

MINUTES OF WORK SESSION
OF THE NEWPORT NEWS CITY COUNCIL
HELD IN THE 10th FLOOR CONFERENCE ROOM
2400 Washington Avenue
December 9, 2008
3:30 p.m.

PRESENT: Sharon P. Scott; Tina L. Vick; Joseph C. Whitaker; Dr. Patricia P. Woodbury;
Herbert H. Bateman, Jr.; Joe S. Frank; and Madeline McMillan ----- 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; Brian Ramaley; Eileen Leininger; David Morris; Mike Nealer; Florence Kingston; Gregg Jones; Chad Pritchett; Steve Carpenter; Lisa Cipriano; Robin Rose; Rhonda Everton; Sheila McAllister; Chuck Hall; Tricia Wilson; Joy Cipriano; Sabine Hirschauer; Jennifer Walker; Cleder Jones; Kim Lee; and Jerri Wilson

I. Williamsburg Water Agreement Briefing

City Manager Hildebrandt reminded that City Council approved an agreement with James City County Service Authority (JCSA) for a Project Development Agreement (PDA) in March 2008. Under the PDA, JCSA would receive 4 million gallons a day (MGD) of treated water. This represented 20 percent of the expected safe yield of the King William Reservoir (KWR) project. A similar PDA was being negotiated with the City of Williamsburg for their proportion of water from the KWR project. He introduced Mr. Brian Ramaley, Director, Newport News Department of Public Utilities, to review the specifics of the agreement.

Mr. Ramaley stated the KWR was expected to yield 20 million gallons of water per day under designed drought conditions for its project partners, Newport News Waterworks, JCSA and Williamsburg. Of the 20 MGD, 14 MGD would remain with Waterworks, 4 MGD (20%) would go to JCSA, and 2 MGD (10%) would go to Williamsburg. The KWR had long been based on the assumption that it would be financed in three parts: 1) one third through Waterworks existing rate customers; 2) one third from JCSA and Williamsburg; and 3) one third through developers who paid system development fees as they hooked onto the system, which was the cost of expanding the system.

Mr. Ramaley stated the KWR project schedule and permitting requirements dictated that the City continue to move forward with the following aspects: 1) acquisition of properties; 2) design of the Dam; and 3) renewal of the Virginia Water Protection Permit by the end of 2012. All of the requirements were proceeding and moving along as scheduled, and were

necessary to have the KWR project online and producing water by the 2020s. The cost for the project would be bounded in proportion to how Waterworks benefited. i.e., Waterworks received 70% of the water and paid 70% of the cost. Williamsburg received 10% of the water and paid 10% of the cost.

Mr. Ramaley stated the Williamsburg PDA was similar to the JCSA PDA with the following exceptions:

- Williamsburg would receive 2 MGD or 10 percent of the expected yield of the KWR.
- The cost to Williamsburg for a 2 MGD safe yield share was \$12.5 million/MGD or \$25 million total. The cost per MGD was the same as JCSAs' cost per MGD.
- Williamsburg would be able to take above their safe yield share of 2 MGD. The Williamsburg PDA had a maximum allotment of 2.5 MGD on an annual basis or portion of a year that the useable capacity was above typical. The JCSA PDA allowed JCSA to take more than the allotted safe yield share of 4 MGD if the raw water system storage in Waterworks' system was above "typical" as defined in the City's Water conservation Management Plan. Similarly, The JCSA PDA had a monthly and yearly maximum of 6.5 MGD and 5 MGD respectively.
- During times of drought, the allocation to Williamsburg would be reduced in proportion to conservation target savings that were mandated in the City's Water Conservation Management Plan, the same percentages that JCSA's allocation would be reduced.
- Williamsburg would receive either raw (untreated) water or treated water or a combination thereof. This was different from the JCSA PDA in that JCSA could only receive treated water since JCSA had no treatment plant.
- Williamsburg agreed to pay \$12.5 million up front no later than 90 days after the PDA was executed, with a second payment due no later than 2024; this second payment was also exculpated based on the historical construction cost index. This was a change from the JCSA PDA which required that their second payment be made no later than 2019. Deferral of the second payment to 2024 was done at Williamsburg's request, but because of the cost escalation factor the value of the respective payments was equivalent.
- Williamsburg's second payment must be made no later than June 30, 2024. Should the second payment not be made, the amount of water available to Williamsburg would be reduced from 2 MGD to 1 MGD. This was the proportional impact that occurred if JCSA did not make its second payment.

- Like JCSA, Williamsburg would pay its proportion (10%) of the variable and fixed operations & maintenance (O&M) costs which equated to its share of the same yield.
- The cost for delivery of treated water would be 70 cents/1000 gallons initially and would be adjusted annually beginning July 1, 2009. This was the same cost for treated water provided for the JCSA PDA.
- The initial cost for delivery of raw water would be 15 cents/1000 gallons which covered Waterworks' costs for pumping raw water to the Waller Mill Reservoir. Beginning July 1, 2009, the cost would be adjusted annually based on changes in the cost to deliver raw water.
- Both PDAs prohibit resale of the water received. A definition of Current Service Area was added to the Williamsburg PDA, but the prohibition against the resale of the water did not apply with the Current Service Area.
- This agreement, in similar fashion to JCSA, was not contingent on the KWR project. Williamsburg agreed to share the cost of this project or any other project that went forward if for any reason the KWR did not materialize. In lieu of that, they would share in the marginal cost of expansion of the Waterworks' system.

Mr. Ramaley stated the PDA with Williamsburg had been through a series of reviews. In addition, the Newport News and Williamsburg's City Attorney offices reviewed the PDA. Adoption of the final PDA was scheduled for approval at the Regular City Council meeting of January 27, 2009 or February 10, 2009.

Councilman Bateman inquired about the timeframe for the City to receive the \$12.5 million from Williamsburg. Mr. Ramaley replied the City would receive the \$12.5 million once the PDA was executed.

Councilman Bateman questioned what Waterworks' investment strategy was for the \$12.5 million. Mr. Ramaley replied the first two payments received from JCSA and Williamsburg would be used to establish the bond reserve fund at an appropriate level. Beyond that the money would be invested in the Waterworks' account and used to pay for the KWR project as it moved forward. He estimated that Waterworks would not have to go back to the bond market until FY 2011.

Councilman Bateman inquired whether the Waterworks' budget included a return on investments from interest paid on the funds received from JCSA and Williamsburg. Mr. Ramaley replied Waterworks did include revenue from interest paid on the funds received from JCSA and Williamsburg.

II. Proposal for Curtailment of Capital Spending

City Manager Hildebrandt stated the City had not yet authorized bonds for 2009. He stated, once City Council agreed on a spending plan for those bonds and any money that was going to be borrowed in 2010, a bond authorization would be adopted in February 2009. The City was not going to the bond market any sooner than July 2009. The benefits of not going to the bond market until July 2009 was the market was volatile and the debt service would be due in FY 2010, with the real impact be realized in FY 2011. He hoped City Council understood how difficult FY 2010's budget would be. He anticipated that some agreement could be reached on the CIP in order to adopt a modified version at the January 27, 2009 Regular Meeting of City Council. It was important to adopt the modified CIP in January 2009 to show the bond rating agencies what the City's five-year plan included. He introduced Assistant City Manager Neil Morgan to review the "Fiscally Constrained CIP."

Mr. Morgan noted the FY 2009 Approved & FY 2010 Submitted CIP compared to the FY 2009 – 2010 Fiscally Constrained CIP focused on cash capital and borrowed funds. The City went from a total of cash capital in GOB funding from \$81,908,200 to \$34,181,300. The approved FY 2009 plan which had spending of \$37,122,200 would be modified and constrained to \$13,701,300. Similarly for the newly submitted first year of the FY 2010 CIP, the City went from a total of cash capital and GOB funding of \$44,786,000 to \$20,480,000. (A copy of the presentation, "FY 2009 Approved & FY 2010 Submitted Compared to FY 2009 & FY 2010 Fiscally Constrained," is attached and made a part of these minutes.)

Mr. Morgan stated the major differences between the normal and constrained plan were: 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; 5) Delay funding for Stoney Run Recreation Center by two years; 6) Delay funding for Fire Station #3 by one year; 7) Delay funding for Public Works Warehouse & Expansion of Vehicle Services by up to four years; 8) Reduce funding to Schools for major renovations & repairs; 9) Delay Richneck Road Improvements for three years; and 10) Reduce and delay funding for Middle Ground Boulevard. Mr. Morgan indicated a few items might be covered by the proposed Federal Infrastructure Stimulus Program.

Mr. Morgan noted the major category reductions in the Constrained CIP included: 1) Community Development - from \$12,040,000 to \$5,350,000; 2) Environmental - from \$1,650,000 to \$0; 3) Community Facilities - from \$2,350,000 to \$1,400,000; 4) Equipment -

from \$6,841,000 to \$5,020,000; 5) Parks and Recreation - from \$3,763,000 to \$1,450,000; 6) Public Buildings - from \$26,405,000 to \$6,600,000; 7) Schools - from \$21,139,200 to \$12,261,300; and 8) Streets and Bridges - from \$7,220,000 to \$2,100,000.

Councilwoman Woodbury questioned the impact of the December 9, 2008 article in the Daily Press concerning atmospheric conditions at some of the City's schools. Mr. Morgan replied he did not have information regarding atmospheric conditions at any of the City's schools. He stated the replacement of HVAC systems was the best one could do to improve air quality conditions at schools.

Councilwoman Scott inquired about the "Design Fees" as noted under the Schools category. Mr. Morgan replied "Design Fees" were necessary to receive detail plans for a construction project.

Councilwoman Woodbury inquired whether the matter had been reviewed regarding the possibility of having one City Hall building rather than two. City Manager Hildebrandt replied he preferred having one City Hall building, but combining the two into one location would be extremely expensive. He stated, as the City did its land planning in the City Center area, it would be wise to reserve land for a centralized City Hall complex; however, that was a multi-million dollar project.

Councilwoman Woodbury did not feel a new building was necessary, but inquired whether the City could consolidate all offices together in one location. City Manager Hildebrandt stated the City needed a facility of 200,000 square feet to accommodate all of the City operations into one location. City Center had approximately 80,000 square feet of office space and City Hall had approximately 100,000 square feet.

Councilwoman Woodbury indicated she was not suggesting moving everything to City Center or back to City Hall, but felt the City needed to look at one central building. She felt it was expensive to run two buildings.

Prior to City Center being developed, Councilwoman Scott recalled that a decision was made not to move City Hall to midtown due to an outcry from the Southeast Community. She felt City Hall could not be moved to City Center.

Councilwoman Woodbury stated the economy forced City Council to make tough decisions for the good of all citizens. She was talking about utilizing existing space that the City already had; not building a new facility. City Manager Hildebrandt replied there was not enough office space at City Center to accommodate the relocation of City Hall.

Councilwoman Scott stated she did not want anyone to mistake her silence for acceptance of the decision to delay funding for the Stoney Run Recreation Center by two years. She felt City Council had an opportunity to rethink how the construction of the Center could materialize without delaying the project. She suggested that the Recreation Center be phased in the CIP over a three year period, by appropriating \$3 million in one year, \$2 million in another, \$4 million in another, etc. She did not feel the project should be pushed off the table for two more years. The groundbreaking for the Recreation Center was originally scheduled for 2005; it was now 2008, and the project was being delayed again to 2010. This was totally unacceptable. She asked the City Manager to revisit how the Recreation Center could be built before 2010 and come back to City Council in January with a solution. City Manager Hildebrandt stated the City could not reduce the phases of the Stoney Run Recreation Center project. The size of the facility was such that one could not reduce the size of it, which required an authorization of \$13 million for construction of the facility. The City could, however, look at phasing how the bonds were paid off. The City had to start paying interest once it borrowed \$13 million.

Councilwoman McMillan agreed with Councilwoman Scott. She realized phasing in the Stoney Run Recreation Center was difficult; however, she recalled in 1998 there was much discussion about the Center. Each year the Center was pushed back for one reason or another, including granting a courtesy to Denbigh Toyota that she personally did not feel should have been granted. Councilwoman McMillan believed the Community Center had to be made a priority. Each year she heard the story that the City did not have funding for certain projects, but throughout that year, funding was found for major projects. The Stoney Run Recreation Center was always put on the back burner, as well as the Richneck Road project. It was unacceptable to delay the project any further. The North District desperately needed a Recreation Center.

Councilwoman Scott stated the Recreation Center was a quality of life issue. She recalled an e-mail she received about the youth who resided at the apartments located at the corner of Beechmont and Warwick Boulevards. The youth did not have a playground, or a place to go to in the summer, or after school. There were numerous children within walking distance of the proposed Recreation Center. She felt City Council had to do something to fund the project, and indicated it was the City Manager's responsibility to offer suggestions on how they funded the project. City Manager Hildebrandt stated it was City Council's decision on how the project would get funded.

Councilwoman McMillan asked the City Manager to recall when the proposal for the Stoney Run Recreation Center first became a controversy, which was before she was elected in 1998. Out of all the things that had happened in the City, the Recreation Center was always

pushed back and never became a priority. She asked the City Manager to stop and think where a meeting could be held, for more than 30 people, north of J. Clyde Morris Boulevard without utilizing the James Room at City Center.

City Manager Hildebrandt stated the issue was not whether the building of the Recreation had merit but how it was paid for. He stated the only reason the Center was being deferred was due to the significant financial crisis the City faced. It was not just the debt service, but was also a million dollars to operate the facility, which amounted to \$2 million that had to be added to the budget. He did not see the opportunity to do that in 2010, but it could be ready and available in 2011. Many of the City's ongoing projects did not have operating costs associated with them and/or they were urgent. Sacrifices would be necessary. He asked City Council to tell him what projects to move forward with. Staff evaluated factors and provided their best recommendations. He understood Councilwoman Scott and Councilwoman McMillan's frustration and how important the Recreation Center was to the community.

Councilwoman Woodbury recalled that someone was willing to put \$10 million into the old Noland Building. She inquired about the status of that proposal. Mr. Morgan replied the proposal was moving forward, and noted the party had applied for State tax credits to proceed with the project.

Councilwoman Woodbury noted in September 2008, \$20 million worth of bonds were issued to buy property from King William County residents for King William County, which she hoped the City would get paid back. She felt that the KWR was not a priority nor was the City hurting for water. She felt the KWR project should be put on hold.

City Manager Hildebrandt replied that the City could not use the money from the Enterprise Fund for Waterworks to build a recreation center.

Councilwoman Woodbury stated the \$20 million bond for the KWR did impact the City's credit rating. City Manager Hildebrandt stated the \$20 million bond did not impact the City's credit rating because they were buying it with water revenue bonds that were only based on the revenues of the system.

Councilwoman Woodbury inquired why the City was not getting more revenue from Waterworks into the City's operating budget. City Manager Hildebrandt replied the City received \$9 million from Waterworks, which was a sizeable return.

Councilwoman Woodbury inquired whether the City could receive more revenue from Waterworks. She felt the City needed to explore all issues. City Manager Hildebrandt replied the City could receive more revenue from the Waterworks Department by raising its water rates.

Councilwoman Woodbury suggested that the City stop work on the KWR. City Manager Hildebrandt stated the City was doing well by owning Waterworks. Ceasing work on the KWR was not a solution to the city's economic problems. The City was not going to generate more money for a recreation center by using revenue from Waterworks. The funding had to come out of the general fund balance, which included property taxes, personal property taxes, machinery & tools, business licenses, sales taxes, meals taxes, etc. The City could not operate a recreation center based on fees alone.

Councilwoman Vick stated City Council was only as strong as their weakest link. If City Council did not work to make all of Newport News stronger, they were not the best at what they could be. City Council could not continue to build multi-mini developments without considering the people, recreation and jobs. She feared that the North district would become an East End. If the City only developed high-density housing without options for people, i.e. recreation, jobs, a time bomb would be created. She hoped City Council could study the CIP to find a way to include funding for the Recreation Center.

Vice Mayor Whitaker stated he did not want to put one part of the City against the other. He felt everyone had to accept reductions and work together. He understood the urgency for the Recreation Center because children needed a place to go. He stated the Southeast Community had the same problem. The Boys & Girls Club was suffering a deficit and closing it would affect 3,000 to 4,000 children. City Council needed to work together for the entire City. The country was facing harsh economic times. He understood that the City Manager was trying to make sound financial decisions. Vice Mayor Whitaker was not against anything anyone was saying, but felt the City Council had to be prudent in its decisions and work together.

City Manager Hildebrandt asked City Council to submit their recommendations to him within 30 days about how they wanted to proceed with the CIP. He stated the CIP was their document that could be changed at their pleasure. It was the responsibility of City Council to establish a CIP. He tried to offer his best judgments about what he felt the City could afford, what it would take to make it through the next couple of years, and which projects he felt could be deferred. He, along with the management team, tried to identify essential projects.

Councilwoman McMillan inquired whether the grant funding noted on page 34, of the "Fiscally Constrained CIP – FY 2009 & FY 2010 – FY 2014" attached to these minutes, was for matching or free grants. City Manager Hildebrandt replied they were free grants. For the benefit of City Council's understanding, Councilwoman McMillan requested that an asterisk be used to note a matching grant, in the future,

Councilwoman Woodbury asked that the City Manager investigate the stimulus package that was proposed by President-Elect Obama to see whether it included the Richneck

Road project. City Manager Hildebrandt felt the Richneck Road project was a prime project for the proposed stimulus package that was designed and ready for contract.

Councilwoman Woodbury inquired whether any of the stimulus funding could be used to address the construction of a Recreation Center. City Manager Hildebrandt stated the design work for the Stoney Run Recreation Center would not be completed until late spring or early summer of 2009. He did feel the recreation center would be a project that qualified for stimulus funding.

Mayor Frank stated the proposed stimulus package was only a concept at this time and would benefit construction projects that had been delayed. The funding would be used on projects that had been designed, but not yet contracted, i.e. roads, bridges, dams, etc. He had not seen anything in the proposed stimulus package that noted funding for libraries or recreational facilities.

Councilwoman Woodbury inquired whether the City would be prudent to consider moving forward on the design of the Recreation Center to make it eligible for stimulus funding. City Manager Hildebrandt felt that could be a legitimate approach; however, the downside was if the City did not get funding to build within its schedule, the City could end up spending a significant amount of re-design funding because some of the design would no longer be applicable to the market.

Councilwoman Scott inquired how much money was owed for the design of the Recreation Center. Mr. Morgan replied the City owed several hundred thousand dollars for additional design work.

Councilwoman McMillan inquired whether this was the last year of the City's commitment to the CNU Village. Mr. Morgan replied this was the last year of the City's commitment to the CNU Village.

City Manager Hildebrandt stated additional discussion on the proposed CIP would be scheduled for the January 13, 2009 Work Session of City Council. He asked City Council to offer input and ask questions prior to that time.

III. Economic Forum

Mayor Frank stated it had been a tradition in Newport News for the Mayor to give a State of the City Address each February that described the opportunities and challenges the City faced. He felt an Economic Forum that focused on the state of our local economy made better sense than a State of the City Address, in light of the economic circumstances facing our country and the community.

Mayor Frank stated the purpose of the forum would be to generate dialogue in an open and thoughtful way about the condition of the local economy. City Council would report on job growth in the City that was created by various investments, i.e. the Canon expansion and AREVA, the manufacturing enterprise with Northrop Grumman. Economists would report on the economy and its impact in terms of housing, car and retail sales, the tax base, etc. The forum would provide an opportunity for individual citizens to see how things that were going on would impact their lives. The forum would highlight challenges the City faced and note what needed to be done in the future to assure continued success in the community. City staff, led by Carol Meredith, would plan the event. The forum would be scheduled for early March of 2009.

Mayor Frank felt the forum was an important event to hold. The forum would enlighten the citizens understanding of the City's economy and what it would look like over the next 12 to 18 months. The forum would be televised and aired on the Newport News City Channel. Mayor Frank asked City Council for their support in holding an Economic Forum.

Councilwoman Vick expressed support for the forum. She felt it was a good idea and stressed that it should be marketed in a way that would encourage all segments of the population to attend.

Councilwoman McMillan stated she did not have a problem with the concept, but had a problem with the budget that went along with the forum. Mayor Frank stated he planned to get corporate sponsors for the event and would not spend taxpayer money to hold the forum.

Councilman Bateman felt it was a good idea in that the City needed to be able to tell the story of what was happening in a positive way. At the same time the City needed to take a look at the economy in general. He felt the forum should be open to allow citizen discussion.

Mayor Frank stated the forum was not an attempt to whitewash anything, but to be informative.

Vice Mayor Whitaker felt an open discussion about new projects and how they would affect the community was important. He expressed support for the forum.

Councilman Bateman felt it was important to invite the bond rating agencies to participate in the forum to offer a report on how Newport News ranked with similar sized cities. He wanted diverse opinions on what was happening in the economy.

Councilwoman Scott stated she was in support of the forum; however, felt the forum should be interactive rather than the City just feeding information to the public. She pro-

posed that a moderator controls the forum to accept relevant questions and comments from the audience on a sign-in basis.

Mayor Frank agreed that a moderator would be a good idea.

Councilwoman Woodbury expressed support for the forum, but wanted it to be realistic. She did not want the information “sugar-coated.” She wanted the community to know the true facts. She received constant questions about why the City was not “rich” due to City Center. Councilwoman Woodbury stated the public needed to know how much was given up for big projects and why there was a delay in revenue.

Miscellaneous Matter

Councilwoman McMillan voiced concern about the funding situation at the Boys & Girls Club that was noted in a recent Daily Press newspaper article. She stated Mr. Steve Kast, Executive Director, Boys & Girls Clubs of the Virginia Peninsula, had noted in late spring and early summer of 2008 that the Boys & Girls Club was \$314,000 in the red. The discussion she had with Mr. Kast stemmed around the ability to raise funds and support the clubs as they were now. The Daily Press article noted that the club was still \$100,000 plus in the red at the same time they planned to open a club on Tyler Avenue. She was concerned about the diminishing ability of the Boys & Girls Clubs to raise money to support facilities they had as well as entering into more expansions.

City Manager Hildebrandt stated the Boys & Girls Clubs received a five year commitment from the Noland Foundation to pay the operating costs for the new facility.

Councilwoman McMillan stated while they were supporting the new facility with a grant from the Noland Foundation they still had the problem at Marshall Courts as well as the maintenance of all their other clubs. She did believe the City could give them the level of support they were going to need as their operational cost increased each year. She was not sure whether City Council was aware of the difficulties they were having raising funds.

Vice Mayor Whitaker stated the Boys & Girls Clubs had a Board who was responsible, each year, to raise a certain amount of money; although fundraising had seemed to cease. He stated the Boys & Girls Club was organized to stand on its own.

Councilwoman McMillan stated she was not proposing anything but wanted to bring the situation to City Council’s attention. She agreed with Vice Mayor Whitaker in that the Board was responsible to raise money.

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City Manager Hildebrandt stated the Boys & Girls Club was an important organization in Newport News and the Keeping Our Kids Safe initiative. Mr. Kast had spoken to him about the City leasing the pool at the Boys & Girls Club on Thorncliff Drive. The City was researching the issue, but noted the Boys & Girls Club facilities needed funding.

Mayor Frank suggested that the City Manager meet with Mr. Kast about the plans in motion to deal with the Boys & Girls Clubs financial issues.

THERE BEING NO FURTHER BUSINESS,
ON MOTION, COUNCIL ADJOURNED AT 4:59 P.M.

Jennifer D. Walker, CMC
Chief Deputy City Clerk

Joe S. Frank
Mayor
Presiding Officer

A true copy, teste:

City Clerk