

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10TH FLOOR CONFERENCE

ROOM

2400 WASHINGTON AVENUE
April 4, 2006
12:00 P.M.

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

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ABSENT: Charles C. Allen

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OTHERS PRESENT: Randy W. Hildebrandt; Stuart E. Katz; Mabel V. Washington; Neil Morgan; William P. Mitchell; Iza Cieszynski; L. A. Wallin, II; Butch Blanks; Florence Kingston; John Hartman; William Keeler; Lisa Cipriano; Robyn Rose; Deborah Everitt; Rhonda Everton; Lottie Vincent; Clede Jones; Kim Lee; and Jennifer Walker

I. Distribute City Manager's Proposed Fiscal Year 2007
Budget

Mr. Randy Hildebrandt, City Manager, distributed the proposed Operating Budget for the City's fiscal year that begins July 1, 2006 and ends June 30, 2007 (FY 2007).

II. Approval of Public Hearing Dates

City Manager. Hildebrandt asked for a motion of City Council to approve the public hearing dates to discuss the proposed FY 2007 Operating Budget as follows:

- 1) April 25, 2006 7:30 p.m. at City Council Chambers
2400 Washington Avenue, Newport News
- 2) April 27, 2006 7:30 p.m. at Passage Middle School
400 Atkinson Way, Newport News

Councilman Haskins moved adoption of the above public hearing dates; seconded by Councilman Whitaker.

Vote on Roll Call:

Ayes: McMillan; Scott, Whitaker, Bateman, Frank, Haskins

Nays: None

Absent: Allen

III. General Overview: Revenues/Expenditures, Total Operating Budget and Significant Issues

City Manager Hildebrandt reported on his budget message and noted position papers that explained the issues, from staff's prospective, that were driving his budget recommendation for FY 2007. (A copy of his budget message and position papers are attached and made a part of these minutes.) He stated there was a significant increase in general fund revenue, but regrettably, the increase was generated by rising housing prices and real estate assessments. The Newport News Public Schools also had a large increase in State revenue (12%), which meant there were significant resources available

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to address some of their priorities.

City Manager Hildebrandt reported that although the City's General Fund realized the most significant annual increase in revenue in more than a decade, the development of the FY 2007 operating budget proved to be challenging, given the magnitude of long term funding issues that the City had to address, i.e. retirement, information technology, and vehicle and equipment replacement funds. He stated the retirement fund was the most significant, in terms of funding involved, which amounted to \$7.6 million in additional contributions. For the first time in several years there was money for vehicle and equipment replacement (\$1.7 million), which was less than the \$3.2 million the City needed to be spending to replace equipment on a prudent schedule. There was money in the budget to address the permitting system, proposed by Information Technology, that affected the Departments of Codes Compliance and Engineering. He also suggested that \$3 million of the \$6 - \$7 million surplus generated in FY 2006, be committed to an Information Technology investment fund to address Records Management System for the Police and Jail. No funding was available for the Enterprise Resource Planning System (ERP) or the Taxation System. The cost to replace the ERP and Taxation system totaled more than \$22 million. These systems needed to be replaced in a two to three year period, and would have to begin by FY2008. There was no money to begin the project, except to proceed with an RFP on ERP.

City Manager Hildebrandt stated other issues needing to be funded were employee compensation; 37 new positions; jail operations; Hampton Roads Transit; school funding; and real estate assessments and fees. He explained City Council needed to look at the issues the City would face in FY 2008 and FY2009, debt service and retirement funding. Due to a major increase in real estate assessments, the City was able to reduce and hold the amount of fee increases that were proposed for FY 2007. Proposed fee increases for FY 2007 were included water rate, sewer user fee and the stormwater management fee. He indicated it would be difficult to recommend a reduction in the real estate tax rate due to issues facing the City and school funding requests. He felt amendments to the tax relief program for elderly and disabled residents on fixed incomes would help absorb real estate increases due to assessments.

Mr. Hildebrandt referenced a proposal for the elimination of vehicle decals for FY 2007. Highlights of the proposal would be substituting the decal fee with a vehicle license fee, which would be collected through the personal property tax fee. Enforcement of non-payment of personal property taxes would be administered by the Virginia Department of Motor Vehicles at the time of vehicle registration.

Councilwoman McMillan inquired whether the State would provide a listing of citizens who had not paid their personal property tax. City Manager Hildebrandt replied the City would provide the State with a listing of City residents who had not paid their local property tax.

Councilwoman McMillan inquired about a City ordinance that required a decal on any parked or garaged car, which meant it must be licensed. City Manager Hildebrandt replied that ordinance would be addressed so everyone would pay the fee.

Mayor Frank noted a problem might arise for individuals who chose to renew their registration every two years. He stated that could cost an additional burden on citizens who become

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delinquent on their taxes. City Manager Hildebrandt stated there were disadvantages, but noted decal enforcement had diminished because of the elimination of City decals by other communities. It was hard for the Police Department to distinguish what automobiles were owned by Newport News residents as opposed to other Cities.

Councilwoman McMillan questioned what it would cost the City, in manpower hours, once the City received the list from the State. Mr. Hildebrandt replied detailed information would be provided by the City Treasurer, Marty Eubank, at the April 11, 2006 Work Session of City Council.

Councilman Whitaker requested cost details of manpower hours to keep the decal requirement in the City.

City Manager, Randy Hildebrandt, introduced Mr. John Hartman, Director, Department of Budget & Evaluation, to provide an overview of revenue and expenditures for FY 2007.

Mr. Hartman provided an explanation on the revenue portion of the FY 2007 proposed operating budget. (A copy of the FY 2007 Operating Budget Overview is attached and made a part of these minutes.)

Mr. Hartman stated the proposed FY 2007 budget was \$744 million. He stated the general fund, school fund, Waterworks, Wastewater, Solid Waste and Stormwater accounted for 92% of the City's total budget. The general fund totaled \$388 million, with \$103 million transferred to schools, leaving a net general fund balance of \$284.7 million a 3.2% increase. Schools fund totaled \$296.8 million, a \$23 million increase in total funding from the City, State and other sources. Waterworks funding totaled \$74.8 million, a 2% increase. Wastewater funding totaled \$9.4 million. Solid Waste funding totaled \$11.2 million and Stormwater funding totaled \$8.7 million. The total budget increase for the six major funds totaled \$49.4 million, a net growth of 7.8%.

Mayor Frank inquired about the overall level of comfort with the revenue projections. Mr. Hartman replied he felt more real estate revenue would be generated for FY 2007. He did have concerns regarding the personal property tax due to the elimination of decals.

Councilman Haskins inquired whether there was a way to determine the cost of insurance caused by vehicle accidents and the running of lights. He felt that was a major problem in the City. City Manager Hildebrandt replied he would inquire of the Police Chief whether such information was attainable.

Councilman Haskins inquired whether the \$19.6 million increase in general property tax revenue equaled 15 cents per \$100 real estate tax cut, which would amount to a 15 cents per

\$100 real estate tax increase. Mr. Hartman replied that was correct.

Mr. Hartman stated the major revenue sources after the City's general fund were from real estate tax, personal property tax, machinery and tools tax, sales tax, meals tax, utility tax, and BPOL taxes. These seven funds totaled \$269.6 million and accounted for 69% of the FY 2007 general fund revenue.

Mayor Frank inquired about preliminary information on the shipyard reassessment on machinery and tools. City Manager Hildebrandt stated the information he received noted that if the City broke even on the assessment of the property it would be positive. He felt the shipyard property would not generate additional taxable levy, because of the way the shipyard's facilities were evaluated. It was not based on the sale of property, but on the value of the facilities to replace.

Councilman Haskins inquired of comparisons with other shipyards throughout the United States. City Manager Hildebrandt stated if that was a major issue of City Council he would bring the process to a Work Session. Mayor Frank stated he would be interested in a future discussion on the matter.

Mr. Hartman reported the City was seeing a 9.9% growth increase in real estate tax revenue with a 16.8% growth on the levy. Next year's levy projection was 17.2%. He noted these figures were projections only, and had not been confirmed by the City Assessor, Mr. Joseph Street.

Councilman Haskins requested a comparison of all surrounding locality's tax rates. City Manager Hildebrandt stated he would provide the information at the April 11, 2006 Work Session.

Mr. Hartman stated the building permit activity was phenomenal in 2005. To date the activity was at \$101,168,511, which actually met the projection made when the City was preparing the FY 2006 budget.

Councilman Haskins inquired about the amount the City Center generated in additional building activity, as related to public investment. He inquired whether public investment drove the building permit activity in 2005, and how much public investment was made. Mr. Hartman stated he would research the matter and provide the information to City Council.

Councilman Haskins requested a chart showing various tax rates, i.e., real estate, personal property, machinery and tools and sales.

Councilwoman McMillan inquired whether a penalty would be imposed on citizens who did not pay their personal property tax when the decal system was eliminated. Mr. Hartman replied a penalty would be imposed.

Councilwoman McMillan questioned how the City was losing \$72,000 in property tax revenue in FY 2007. Mr. Hartman replied the City would lose \$72,000 due to people paying their property tax on time, which would mean no late fees. City Manager Hildebrandt stated the City would not lose \$72,000, but rather receive funding late in FY 2008 due to people paying taxes later due to the change in decal requirements.

Mayor Frank questioned whether the elimination of decals would require the Commissioner of the Revenue reduce staff or costs. Mr. Charles Crowson, Commissioner of the Revenue, replied he would have staff concentrate on other areas and overhead would not be affected. Mayor Frank felt the City had added a supplement to the Commissioner of the Revenue and Treasurer,

over the years, for collection of local taxes. City Manager Hildebrandt stated all the employees of those
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offices were in the City's pay plan.

Councilman Haskins asked that a column noting City supplements to State funding be added to the budget documents.

Mayor Frank inquired whether ABC profits and wine taxes were generated from ABC stores, and whether profits for FY 2007 had not changed from FY 2006 due to consumption or a reduction in State funding. Mr. Hartman replied profits were only generated from ABC stores, and noted the State's payment was lower to extend their operating hours and increase their administrative costs. He stated the taxes were distributed to local government based on the last federal census in 2000.

Councilman Bateman inquired whether the Department of Budget concurred with the School divisions funding requirements. Mr. Hartman replied the City concurred with the requirements.

Councilman Haskins indicated the State only picked up 38.64% of the mandated programs that localities have to comply with. They have the resources to gather the revenue they need through State income taxes, while localities only have real estate and other minor taxes to pay for the majority of required State mandates.

Mayor Frank inquired whether the City could get authority from the General Assembly to give local government the option of exempting an amount up to the first \$100,000 of value of real estate tax for residential properties. This would give the City the opportunity, depending on yearly calculations and affordability, to maintain a rate that would apply to commercial and business properties. By doing this, the City could evaluate whether assessments were going up to the point of hurting people, and some benefit could be given in that no tax be imposed on the first \$100,000 of value. It would not apply to commercial operations and businesses, and would give relief where most needed, to residential homeowners. Mr. Hildebrandt replied they first needed to know the impact and financial cost to the City. Mayor Frank felt it would be a benefit to everybody, and those having lower priced housing would benefit more. It would be a local option and discretionary with local government as to how much to give depending on yearly affordability calculations. He stated it would allow the City to look fairly at issues created for elderly and handicapped citizens beyond what the City had already done.

Councilman Haskins asked City Council to consider a complete review of the City's benefits program in changing it from a defined benefit program to a defined contribution program. He noted, throughout the United States, defined benefit plans were failing and employers were switching to defined contribution plans. He felt City Council should continue to include existing employees in the defined benefits plan and require new employees to invest in a defined contribution program. He felt City Council needed to look into other avenues for its benefits program because it would be the largest matter for taxpayers to face in the future. City Manager Hildebrandt stated the City would add defined contribution program to the type of benefit adjustments being evaluated, weighing the pros and cons in terms of future obligations and liabilities.

Mayor Frank stated the City should look at the competitive factors between the public and private sector. He indicated there were other options to consider, i.e., how long an employee

worked before being vested, retirement age and year factors.

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Councilman Bateman indicated the budget position papers submitted by the City Manager to support the budget were integral to what citizens needed to see. He suggested the information be made available on the City's web site.

Recess (2:30 p.m. - 2:45 p.m.)

Mr. Hartman introduced Ms. Lisa Cipriano, Senior Budget Analyst, Department of Budget & Evaluation, to provide an explanation of the expenditure portion of the FY 2007 proposed operating budget. (A copy of her remarks are attached and made a part of these minutes.)

Ms. Cipriano focused on expenditures for FY 2007 which totaled \$744,476,482, and included three funding categories: General fund - \$388,212,000; Separate Funds - \$383,003,416; and Special Revenue Funds - \$201,575,090. The current Capital Improvement Projects bond authorizations totaled \$47,276,000. (Attached is a detailed chart showing the funding sources within the three funding categories.)

Ms. Cipriano noted the FY 2007 recommended operating budget's major fund categories were: General Fund - 52.1%; Schools - 38.5%; City support to Schools - 13.9%; Special & Trust Funds - 27.1%; Waterworks - 10.0%; Vehicle Services - 1.3%; and Community Development Block Grant - 0.3%. The overall budget growth proposed for FY 2007 was over 15.6%.

Mayor Frank inquired whether there was a material difference in the actual operating and adopted budget. Mr. Hildebrandt replied yes, due appropriations made to the unappropriated fund balance in FY 2006, which increased the revised or appropriated budget. He stated the City had done more than \$11 million worth of appropriations from the surplus of FY 2006. Mayor Frank inquired whether the \$11 million could be re-adjusted at the end of the year. City Manager Hildebrandt replied the funding was appropriated and spent, which increased both the revenues and expenditures. It was sustainable funding because it was taken from the unappropriated fund balance.

Councilwoman Scott inquired what was included in all other funding. Mr. Hartman replied Solid Waste funds, Waste Water, Storm Water, Self Insurance funds, etc. were included in the all other funds category.

Councilman Haskins requested that a chart be provided noting the current cash balance available in each fund, i.e., sewer user fund.

Councilman Haskins inquired whether the \$6 million retirement fund contribution for FY 2007 represented the actuary's amount to fund the pension plan as lawfully required by the Charter of the City of Newport News. Mr. Hildebrandt replied no, it would take more than \$24 million to fund the unfunded liability.

Ms. Cipriano stated thirty-seven new positions would be covered in FY 2007 totaling \$1.1 million. Nine positions were transferred from grant funds. Three fire lieutenant positions were transiting from the State training program grant allotments to the General Fund. This freed up the

training funds for the Fire Department to use for training and other needed items. Six Operation Dispatchers, currently located in Solid Waste, Waste Water Division, would be consolidated in the Public Works Customer Call Center. However, those positions would continue to be paid through the grant

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funding until the call center was fully operational. While allotments were being added for the six dispatchers, no cost would be added.

Councilman Haskins inquired whether the State would continue to allocate the grant funding. City Manager Hildebrandt explained that the City had received more than \$200,000 in program grant funding for training and expenses for the Fire Department, and the City chose to allocate the grant for three lieutenant positions. The three lieutenant positions were being moved into the general fund to free up the grant funds to be spent as needed by the Fire Department on equipment and training.

Council Haskins inquired whether the City would pick up the positions if the grant funding did not continue. Mr. Hildebrandt replied the City was picking up the cost by putting the positions into the general fund. Discretionary expenses, out of the Fire Department's fund, would be reduced should grant funding be discontinued. City Manager Hildebrandt stated the three lieutenant positions would cause an increase in the general fund. He stated a report would be provided noting how the Fire Department proposed to spend the grant funding.

Ms. Cipriano advised of nine additional positions in the Police Department to be funded through attrition funds and historical operating surpluses in the Police Department.

Mayor Frank inquired whether the additional slots in the Police Department were necessary when the City was experiencing difficulty recruiting officers. City Manager Hildebrandt stated 10% of the Police Department's positions were typically vacant by transitions. The savings from that was given to the Police Department to fill nine additional positions. The Police Department would have eight to nine new employees by the end of the year if their vacancy rate remained the same.

Councilwoman McMillan inquired whether the new hires were coming in at a lower salary level. City Manager Hildebrandt replied the new hires would begin at the entry level salary.

Councilwoman McMillan inquired whether the Sheriff's Department budget would be increased due to past utilities not being funded adequately. Mr. Hildebrandt stated the City tried to off-set the utility costs with a \$250,000 increase in the Sheriff Department's budget. He used the savings from vacant positions in the Sheriff's Department to help pay for non-personnel expenses.

Councilman Bateman stated the Sheriff's Virginia Power costs totaled \$361,205 and questioned whether \$200,000 was the amount the City would appropriate to help with that cost. City Manager Hildebrandt replied \$200,000 was the amount to be appropriated.

City Manager Hildebrandt explained that the cost of non-personnel items had gone up over time in the Sheriff's Department, and the City had not raised their budget to reflect actual expenditures.

Mayor Frank shared that he asked the City Attorney for a memo outlining the

legal requirements of the City, as opposed to the State, in meeting the financial needs of the jail. (A copy of the memo is attached and made a part of these minutes.)

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City Attorney Katz reported the Sheriff had two different types of inmates. People arrested under City code violations and those arrested under State code violations. The State had the responsibility of paying for the cost of meals for the State prisoners, but the City was responsible for paying for local inmates.

Councilman Whitaker inquired what would happen to the prisoners if the State did not live up to its responsibilities. City Attorney Katz replied the City would cover the prisoners and require the State to reimburse the cost.

City Manager Hildebrandt explained the State gave the City jail a per diem based on the number of certified prisoners on State charts. He stated the Sheriff also had a lot of positions that were not supported by the State, such as Court bailiffs.

Mayor Frank stated there were policy issues, such as why the State did not consider its responsibility to provide bailiffs for the Court. He felt this was something that needed to be addressed legislatively.

Mayor Frank felt that the number of City Park Rangers were inadequate to maintain the growing areas and utilization of the Parks. He asked whether the City Manager had discussed the matter during budget negotiations with the Department of Parks & Recreation, in addition to the marketing and landscape positions for City Center. City Manager Hildebrandt agreed those were legitimate concerns, due to the addition of new parks and an increase in activity throughout the City.

Ms. Cipriano stated the employee share for health and dental insurance was 25%. To keep ratio in balance it was estimated that the City and employee shares would increase by 10%. The City share was projected to be \$720,000 in FY 2007.

Mayor Frank inquired about the percentage increase in dollars to an average employee. City Manager Hildebrandt replied it depended on the type of coverage, such as single or family coverage. He would provide the information to City Council as received.

Councilman Haskins stated that an Engineer in the private sector making \$50,000 paid a monthly \$700 supplement for health insurance. He felt the City needed to look at its benefits plan comprehensively. He felt it was not fair that citizens in the community, who paid the salaries of City employees, paid more for health care. City Manager Hildebrandt replied City employee benefits made up the difference in salaries in the private sector. He indicated costs were escalating and noted the issue would be researched.

Ms. Cipriano stated that CMAQ funding for three bus routes, currently covered in the City, had been eliminated or reduced. The additional cost to the City would be \$809,473.

Councilman Haskins asked that the City review the routes comparing revenue

box fares versus costs, particularly the shipyard express. He felt the City needed to save and consider trade-offs. He stated the City received more revenue from the shipyard express. City Manager Hildebrandt stated he would provide an analysis of which routes were least productive.

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Ms. Cipriano discussed proposed fees as follows: a 1.5% (.04 cent) rate increase on water; a summer conservation rate increase of 1.8% (.01 cent); a sewer user fee increase of 10 cents (7.9%); and a stormwater management fee increase of 35 cents (8.8%).

Councilwoman McMillan stated the water rate had increased each year for the past ten years, while Waterwork's debt service increased considerably. She felt the summer conservation rate had nothing to do with water conservation.

City Manager Hildebrandt concluded the Work Session by stating he would provide answers to City Council's requests by the April 11, 2006 Work Session. He asked that members of Council contact him regarding issues of concern.

THERE BEING NO FURTHER BUSINESS
THE MEETING ADJOURNED AT 3:00 P.M.

Jennifer D.
Walker, CMC

Joe S. Frank
Deputy City
Clerk

Mayor

A true copy, teste:

City Clerk