

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10TH FLOOR CONFERENCE ROOM
2400 WASHINGTON AVENUE
MARCH 14, 2006
3:30 P.M.

PRESENT: William F. Haskins; Madeline McMillan; Joseph C. Whitaker; Charles C. Allen; Herbert H. Bateman, Jr.; and Joe S. Frank -----6

ABSENT: Sharon P. Scott -----1

OTHERS PRESENT: Randy W. Hildebrandt; Stuart E. Katz; Mabel V. Washington; Neil Morgan; William P. Mitchell; Iza Cieszynski; L. A. Wallin, II; Butch Blanks; Leonard Ringler; Al Riutort; Florence Kingston; Michael Poplawski; Everett Skipper; Sheila McAllister; Lottie Vincent; Brian Ramaley; John Hartman; William Keeler; Lisa Cipriano; Robin Rose; Debra Everitt; Rhonda Everton; Kim Lee; Andy Stein; Mike Barber; Susan Lineberry; Chris Morrello; Chris Flores; and Jennifer Walker

I. Briefing: Three Year Financial Projections

City Manager, Randy Hildebrandt, introduced Mr. John Hartman, Director, Department of Budget & Evaluation, to provide a brief presentation on the general fund budget projected results of operations for FY2006 - FY 2008. (A copy of his presentation is attached and made a part of these minutes.)

Councilman Haskins inquired about the total unappropriated fund balance. Mr. Hartman replied the unappropriated fund balance totaled \$32,000,000.

Mayor Frank inquired about the "all other expenditure category" in the budget handout. Mr. Hartman replied the category included attrition of the City's operating departments which triggered FICA, medicare, retirement fund contributions, supplies, etc.

Councilman Bateman inquired whether the figure for health insurance was due to attrition. Mr. Hartman stated the City had many vacancies in the Police Department which attributed to the low figures for health insurance. As people leave the workforce and new people hired the average health payout was 45 - 60 days.

City Manager Hildebrandt felt the City had a healthy balance of funds to carry forward in the upcoming budget cycle to deal with difficult issues. He noted, based on the market rate, growth of real estate would peak in 2007. He stated a substantial increase could be seen in 2008, but not near what could be seen in 2007, as the price of housing starts to level off.

Councilwoman McMillan questioned the huge difference in projections for the rate of growth in real estate in 2007 and 2008. Mr. Hildebrandt replied the rate of increase would be decreasing.

Mayor Frank questioned the decrease in sales tax in fiscal years 2007 and 2008, in relation to additional retail coming online. Mr. Hartman replied there was a saturation point where citizens would only have a certain amount of disposal income due to higher mortgages acquired during the height of the real estate market. He noted the City's average growth in sales tax in 2007 and 2008 was

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four percent.

Mayor Frank questioned the difference in the meal's tax for fiscal years 2006 through 2008. Mr. Hartman replied due to the increase of restaurants in fiscal year 2006, an increase of 10.4% was projected in FY 2007, and a decrease in fiscal year 2008 due to a decrease in patronage.

Mayor Frank inquired about steps taken to get people to return to work who were on Worker's Compensation. City Manager Hildebrandt replied the City made an aggressive effort in getting employees back to work, and exercised fairness in assigning employees to light duty positions.

Mr. Hartman indicated debt service was projected to increase to \$9,859,980 due to Capital Improvement Projects (CIP). City Manager Hildebrandt noted that City Council had some control in reducing the debt service since they had not committed to all items in fiscal years 2007 and 2008. He stated Council would receive further input during budget deliberations related to controlling fiscal year 2008 debt service.

Councilman Haskins inquired of the total investment from the City versus private investments for the City Center project, which included the fountain, hotel conference center and parking garage.

Mr. Hartman explained debt service had increased from \$6,089,331 in fiscal year 2007 to \$55,949,311 in fiscal year 2008, which amounted to an increase of \$9.8 million overall. He reminded Council these were projected figures that could decrease or increase depending on market conditions. He explained the City would issue a new debt issue for each year.

Mayor Frank inquired whether the debt service dealt with the City's policy to payoff existing debt before borrowing new money. Mr. Hartman replied the City paid off principal in the range of \$26 million to \$31 million a year. He stated the City was within the 9.5% limitation on debt service to revenue without the inclusion of EDA/IDA debt service projects.

II. Briefing: Retirement Fund

City Manager, Randy Hildebrandt, introduced Ms. LaVerne Lovett, Director, Department of Finance, to provide a briefing on the retirement fund. (A copy of her presentation is attached and made a part of these minutes.)

Ms. Lovett noted the Newport News Employees' Retirement Fund (NNERF) was one of 13 independent retirement funds, including the Virginia Retirement System (VRS). She noted the Cities of Hampton and Portsmouth had closed their independent retirement funds to become a part of the VRS.

Mayor Frank questioned whether the City was looking at closing its retirement fund and becoming a part of the VRS, as an alternative to independent retirement funds. Ms. Lovett stated the City planned to include the VRS as an option.

Ms. Lovett stated there were approximately 3,300 retirees and beneficiaries with

monthly average benefits totaling \$5,665.00.

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Councilman Haskins inquired whether there were any City employees who were members of both the NNERF and the VRS. Ms. Lovett replied yes, but noted the City supplemented the difference between the amount school employees received from the VRS. The City had a retirement allowance of 2% for each year an employee worked and the VRS had a retirement factor of 1.7%, and the City tried to supplement the difference which was .03%.

Ms. Lovett indicated over the last six years, the market value of the City's retirement fund had fluctuated from \$571 million to \$742 million. Mr. Hildebrandt noted over the last five years the retirement fund should have increased to \$900 million.

Councilman Haskins stated the City Charter required the City to actuarially fund the pension plan. He pointed out the City was in violation each year.

Ms. Lovett stated the funding position of NNERF had decreased significantly over the past three years. Money from investments and contributions had not been enough to cover the benefits earned to date, resulting in the plan having an unfunded actuary liability of \$209 million as of June 30, 2005. She explained the amount of unfunded actuarial liability fluctuated over time, as did the City's investment returns, demographics and level of benefit pay-outs. The City's response required a studied, non-panicked approach. Ms. Lovett suggested raising the City's contribution rate.

Mr. Hildebrandt stated the City would make a concentrated effort to get the \$10 million it needed for the retirement fund.

Councilman Bateman inquired about a study of healthcare costs for retirees and whether they had the benefit of participating in the wellness program. Ms. Lovett replied retirees did have a wellness benefit, but most did not take advantage of the program.

III. Special Events Programming

Mr. Hildebrandt proposed providing a \$1 million contribution to deal with City Center events out of the unappropriated fund balance. In addition, the developers of City Center would contribute \$100,000 which would give the City \$1.1 million to work with through the next fiscal year. He stated \$100,000 would go to Parks & Recreation for equipment and one full-time staff person to work in City Center. The remainder of the funds would go into a fund administered by the EDA. A committee would be set up to review the ongoing program of events that would be funded and contracted by the Virginia Arts Festivals for weekly activities, along with signature events. Virginia Arts Festival would do the marketing and include prior city events such as Holly Dazzle, the St. Patrick's Day Event, etc. The Committee would also work on developing a 501(c)3 organization that would carry forward activities beyond 2007. The organization could be funded through contributions of sponsors of the events, assessments against properties within City Center, through a business improvement program, and money from the City. He was trying to create activity and "a sense of place" in City Center, the City's new downtown so that people could feel comfortable coming to City Center. The proposal was to partner with Parks & Recreation to get the most we could get out of the dollar, setting aside funding to help coordinate and support Port Warwick's activities.

Councilwoman McMillan Inquired about the budget for the St. Patrick's Day event. Mr. Poplawski replied it was close to \$28,000. Councilwoman McMillan inquired about the budget for Holly Dazzle held in December. Mr. Poplawski replied Holly Dazzle cost just over \$92,000.
Councilwoman

McMillan inquired about the cost for the Oyster Roast. Mr. Poplawski replied the Oyster Roast cost was \$50,000. Councilwoman McMillan indicated those events added up to far more than \$100,000. Mr. Poplawski replied the cost for events in City Center amounted to close to \$175,000. Councilwoman McMillan felt \$100,000 was not a logical amount for the remainder of the City.

Councilwoman McMillan felt funds appropriated to draw people to the City Center were not a proper use of public funds and felt uncomfortable with calling City Center "the new downtown." Mr. Hildebrandt replied public dollars were being committed in neighboring Cities, such as downtown Norfolk in order to bring people downtown and provide activities. Councilwoman McMillan felt that was comparing apples to oranges because Norfolk's downtown was a total redevelopment project. City Center was a beautiful project, which she wished much success, but there was no guarantee that it would generate "a sense of place." Construction was ongoing and stores that should have been opened were still closed. She felt the City was being premature in spending this much money. Funding for City Center was for convenience rather than want. She felt the City Council should wait for the retail outlets to open to see whether it created "a sense of place." She felt the City was throwing away funding needed for the retirement fund and other issues.

City Manager Hildebrandt stated the concept was to create activity as new merchants came on board in City Center for the first year. City Council would vote on whether to sustain the appropriation for the next fiscal year. The idea was to give City Center a jump start.

Councilman Haskins noted that the merchants of Port Warwick handled the advertising of their development without funding from the City. He could not understand the City funding City Center to compete against Port Warwick. He inquired how the City could justify not funding other areas of the City. He felt \$100,000 was not enough to fund other areas in the City. He stated he was concerned about fairness for all areas.

City Manager Hildebrandt replied the City was creating a public space in City Center and the City was programming public space. There were parking garages, a conference center and hotel. The investment has been made with the debt service coming due. This funding was an investment to insure that future debt service was paid.

Councilman Haskins inquired about the amount of public and private funding for City Center.

Councilman Bateman stated the City owed it to the taxpayers to make sure that the investment in City Center was successful. The IDA negotiated leases with the large companies going into City Center and it was the City's good faith initiative to make sure that the development was successful. He saw the issues as two-fold: an investment that would take place now and long term marketing of the City.

He also felt, in marketing City Center, the City could not ignore Hilton, the Southeast Community, and Denbigh. He felt the City Manager needed to come up with a solution to market all areas in the City. He felt the immediate investment in City Center was needed to make sure the City received a return. He suggested that the Committee proposed by the City Manager have a representative from each district of the City to insure that all recommendations were heard as the City went forward in marketing its shopping centers.

Councilwoman McMillan felt the City needed to wait until the conclusion of the construction before investing funds into City Center. She questioned why the City needed to spend \$1million to attract people to City Center. She felt there were large businesses coming into City Center who could afford to do their own advertising, such as Cold Water Creek, Talbots, Red Star Tavern, the Marriott, etc.

Mayor Frank stated the City was creating a place for its citizens to come and take advantage of the \$5 million investment in building Fountain Plaza. The funding was going to be used for the creation of an atmosphere that people could enjoy. He felt the funding would benefit the new businesses and the conference center coming to City Center, which would support the City's tax base. The City had an obligation to invest additional funding to bring excitement to what had been built.

Councilwoman McMillan felt coming to a free event in City Center would not cause people to spend money in the area. She felt businesses had to generate their own marketing and sales. The City was not being accessible to people, but marketing a place, that was not generating revenue projected by the City. She felt it was not fair to other citizens, and particularly small businesses in the City, that struggle daily. She felt City Council should market the City as a whole.

Vice Mayor Allen stated he had no problem with the City sponsoring events to enhance the quality of life for its citizens. He had a problem with zeroing in on one particular location at the exclusion of the other elements of the City. The City was making a commitment to respond to other people when proposals were made. His suggested the Port Warwick retailers and the new downtown business community come to the City Manager with their proposals. He stated if a commitment was made, the City had to abide by it. He felt the City had to be open and responsive to all requests.

Councilman Whitaker felt the City needed to protect its investment in City Center by appropriating the necessary funding. He felt the City was trying to make City Center better and was protecting its investment.

Mayor Frank noted four City Council members were in favor of funding for City Center, with the suggestion made by Councilman Bateman to add three people to the committee from each district, and Vice Mayor's Allen's suggestion that the City be receptive to proposals from other organizations who wanted to do similar projects throughout the City, as part of a concept plan.

IV. Date for the Second Budget Hearing

City Manager Hildebrandt referenced a letter received from the Newport News School Board (attached) asking that City Council consider holding the second budget hearing on Wednesday, April 26, 2006 rather than of Thursday, April 27, 2006.

Councilman Haskins noted he would be out-of-town and made his schedule in accordance with the prior schedule he received from the City Manager. He did not agree to changing the date from April 27 to April 26, 2006.

City Council agreed to leave the date as previously scheduled for Thursday, April 27, 2006, 7:00 p.m. at Passage Middle School.

V. Oasis Radio Tower

Mayor Frank indicated he and City Manager Hildebrandt met with Delegate Glenn Oder, a representative of the applicant, to discuss deferral of the radio tower matter in order that the City could hire a consultant to look at the issues and concerns introduced by staff. Mr. Oder agreed, but stated the applicant did not want the matter deferred. The applicant's position was that the tower did not pose a risk and that qualified engineers were hired, as referred by the City, who determined there was no harm or risk to the City. Mayor Frank noted Police, and Fire staff felt the tower may interfere with communication operations on an adjoining tower. The airport had concerns about the height of the tower and interference in bad weather conditions with landing operations, which would become worse if the runway was expanded. Waterworks had serious concerns that the broadcasting frequency would interfere with computer operations at the water treatment plant that could impact on their ability to deliver water. Beyond that, maintenance of the tower would require people to climb it, and without reducing the broadcasting wattage substantially, people could be severely injured.

Mayor Frank inquired how the City could control the broadcast impact of additional usage if the radio station sold lease rights on the tower to other people. Mr. Riutort replied the proposed tower was capable of adding more antennas onto the tower. Mayor Frank inquired whether the City would retain the right for additional use of the tower.

Councilwoman McMillan inquired why the issue of the addition of antennas was not brought up in August 2005 after City Council received an e-mail from Planning Commissioner Michael Taylor and why it was suddenly an issue. She stated information she received noted the network Information Technology used at Waterworks was fiber optic.

City Manager Hildebrandt felt technical experts needed to address the issue to the satisfaction of City Council. He did have enough information to support the request. There was an \$80 million water treatment plant that City Council had to keep in its best interest.

Mayor Frank agreed with the City Manager in hiring technical experts to address and report on the issue.

Mr. Brian Ramaley, Director, Waterworks, stated the report was not accurate and was filled with possibilities. He stated the report was not detailed enough.

Vice Mayor Allen questioned the value of the computer system and suggested that the applicants secure a \$20 million bond to protect the computer system from any interference from the radio tower frequencies. Mayor Frank stated a bond would only cover cost and not operations. Money would not solve the problem of interference with Police and Fire operations. Vice Mayor Allen stated if the City was going to move on with allowing the radio tower he wanted value placed on it, and that value insured.

Councilwoman McMillan stated the City had an amicable amount of time to study this issue dating back to August 2005. She felt to continue this matter would only cost additional

money and time. She felt no Engineering firm could conclusively guarantee that something would not happen, at some particular point in time.

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Mayor Frank felt the City should get concrete results before denying the applicant construction of the tower.

Mr. Andy Stein, Director, Department of Information Technology, felt if the City allowed construction of the tower, questions would be raised that would require City Council to get further studies on the matter. He felt the location of the tower was in close proximity to the City's antenna. He felt construction of the tower would not be in the best interest of the City.

Councilman Haskins felt a technical evaluation was necessary for the City's safety. He would like to see the tower built, but felt a technical review was necessary to get concerns clarified.

Mayor Frank suggested that City Council defer the matter for 90 days, and hire a consultant to conduct additional tests to determine whether the tower could be accommodated at this site without negative impact to the City's emergency broadcasting and water distribution systems. If, in the process, the City found that conditions needed to put on that use, this allowed time to negotiate what these conditions would be and to ask the consultant to locate an alternate site if the present site was not feasible.

Councilman Whitaker inquired whether the City could require the applicant to pay for the study. City Attorney Katz replied there were no legal bases requiring that the applicant pay for the study. He noted the City needed to commission the best study available to address the issues of City Council and staff, which he felt was the City's responsibility.

There was a consensus among the members of City Council to defer the matter for 90 days to hire a consultant to consider all the scientific and technical issues that have been raised.

THERE BEING NO FURTHER BUSINESS

THE MEETING ADJOURNED AT 6:02 P.M.

Jennifer D. Walker, CMC
Deputy City Clerk

Joe S. Frank
Mayor

A true copy, teste:

City Clerk