

MINUTES OF WORK SESSION  
OF THE NEWPORT NEWS CITY COUNCIL  
HELD IN THE 10<sup>th</sup> FLOOR CONFERENCE ROOM  
2400 Washington Avenue  
November 6, 2008  
2:00 p.m.

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PRESENT: Joe S. Frank (arrived at 3:30 p.m.); Madeline McMillan; Sharon P. Scott; Tina L. Vick; Joseph C. Whitaker; Dr. Patricia P. Woodbury; and Herbert H. Bateman, Jr. ----- 7

ABSENT: None ----- 0

OTHERS PRESENT: Randy W. Hildebrandt; Stuart E. Katz; Mabel V. Washington; Neil Morgan; Alan Archer; Cynthia Rohlf; Lottie Vincent; Allen Jackson; Iza Cieszynski; Florence Kingston; Michael Poplawski; Gregg Jones; Lisa Cipriano; Rhonda Everton; Chad Pritchett; Steve Carpenter; Robin Rose; Monique Warren; LaVerne Lovett; Al Riutort; Sheila McAllister; Kenneth Jones; James Fox; Everette Skipper; JoAnne Carter; Karin DeMoors; Sarah Greear; Sabine Hirschauer; Jennifer Walker; Cleder Jones; Kim Lee; and Jerri Wilson

I. City Manager Financial Overview

Mr. Randy W. Hildebrandt, City Manager, reminded, when the FY 2009 budget was composed and adopted, the City had expected that economic conditions would worsen and for that reason, the City was very cautious about estimating revenue. It was a prudent move taken by the City, as noted by FY 2009 first quarter results. First quarter revenues were expected to under-perform budgeted amounts by \$8.4 million, which was based on limited information, such as sales and meal taxes. Only \$400,000 of the shortage was due to State cuts in aid to local governments. City Manager Hildebrandt believed additional expenditure control would balance the general fund budget. He stated projections noted that 75% of the reductions were already covered with savings thus far this fiscal year. Six million of the \$8 million shortage could be overcome by positions that were left vacant. The City had to find \$2 million in additional savings, and felt additional vacant positions would generate more savings. He planned to work with departments to identify goals to close the shortage.

City Manager Hildebrandt stated he attended a meeting, hosted by the City Manager of Virginia Beach, the week of October 27, 2008, where regional economists from Old Dominion and Regent Universities discussed perspectives for the future economy of Hampton Roads. The consensus of the economists was they did not know where the region was at in the downward curve. They felt that the downturn would continue through the better part of 2009. They did not see a recovery in economic spending and/or jobs until 2010, and felt recovery was

going to be slow. They felt it could take three to four years for the economy to get back where it was one year ago.

City Manager Hildebrandt felt the City would face a larger deficit in FY 2010 and 2011 than what was seen during the first quarter of FY 2009. Fiscal year 2011 would pose the worst in terms of real estate tax revenue because of what was happening in the housing market today. Hopefully, the City would see some recovery in other revenues, particularly sales taxes and other economically driven revenue. He felt the City would recover sooner than the region due to the Canon expansion that would add \$6 million to the City's tax base starting in FY 2010. The City was fortunate that it had a strong manufacturing base with companies such as Northrop Grumman Newport News and Canon who seemed not to be affected by the national downturn in the economy.

City Manager Hildebrandt stated, with regard to capital spending, City Council needed to understand that a decline in revenues affected the City's ability to pay debt service. He felt City Council would be prudent to avoid incurring any new debt if next year's budget revealed an additional decline in revenue. The fact that the City had much uncertainty in municipal borrowing and the credit markets was the reason to limit capital spending through the next two years. He reminded of the \$31 million bond authorization that was approved in January 2008 for FY 2009. Because of economic uncertainties, he would not bring a bond authorization to City Council, which meant none of the \$31 million had been appropriated. The City Manager anticipated the City needed to have a bond authorization in January or February of 2009 for those projects that the City could not afford to stop at this stage. City Manager Hildebrandt stated the proposed CIP would have been one that the City could have lived with and funded in normal situations, if revenues had grown and if bond markets had not been uncertain. The City could have handled that level of bond funding over the next five years. Some critical projects would still need to be accomplished, i.e. first two phases of the jail renovations which involved life safety improvements to the jail that allowed the City to function and operate safely and school maintenance projects for leaking roofs and HVAC systems.

City Manager Hildebrandt pointed out the next few years were not going to be an easy time for City government, employees or citizens. He indicated the state was facing huge gaps in their budget; possibly as much as \$3 billion over the remainder of the next 18 months. The State did not have revenue to support, which would translate into cuts in local and state aid to schools. The management team understood the difficulty that the City faced and began to make adjustments throughout the organization. It was not a good time, but the City had a strong governmental organization and had done the right thing in the last three years in terms of investing in its organizational infrastructure. Major IT projects were funded and underway. He felt the City was well positioned to deal with a short term recession. He felt the situation was far

worse than what it went through in the early 1990's when there were lay-offs in City government. Some of those shortfalls were due to poor fiscal planning. The City was prudent in planning for its FY 2009 budget and was only dealing with matters it had no way to predict.

Councilwoman McMillan inquired whether it would be possible to see the budget broken down incrementally with basic operating costs, and new expenditures. City Manager Hildebrandt replied the City could do that, but noted some of the expenditures in the training and travel category were not discretionary expenditures because of certifications that had to be met by key people.

Councilwoman McMillan felt that would be part of the basic operational budget. She stated it was hard to look at a budget and suggest what may and may not be eliminated if you only knew specific and core things. City Manager Hildebrandt replied the only problem with that was defining the core. He stated everyone had a different definition of core. He and staff would do what they could. They were going into this fiscal year with what they thought were the requirements for non-personnel expenditures that met the current service levels that the City was providing in trying to anticipate General Obligation prices, energy prices, and materials and supplies that the City had to buy in order to deliver services. There were some discretionary items in the budget that staff would try to define. He would get back to City Council, hopefully, in December and certainly by January, with a look at what they would define as being core versus discretionary, and offer ideas on how much the City had to work with. When debt service and other fixed costs were deleted, the City did not have any discretionary control over the remaining, including personnel. Seventy-five percent of the general fund budget was personnel. One hundred and eighty-five positions were already vacant in City government and there would be more vacant positions by the end of the fiscal year. The City was cutting back on everything it could. City Manager Hildebrandt pointed out the major part of the City's revenue did not come in until after December when personal property tax bills were due.

Councilwoman McMillan inquired whether projections were done noting a reduction in real estate taxes due to declining property values. City Manager Hildebrandt replied there would not be a reduction in real estate tax revenue this fiscal year; however, staff did make projections for anticipated reductions in real estate taxes for FY 2010 through FY 2011.

Councilwoman McMillan inquired whether the City would look at national indicators for the prediction of retail sales, i.e. articles she provided to the City Manager concerning the travel industry. City Manager Hildebrandt replied the City would look at national data, but more importantly, they were going to look at regional data. The economist believed the Hampton Roads region was more recession proof than other areas of the country because of the level of federal and military spending. However, that depended on the federal budget. No one

knew, at this point, what the new administration's budget would look like and how it might affect federal spending in the region. The City would study everything, including national, regional and local data, to understand what was going to happen. He introduced Mr. Gregg Jones, Director, Budget & Evaluation, to report on the City's operating budget and offer details regarding projections of expenditures and revenues for FY 2009 through FY 2010.

## II. First Quarter FY 2009 Financial Report and FY 2010 Outlook

Mr. Jones reported the City would finish FY 2009 with a net General Fund Operating Budget deficit of \$2.2 million, unless preemptive action was taken. He stated the City Manager was preparing a list of target savings for each department to achieve over the coming nine months with hopes that the year finishes in the positive. (A copy of the presentation, "FY2009 General Fund Forecast [Based on First Quarter Results]," is attached and made a part of these minutes.)

Councilwoman McMillan inquired whether the City had charted the percentage of uncollected taxes over the years and whether there was any consistency that it paralleled with the economy. Mr. Jones replied he had not charted percentages against economic behavior. City Manager Hildebrandt reminded the City had not experienced such an economic downturn in almost 20 years.

Mr. Jones stated the City would realize a surplus in the FY 2009 General Fund forecast in Machinery and Tools in the amount of \$500,000; however, deficits would be realized in the following revenues: 1) Sales Tax [-\$3,078,508]; 2) BPOL Tax [-\$1,169,434]; 3) Grantees Tax-Deeds [-\$670,767]; 4) Lodging tax [-\$624,359]; 5) Meals Tax [-\$489,994]; and 6) Permits & Fees [-\$1,553,121]. He stated the City would not see the first collections of Machinery and Tools taxes until December 2008. The total major variances amounted to -\$7,086,183. Mr. Jones pointed out October 2008 was the lowest in retail activity since 1969.

Councilwoman McMillan inquired whether the sales tax deficit prediction was based on the proposed recession or the additional factor of the increased retail market. Mr. Jones replied the deficit was based on year-to-year projections as compared to the last month of FY 2008 and the first two months of FY 2009.

Councilwoman McMillan understood that to mean that the projections were based on the City's figures of what it received in sales tax over the past several years; it was not based

on other market indicators. Mr. Hildebrandt replied the projections were based on the first two months of FY 2009 compared to FY 2008 revenue collections. He stated the City was going to have to watch those figures very closely. Mr. Jones stated the real disadvantage of the BPOL tax was that the City would not see true projections until February or March of 2009. He anticipated that the City would collect no more than what was collected in FY 2008.

Mr. Jones reported that a \$6 million surplus was anticipated in FY 2009 General Fund expenditure forecast through savings in salaries and benefits.

Mr. Jones noted the adopted FY 2009 General Fund Revenues amounted to \$433,007,000, and the projected FY 2010 General Fund Revenues amounted to \$428,717,804, which was a -1.0% change. He further noted the adopted FY 2009 General Fund Expenditures amounted to \$433,007,000 and the projected FY 2010 General Fund Expenditures amounted to \$441,607,448, which was a 2.0% change. The FY 2009 – 2010 General Fund Budget variance for revenues and expenditures amounted to -\$12,889,644.

Councilwoman McMillan inquired about the assets of the pension fund. Ms. LaVerne Lovett, Director, Department of Finance, replied the assets varied between 10 – 15% each day of the year. She stated current pension fund assets totaled \$700 billion, down from \$810 billion that was realized several months ago. The assets varied due to market conditions. City Manager Hildebrandt replied as assets went down the unfunded liability went up; raising the required actuary derived rate. The five year goal the City had to reach was getting further away due to market conditions.

City Manager Hildebrandt reminded that the FY 2009 – FY 2010 forecast and outlook was based on no pay or school contribution increases. He stated the City still would have a \$13 million deficit based on the forecasts.

### III. CIP Overview

Mr. Neil Morgan, Assistant City Manager, reported the Capital Improvements Plan (CIP) was a planning document that listed the projects the City desired to accomplish over a multi-year period. The document could change annually as new projects were identified and existing projects were revised or omitted. He explained that a CIP project had to be essential to public purpose and had to have a long useful life. (A copy of the presentation, “Capital Improvements Plan (CIP) FY 2010 – FY 2014, November 6, 2008,” is attached and made a part of these minutes.)

Mr. Morgan stated the planning of the CIP began in July/August of each year, with City departments submitting their CIP requests based on priority, justification, funding source, project cost and impact on the operating budget. By August/September of each year, the

CIP committee reviewed and analyzed departmental requests and established priorities within proposed capital financing and debt management policies.

Mr. Morgan stated the City Manager's submitted CIP FY 2010 - FY 2014 summary of requests included: 1) Departmental Requests [General Fund - \$308,429,725 and Self-Supporting Fund - \$392,934,500], which totaled \$701,364,225; and 2) City Manager Submitted Requests [General Fund - \$242,812,000 and Self-Supporting Fund - \$331,554,500], which totaled \$574,366,500.

Mr. Morgan pointed out the highlights of the submitted CIP included: 1) Development [Southeast Redevelopment; and Economic Initiatives]; 2) Equipment [Acceleration of E911 System Replacement; and Public Safety & Public Service P25 Radio Subscriber Upgrade]; 3) Parks & Recreation [Golf Course Renovation]; 4) Public Buildings [Stoney Run Recreation Center; Fire Station #9; Public Works Warehouse; and Expansion of Vehicle Services]; and 5) Streets & Bridges [Richneck Road Improvements; VDOT - Middle Ground Boulevard; and Route 105 at Ft. Eustis Bridge over C&O Railroad & Reservoir].

Councilwoman Woodbury inquired about the Wolseley Corporate Headquarters category noted in the Development section of the CIP. Mr. Morgan recalled the Wolseley Corporate Headquarters was the new corporate and companion headquarters to the Ferguson headquarters. This funding for the project was a combination of the Governor's Opportunity Funds and local funding. The local contribution was for the provision of land. The project had been delayed due to the state of the economy. He reminded it was an important economic project should the economy improve by 2012.

Councilwoman Scott inquired whether there were projects already designated for the \$12,000,000 that was proposed for the Economic Development Project category noted in the Development section of the CIP or whether the funding was being held to acquire projects in the future. Mr. Morgan replied the \$12,000,000 was not designated for a specific project; it was for unused authorizations, such as a savings account. There was no precise way to budget for what may or may not occur.

Councilwoman Vick inquired about the \$1,200,000 proposed under the Community Facilities section for the Foodbank, and whether the project was moving forward. Mr. Morgan replied staff was interpreting City Council's commitment to the project and noted it would be funded; however, he was unsure of the timing.

Mr. Morgan noted projects not in the submitted FY 2010- 2014 CIP included: 1) Asheton (Public Infrastructure); 2) Relocation of the IT Data Center; 3) North Precinct; 4) Fire Station #11; 5) Public Works Operation Center Expansion; and 6) Pearl Bailey Library Expansion.

Councilwoman McMillan realized the Committee had to set priorities, but felt the situation at the North Precinct had come up each year for the past eleven years. She inquired what criteria the Committee used, as the North Precinct had never been a priority. Mr. Morgan replied while the North Precinct was small, it was not dilapidated and, in the short-term, the City hoped to have some type of modest renovation, i.e. use of modular furniture or use of City crews to renovate the facility in a way that could provide improved functionality.

Councilwoman McMillan voiced concern that the criteria the Committee used was not based on the fact that the Precinct needed to be moved.

Mr. Morgan reported the Submitted and Constrained FY 2010 – FY 2014 CIP requests included: 1) Submitted [General Fund Total - \$242,812,000; and Self-Supporting Fund - \$331,554,500], totaling \$574,366,500; and 2) City Manager Fiscally Constrained [General Fund Total - \$211,440,000; and Self-Supporting Fund - \$328,229,500], totaling \$539,669,500. He stated the constrained FY 2010 - FY 2014 CIP changes in Community Development included: 1) Reduced funding for Southeast Community Redevelopment in FY 2009, 2010 and 2011 with gradual increases through FY 2014; and 2) Reduced funding by one-half for Economic Development Projects in FY 2009, 2010 and 2011. Changes in Community Facilities included: 1) Moving funding from the Foodbank to begin in FY 2011; 2) Moving funding for American Red Cross to begin in FY 2011 and to be allocated over a three year-period. Changes in Equipment included: 1) Reduced funding for Fire Equipment; 2) Provide funding for E911 Telephone Equipment in FY 2009; and 3) Reduced funding for P25 Radios for Public Safety & Public Service in FY 2010 and 2011. Changes in Parks and Recreation included: 1) Golf Course Renovation – funding for design for first phase of renovation in FY 2011, funding for construction moved to FY 2013 and FY 2014 versus full funding in FY 2011; 2) Huntington Park Tennis Center Building Replacement moved to FY 2013; 3) Funding for Newport News Campsite Office and Dispatch Station moved to FY 2011 from FY 2010; 4) Stoney Run Athletic Complex funding moved from FY 2013 to FY 2014; and 5) Reduced matching Historical Preservation Grant contributions. Changes in Public Buildings included: 1) Stoney Run Recreation Center construction funding moved to FY 2012; 2) Moved funding for Fire Station #3 from FY 2009 to FY 2010; 3) Moved funding for final phase of Public Safety/Jail Renovations from FY 2009 to FY 2013; 4) Funding for Major Renovations & Repairs reduced for FY 2009, 2010 and 2011 with gradual increase through FY 2014; 5) Funding for Public Works Warehouse and Expansion of Vehicle Services moved to FY 2014; and 6) City Hall Renovations funding reduced and moved to FY 2014. Changes to Schools included: 1) Reductions in funding from FY 2009 & FY 2010 for roof repairs, window replacements, HVAC repairs and Cash Capital allocation for school buses; and 2) Funding for Todd Stadium Upgrades omitted. Changes to Streets and Bridges included: 1) Funding for Phase I & II for Richneck Road moved to FY 2011 and FY 2012; 2) Reduce funding for Road & Pedestrian Safety improvements; and 3) Move and reduce funding for Middle Ground Boulevard Extension to FY 2014.

Councilwoman Woodbury inquired about the CNU Warwick Village project. Mr. Morgan replied the CNU Warwick Village project was a five year, \$500,000 per year, commitment that City Council made years ago. The City understood the Foundation would keep the CNU Village on the City's tax rolls and not convey it to the university. A cost benefit analysis was done and he could provide the information to Councilwoman Woodbury.

Councilwoman Woodbury inquired where the City was on the cost benefit and whether there was any costs benefit. Mr. Morgan replied the \$20 million project was on the tax roll plus the retail. City Manager Hildebrandt stated he would have staff provide the information to Councilwoman Woodbury.

Councilwoman Scott inquired about the impact of reducing funding for the Fire Equipment. Mr. Morgan replied the City would hold on to a number of pumpers and specialty trucks longer than the optimum replacement schedule. The unconstrained/committed plan had the optimum replacement for a specialty vehicle, pumper and a ladder. With the revised plan the City would replace a tower and a ladder and hold on to older vehicles for longer.

Councilwoman McMillan inquired about the Design Fees under the School category of the unconstrained CIP. Mr. Morgan replied those were fees for construction projects that followed in the next year, i.e. HVAC replacement, roof replacements, etc. Engineers had to be hired to construct the designs.

Councilwoman McMillan stated it had taken 35 years to get the Richneck Road Improvement project off the ground. She felt the project should not be delayed further. She instructed staff to put something else on the "back burner." City Manager Hildebrandt replied City Council would need to let staff know what needed to be put on the "back burner" to get the Richneck Road project underway.

Mayor Frank voiced concern about the bridges over Warwick Boulevard at Lake Maury, and Denbigh Boulevard. He requested a briefing at a future Work Session on the status of bridges to include who was responsible for maintenance and upkeep. City Manager Hildebrandt stated the bridges were inspected annually.

Mr. Morgan noted the major differences in the fiscally constrained CIP from the submitted CIP included: 1) Reduce funding for Economic Development Projects and Southeast Community Redevelopment; 2) Delay funding for P25 Radios; 3) Delay funding for Golf Course Renovation and allocate Phase I over a two year period; 4) Delay funding for Huntington Park Tennis Center Building & Newport News Campsite Office and Dispatch Center by two years; 4) Delay funding for Stoney Run Recreation Center by two years; 5) Delay funding for Fire Station

#3 by one year; 6) Delay funding for Public Works Warehouse and Expansion of Vehicle Services up to four years; 7) Reduce funding to School for major renovations and repairs; 8) Delay Richneck Road Improvements for three years; and 9) Reduce and delay funding for Middle Ground Boulevard.

Councilwoman Scott inquired when the final debate of the CIP would take place. City Manager Hildebrandt replied he would submit a report with additional information and detail at the December 9, 2008 Work Session of City Council. In addition, suggestions would be offered at the Work Session for appropriations that had been made but not obligated. He stated the City needed to delay going to the bond market until July 2009. Staff was reviewing any and all projects that had not been obligated in order to freeze spending. He would provide specifics on what the City needed to do to get to July 2009 without borrowing any new funding and note how small that bond issue could be made. The only way to reduce the bond issue was to reduce obligations for FY 2009. Additionally, the City had bonds that were authorized with obligations of \$10 million that had not been sold. Debt service would occur in 2011 for whatever was borrowed in July 2009. If the City borrowed \$10 million, the debt service would amount to \$1 million. FY 2011 would be the year the City would feel the impact of the reductions that were occurring in the housing market. He did not believe City Council wanted to lay-off employees to complete capital projects that were not urgent. He understood citizens had been waiting for improvements to Richneck Road, but felt whether the improvements were done next year or two years from now would not make much of a difference. The issue was what City Council could afford. For instance, the debt service for the Stoney Run Recreation Center was \$1.3 million the year after the money was borrowed on top of \$1 million to staff the facility. City Manager Hildebrandt inquired whether City Council, in good conscious, could add another major facility that had to be staffed and paid for when it could not staff and pay for what it already operated. Those were the decisions City Council had to face over the next few years unless there was some dramatic turnaround in the economy.

Mayor Frank voiced concern that the City would not be able to go to the bond market in July 2009. City Manager Hildebrandt stated he planned to offer more detailed information about what projects the City needed to delay, what projects were already appropriated, and what authorizations needed to be delayed at the December 9, 2008 Work Session of City Council. He needed City Council to act on a revised constrained CIP in January 2009. When the City did go to the market in 2009 it had to be able to show the credit agencies that it had a CIP in place, which indicated the City had taken steps to modify its capital spending to reflect revenues it anticipated receiving.

Councilwoman McMillan felt City Council did not need to be reminded that they set the constraints. City Manager Hildebrandt agreed and noted City Council made the ultimate

decision of what was going to be spent. He reminded what was spent was what the City had to pay for the following year. He wanted City Council to understand the consequences when they made spending decisions.

Councilwoman McMillan pointed out that the \$13 million for the Stoney Run Recreation Center seemed to have been the magic number to reduce the CIP. City Manager Hildebrandt stated the City had taken all the big projects out of the CIP and moved them back. He stated the Fire Station was not delayed because plans were already completed; however he recommended that the City not start the project until after July 2009. The plans would become obsolete if the City delayed the project further.

Councilwoman Scott inquired whether the \$13 million for the Stoney Run Recreation Center would increase to \$17 million or more if the project was delayed. City Manager Hildebrandt replied that was a possibility.

Councilwoman McMillan was not trying to make light of what the City Manager was saying, but she felt the Stoney Run Recreation Center was a never ending priority. Things had gone through with tremendous cost overrides and the recreation center had always been put on the back burner. She stated the Stoney Run Recreation Center had been discussed for many years. City Manager Hildebrandt stated City Council had to decide what projects to move forward with. He was only noting the projects staff felt could be delayed. Whether projects were delayed was City Council's choice. He only presented choices, recommendations and the flexibility City Council had regarding CIP projects.

Councilwoman Scott agreed that the Stoney Run Recreation Center was constantly delayed - from 2005 to 2008, and now to 2012. She felt that was ridiculous and indicated City Council needed to rethink its priorities. City Manager Hildebrandt replied the delay in the recreation center was due to its size and cost.

Councilwoman McMillan advised the recreation center could have been built in 2005 for less funding.

#### IV. Briefing by City's Financial Advisor

City Manager Hildebrandt introduced Ms. JoAnne Carter, Managing Director, The PFM Group, to provide a briefing on the City's financial condition.

Ms. Carter reported the City maintained an Aa2 credit rating from Moody's and an AA credit rating from Standard & Poor (S&P). She stated having high quality credit and being able to access the market was important because it allowed one to control its investments. Many organizations that had weaker credit quality were not able to borrow and continue projects.

They had to rely on buying credit enhancement from a bank or insurance company. Banks and insurance companies were under extreme financial stress and had been held hostage in terms of moving forward with their projects. Newport News had some insulation from the turmoil in the market by having a high quality credit rating which provided some cushion.

Ms. Carter stated in March 2008, Moody's and S&P conducted a credit review of the City, affirming the City's General Obligation (GO) ratings with stable outlooks. She stated the four major areas the bond rating agencies considered when they evaluated the City's credit were: 1) Economy; 2) Financial Position; 3) Debt; and 4) Financial Management. She noted the positives and negatives for all four areas. (A copy of the presentation, "City of Newport News, Virginia – Review of City's Credit Ratings," is attached to these minutes.)

Ms. Carter stated Newport News had clearly articulated its commitment to reducing its debt burden, which was an important consideration in Moody's Aa2 rating assignment. She noted that further rating reviews would heavily factor in the City's ability to maintain financial flexibility while meeting its debt and employee benefit obligations.

Ms. Carter stated credit rating agencies had proposed a new approach to the rating scale for corporate and municipal bonds. She stated the new approach would drive most municipal ratings upward and was proposed due to the fact that municipal bonds defaulted less often than corporate bonds. She stated Moody's and Fitch had acknowledged the same and proposed a single rating scale for corporate and municipal bonds; however, on October 7, 2008, Moody's and Fitch placed recalibration of ratings on hold due to market turmoil. Should the credit rating criteria change, the City's credit rating for Moody's should rise to Aa1.

Councilwoman McMillan inquired about the justification for the proposal by Moody's and Fitch to use a single rating scale. Ms. Carter replied municipal governments were more likely than corporations to pay back debt if it defaulted on a loan. She stated there were very few instances where a municipality defaulted and did not repay its creditors and investors.

Councilwoman McMillan inquired how that worked to the City's benefit. Ms. Carter replied it worked because it drove the City's bond rating up.

Mayor Frank felt the City would see a downward turn in revenues as it moved toward the close of 2008 due to reductions in automobile sales, meal taxes, etc. He stated there would be further decreases in revenue in 2009 due to the real estate market. He voiced concern about going to the bond market in July 2009. He felt the City would put its rating in jeopardy given historic concerns voiced by Moody's and S&P in how the City's total debt related to comparable Cities. He felt the City should avoid going back to the bond market and exposing themselves to Moody's and S&P. Among other matters, Moody's and S&P had received nega-

tive comments about how they rated certain corporations that did not perform. Mayor Frank felt Moody's and S&P would be "gun shy" in moving forward over the next few months until matters became clearer. He sensed the City needed to only handle essential matters and acquire anticipation notes from banks rather than going to the bond market.

Ms. Carter stated they were going to keep all options open and strategize the City's next move. She emphasized that City Council keep in mind that bond rating agencies could lower or increase the City's ratings if they saw negative or positive trends. She introduced Ms. Sarah Greear, Senior Managing Consultant, The PFM Group, to report on market conditions.

Ms. Greear noted the timeline of the market from December 2006 through November 4, 2008 and highlighted the demise of Triple-A Bond Insurers. She noted the major events that impacted the market included: 1) Curtailment of the Housing market; 2) Increases in Subprime loan delinquencies; 3) Auction Rate bonds began to fail; 4) Bail out of Bear Stearns by JP Morgan and the federal government; 5) Lehman Brothers filed for bankruptcy; 6) The reserve fund "breaks the buck"; and 7) President Bush signed emergency Economic Stabilization Act of 2008. (A copy of the presentation, "City of Newport News, Virginia – Current Market Conditions," is attached to these minutes.)

Ms. Greear stated the implications for the City in the municipal market included: 1) Delaying and reducing the 2009 general obligation bond sale; 2) Remaining flexible with respect to bond sale timing, methodology, and structure; and 3) Maintaining the City's high credit ratings. She introduced Ms. Karin DeMoors, Senior Managing Consultant, to report on Debt Affordability.

Mayor Frank understood there were no more investment banks and inquired about the implications in terms of the bond market. Ms. Greear replied there were fewer underwriters who were able to bid on the City's bonds, which meant less competition for municipal bonds and increased rates.

Councilman Bateman inquired why Moody's was not diligent in determining that banks were in jeopardy of going out of business. He questioned who were rating the raters. Ms. Greear replied Moody's was under much legislative pressure. Mayor Frank pointed out that Moody's had been sued by the State of Connecticut and others who felt they received a misleading rating. He stated he was reluctant to visit Moody's anytime soon.

Ms. DeMoors reminded that the City adopted a debt management policy in 2006. She noted the following ratios to reduce the City's debt to below 3% by 2014: 1) Tax Supported Debt Outstanding; 2) Annual Tax Supported Debt Service; 3) Debt Service vs. Revenue - FY 2009 Adopted CIP; 4) Debt vs. Assessed Value - FY 2009 Adopted CIP; 5) Debt Service vs. Revenue – FY 2010 Submitted CIP; 6) Debt vs. Assessed Value – FY 2010 Submitted CIP; 7)

Debt Service vs. Revenue - FY 2009/2010 Fiscally Constrained CIP; and 8) Debt vs. Assessed Value – FY 2009/2010 Fiscally Constrained CIP. (A copy of the presentation, “City of Newport News, Virginia – Debt Affordability,” is attached to these minutes.)

Mayor Frank inquired whether the above ratios were statistical assumptions or based on specific residential assessments versus non-residential assessments and factoring in new projects to come online. Ms. Lisa Cipriano, Budget Manager, Department of Budget & Evaluation, replied the ratios were based on total valuation of real estate, personal property, machinery and tools, anticipated new projects and hopes for an improved economy in 2012 and 2013. She stated it included the Canon and AREVA investments in the far out years.

Councilman Bateman inquired whether PFM and the bond rating agencies had considered reductions in the City’s moral obligations. Ms. DeMoors replied PFM would approach the rating agencies in the next few months regarding their approach to what they and the rating agencies included in their calculations.

Councilman Bateman stated reductions in moral obligation amounts would be helpful.

Mayor Frank inquired what the City was assuming for non-residential real estate in terms of assessed value. Ms. Cipriano replied a new construction factor would be incorporated in 2010, but the City assumed a flat value for commercial properties.

Councilman Bateman inquired how water revenue bonds were differentiated from the City’s bond ratings. Ms. DeMoors replied water revenue debt was self-supporting debt and was subject to coverage factors, which was the amount of revenues that the system brought in versus the amount of debt service they paid.

Councilman Bateman inquired whether PFM had studies on water bond issues for Newport News Waterworks’ versus other water companies throughout the country and inquired how Waterworks’ related to others. Ms. DeMoors replied the bond ratings for Waterworks’ was high and very comparable to the City’s high quality credit rating. Factors that were included within the master resolution, that covered the issuance of water bonds, helped to maintain high quality ratings.

Ms. DeMoors concluded by noting the City maintained a high quality credit rating. She stated it would be more important than ever for the City to sustain its high quality credit rating under current market conditions. The City’s current and continued compliance with financial policies was a key component of its credit rating. The rating analysts would be focusing on the City’s plan for managing the economic downturn in coming months and years.

Page 14  
Minutes of Work Session  
November 6, 2008

Rating agencies placed much emphasis on how the City managed and continued its debt policies. She urged City Council to be mindful of the credit agencies focus as they went through the next several years.

THERE BEING NO FURTHER BUSINESS,  
ON MOTION, COUNCIL ADJOURNED AT 5:06 P.M.

Jennifer D. Walker, CMC  
Chief Deputy City Clerk

Joe S. Frank  
Mayor  
Presiding Officer

A true copy, teste:

City Clerk