6,000 people (mostly children) die each day from water-related illnesses; and every 15 seconds a child under the age of 5 dies from water-related illnesses.

Ms. Howard indicated women and children were primary beneficiaries of WFP projects by freeing them from endless and debilitating tasks of hauling daily family water supplies. WFP emphasized prevention of disease through effective health and hygiene training. WFP projects were currently in three continents and seven countries: Latin American and the Caribbean, (Bolivia, Honduras, Guatemala); Africa and the Middle East (Water for Africa, and Malawi); and Asia and the Pacific (Vietnam and India). She introduced Ms. Karen Levy to continue with the presentation.

Ms. Levy explained Waterworks wanted to improve over its previous contributions to WFP by taking the campaign to a new level by inviting businesses in Oyster Point Park (OPP) to join the campaign. Out of 800 businesses in the Park, 40 received letters asking that they join the WFP-OPP Steering Committee. Fifteen companies enthusiastically stepped up to the plate and

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agreed to assume a leadership role. The following companies and representatives were members of the steering committee: Ms. Kimberly G. Bonilla, Environ, Engineering & Technologies, Inc.; Mr. Chris Garrett, P.E., URS; Mr. Dave Hillebrand, A.H. Environmental Consultants, Inc.; Mr. Andy Landrum, P.E., Whitman, Requardt & Associates, LLP; Mr. Ansley Marr, PBS&J; Ms. Jen Little, Richie-Curbow Construction; Mr. John Lunsford, SunTrust Bank; Ms. Nicole McDonald and Ms. Jessica Waibel, P.E., Gannett Fleming; Mr. Eric Nice, P.E., Draper Aden Associates; Mr. Dougg Noffsinger, P.E., CH2M Hill; Mr. Joel Petery, P.E., Malcolm Pirnie, Inc.; Mr. Gary A. St. John, P.E., DEE, Camp Dresser & McKee, Inc.; Mr. Andy Snyder, P.E., Draper Aden Associates; Mr. Robbie Walker, Marine Chemist Service, Inc.; and Ms. Odetta Lopez, Enterprise Rent-A-Car.

Ms. Levy stated the WFP-OPP Steering Committees' four goals were: to raise awareness of the need; encourage other OPP businesses to conduct their own workplace giving campaign; hold three major events to educate and increase giving opportunities; and ensure the WFP-OPP campaign was an annual ongoing event.

Ms. Levy indicated World Water Day was scheduled for March 22, 2006, with the kickoff event scheduled for Monday, March 20, 2006 and the closing event, Friday, March 24, 2006. (A copy of the Calendar of Events is attached and made a part of these minutes.)

Ms. Levy reported WFP officials at the Denver headquarters recognized Newport News' campaign as the first of its kind to reach out to a business park community. WFP planned to use Newport News' campaign as a national model. Additionally, WFP officials shifted their travel schedules to have a representative on site for the opening and closing events of World Water Day week in Newport News. She thanked members of City Council for their support.

Councilwoman McMillan inquired of the local contact number for WFP for people who may be interested. Ms. Levy indicated the numbers were (757) 926-1062 and (757) 926-1094.

Councilman Haskins questioned the processes used to get resources to needy people and nations. Mr. Ramaley replied WFP was a large organization, based in Denver, that hired in-country coordinators to handle the projects. The coordinators found areas in need of help, and worked to match the funds from the USA headquarters to the target location. The coordinators picked the project, engineered the project, designed the project, and maintained the project with WFP providing oversight and resources to get the project completed.

Councilman Haskins inquired whether there was performance data available from WFP. Ms. Levy replied WFP conducted an annual evaluation. Councilman Haskins indicated he was not comfortable with the idea that UNICEF was a part of the program. Mr. Ramaley noted that WFP had been in existence for 15 years. The projects of WFP were relatively small and provided adequate water supplies to an area for less than \$10,000.

III. Presentation by Newport News Redevelopment and Housing Authority:
Financial Housing Program

City Manager Hildebrandt introduced Ms. Karen Wilds, Executive Director, Newport News Redevelopment & Housing Authority (NRRHA), to discuss the short and long-term issues

and financial challenges the City faced in public housing programs.

Ms. Wilds explained NNRHA received 95% - 98% of its budget from the federal government lumped together in the following categories: Public Housing Subsidies (coupled with the rent collected from residents helped operate public housing); Capital Improvement Grant (for improvements to public housing properties); Section 8 Funding (to support Section 8 Voucher programs); and Community Development Block Grant (CDBG) funds administered for the City. In addition, NNRHA received various competitive grants which varied from year to year.

Ms. Wilds stated, in conjunction with public housing subsidies, their yearly budget to operate public housing amounted to \$10.8 million. Sixty percent was from public housing subsidies received from the federal government and 40% was from rent. In 2003/2004, NNRHA received 5.3% less of the eligible amount of subsidies that HUD was needed to operate public housing. In 2004-2005, NNRHA received 2% less of the total needed to operate public housing. In January 2006, HUD announced that in 2005-2006 NNRHA would receive 9.5% less funding they were eligible to receive in subsidies for the current fiscal. NNRHA would receive over \$1 million less than what they were eligible to receive to operate public housing since 2003. Property insurance had increased dramatically due to Hurricanes Floyd and Isabel. Ms. Wilds noted a few years prior HUD allowed NNRHA adjust utility costs based on yearly figures. Utility costs must now be projected three to four months in advance.

Ms. Wilds noted the President's 2007 budget included another 5% cut in public housing subsidies. Additionally, a new initiative would require housing authorities, starting after 2007, to do its budgeting in a project-based way. Currently, all projects were lumped together, and NNRHA had the luxury of blending high and low performing properties together. After 2007, NNRHA would not be able to lump their properties together, and it seemed Newport News would not fair well with HUD's new project based housing formula, due to aging complexes.

Ms. Wilds noted the only program that had seen an increase in funding in recent years was the Section 8 Voucher program. This program required increases to support commitments to vouchers. NNRHA had contract authority to support 2200 vouchers. In October 2002 HUD changed the way it supported voucher funding, and in reality NNRHA was only able to fund approximately 2,000 units. The waiting list for the voucher program was approaching 1,000 families with a vast majority residing in Newport News.

Ms. Wilds explained CDBG funding amounted to \$1.6 million as opposed to \$2.2 million five years ago. The grant decreased by 17% in the last five years. The future of CDBG funding was bleak as the President's budget for 2007 proposed cutting CDBG funding by an additional 25%. She indicated without CDBG funding, it would be difficult for the City to maintain its current level of support in the revitalization of neighborhoods.

Mayor Frank questioned whether there was any indication that the President would reverse his cuts to CDBG funding in the foreseeable future. Mr. Wilds replied there was no indication of such. Mayor Frank noted City Council needed to find local sources for redevelopment projects.

Councilman Haskins inquired about what could be done to reach and touch base with the City's congressional delegation. Mayor Frank replied he had repeatedly contacted representatives by visiting Washington and sending correspondence.

Councilwoman Scott questioned how Ms. Wilds compensated for shortages to the budget. Ms. Wilds replied NNRHA had a reserve fund that they put money into on a yearly basis. However, to accommodate for shortages NNRHA would need to eliminate positions. Councilwoman Scott questioned how this would affect the people they were serving. Ms. Wilds indicated some rental offices would be eliminated, which would affect the client base.

Mayor Frank noted an effort made last year by President Bush to move CDBG funding to the Department of Commerce. This was averted due to major efforts launched by the National League of Cities, the U.S. Conference of Mayors, the National Association of Redevelopment Housing and State leaders. He felt City Council needed to think about a day where they would not see HUD funding or CDBG funding.

Councilwoman Scott expressed concerns regarding rent increases for Section 8 Voucher recipients. She questioned whether NNRHA paid the difference when a Section 8 resident's rent was increased. Ms. Wilds noted landlords could only raise the rent within a certain amount approved by NNRHA, and it had to be a fair market rent within a prescribed amount. Councilwoman Scott questioned whether NNRHA would move the client to another residence if they could not meet the rent. It would be the responsibility of the client to find another residence that was within the fair market rent.

Mayor Frank noted that HUD appropriations were not covering true fair market cost. The Section 8 Vouchers were not increasing to meet the economy's increased real estate market.

Ms. Wilds requested that City Council appropriate the difference in solid waste services in lieu of taxes due. She also asked City Council to appropriate funds (\$50,000) for off-duty police officers to provide security patrol in public housing complexes.

Mr. Hildebrandt asked City Council to support the request of Ms. Wilds in providing \$50,000 in the FY 2007 budget to support the security, and budget the cost of the solid waste as an expense. Additionally, City Council needed to appropriate funds in FY 2006 to make-up the deficit for prior years totaling \$58,000.

Vice Mayor Allen noted that the national government was pushing communities to pick up various costs. Once done, the City would have no argument to deal with problems in the budgeting process. It was not just the ability to operate NNRHA, but also human resource programs. The damage to Newport News, in terms of uplift, was severe. He felt while the City needed to do something, a more concentrated effort was needed to talk about problems at the national level.

IV. Proposed Budget Calendar For Fiscal Year 2007 Operating Budget

City Manager Hildebrandt suggested that a Work Session be planned for Tuesday, April 4, 2006, after the Special Meeting, when he submits his proposed budget for the upcoming fiscal year 2006-2007 to City Council. Given the significance of some of the budget issues this year, he suggested separate budget work sessions, not associated with work sessions held on Tuesday's before Regular Council meetings. He felt the burden of doing both was rather difficult, and suggested a Work Session on the Thursday's after Regular Council meetings to discuss the budget.

Vice Mayor Allen stated he had a problem with non-Tuesday meetings. He indicated Tuesday's were better for him. Thursdays would affect his schedule in a negative way. City Manager Hildebrandt suggested they hold the meetings on Tuesday's, but start earlier with a break for lunch.

City Manager Hildebrandt suggested that City Council hold their second Budget Public Hearing before voting on the School's budget, rather than voting on the school's budget the same night of the budget public hearing. He suggested that City Council hold two budget public hearings in the same week, Tuesday, April 25, and Thursday, April 27, 2006.

City Council was in concurrence with the following schedule: Tuesday, April 4, 2006 – Special Meeting to distribute proposed budget and provide a general overview (12:00 p.m. – 4:00 p.m.); Tuesday, April 11, 2006 – Budget Work Session (11:00 a.m.); Tuesday, April 25, 2006 – Budget Work Session (11:00 a.m.) and first Budget Public Hearing at City Hall (7:30 p.m.); Thursday, April 27, 2006 – second Budget Public Hearing at Denbigh High or Passage Middle School (7:30 p.m.); and Tuesday, May 9, 2006 – Budget Work Session (11:00 a.m.) and adoption of both the School and City Budget at the regular meeting (7:30 p.m.).

V. Miscellaneous

Vice Mayor Allen noted that July 1, 2006 fell on a Saturday. He questioned whether the City Council was required, by law, to hold its Organizational Meeting on a Saturday. City Attorney Katz replied, by State Charter, City Council was required to hold their Organizational meeting on Saturday, July 1, 2006.

Mayor Frank referenced a memo dated February 3, 2006, from the City Manager Hildebrandt, regarding the appointment of Ms. Izabela Cienzynski, Acting Assistant City Manager, as the City's liaison to the Community Policy and Management Team, the Peninsula Alcohol Safety Action Program Board, and the Hampton-Newport News Community Services Board. City Council was in concurrence with City Manager Hildebrandt's recommendation to allow Ms. Cienzynski to serve as the City's liaison.

THERE BEING NO FURTHER BUSINESS
THE MEETING ADJOURNED AT 5:47 P.M.

Jennifer D. Walker, CMC
Deputy City Clerk

Joe S. Frank
Mayor

A true copy, teste:

City Clerk