

# CITY OF NEWPORT NEWS, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2004

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# City Of Newport News

Virginia 23607

January 20, 2005

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Office Of The City Manager

The Honorable City Council  
City of Newport News  
Newport News, Virginia

The Honorable City Council:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News, Virginia (the City or Newport News) as of and for the fiscal year (FY) ended June 30, 2004. The City is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the City's various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in four sections:

- I. Introductory Section, which is unaudited, contains this transmittal letter, the City's organization chart, a list of principal elected and appointed officials, and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2003.
- II. Financial Section presents the independent auditor's report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, required supplementary information, and combining fund statements. The basic financial statements present the government-wide financial statements and fund financial statements. The government-wide statements, which report governmental and business-type activities and its component units, are intended to present the City in a more corporate-style basis and provide a view of the big picture. The fund financial statements report major funds individually and nonmajor funds in the aggregate for governmental and propriety funds. Combining fund statements are also presented for nonmajor funds. The notes to basic financial statements are an integral part of the CAFR and should be read in conjunction with the statements for a complete understanding of the information presented within them.
- III. Statistical Section, which is unaudited, includes a number of tables that present financial, economic and demographic information. This information is generally presented on a multi-year basis.
- IV. Compliance Section includes audit reports on internal controls and compliance and a Schedule of Expenditures of Federal Awards. The City of Newport News is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act of 1996, as amended, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs, and independent auditors' report on internal control and compliance with applicable laws and regulations are included in this section.

The report covers financial transactions of all services provided by the City. This includes general administration, police and fire protection, juvenile detention and adult correction, transportation, sanitary sewer collection, solid waste collection and disposal, health, human services, recreation, economic development,

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planning and public capital improvements and waterworks public utility. We have also included, as enterprise funds and/or component units, the Newport News Parking Authority, the Peninsula Airport Commission (PAC), the Economic/Industrial Development Authorities (E/IDA) and the School Board because of City Council financial accountability or significant financial ties with the City.

Those independent agencies that we excluded are Newport News Redevelopment and Housing Authority, Office of Human Affairs, Hampton-Newport News Community Services Board, Peninsula Transportation Commission, Peninsula Ports Authority of Virginia and Virginia Peninsula Economic Development Council.

### **Economic Condition and Outlook**

During FY 2004, positive steps were taken toward business retention and expansion, goals that serve to enhance Newport News' tax and job base. The City's economic development focus during this past fiscal year has been on the historic Downtown, the Southeast Community (including Copeland Industrial Park), the Newmarket/Brentwood area, Oyster Point of Newport News, Oakland Industrial Park and the Greater Lee Hall Area. The 2004 fiscal year includes the following economic highlights:

- In the historic Downtown, the Department of Development has been working to lease the remaining ground floor space in the Downtown Engineering Center. A lease was signed with China Buffet, a restaurant, and a letter of intent from Northrop Grumman Newport News to lease the remaining space in the Downtown Engineering Center. The Department also continued to work with the U.S. Government Services Administration on the siting of a new federal district courthouse in the Downtown.
- Northrop Grumman Newport News continues to remain strong, employing more than 18,000 white collar and production workers. During FY 2004, the company announced capital investments of almost \$23 million. This is the beginning of a multi-year capital upgrade in preparation for building the new generation of nuclear aircraft carrier.
- In the Southeast Community, planning for the development of the Southeast Commerce Center along Terminal Avenue has continued. The Newport News Redevelopment and Housing Authority (NNRHA) is expected to complete acquisition and demolition in this 16-acre area in FY 2005. The Department has identified the Southeast Commerce Center as a target Brownfields area for level one environmental assessments to occur during FY 2005. The City's goal is to attract industrial and commercial businesses that can take advantage of the Commerce Center's Virginia Enterprise Zone and federal HUBZone location. The Department of Development also is marketing a 5-acre retail parcel located at the corner of Marshall Avenue and 39<sup>th</sup> Street to attract a grocery store to the community.
- The City's South Enterprise Zone was designated by the Governor for another twenty-year period. The South Enterprise Zone expired on December 31, 2003. The City successfully competed with twenty-nine other localities for five eligible designations.
- In the Newmarket/Brentwood area, the design and development has begun on a new Police headquarters building on a site purchased by the City's Economic Development Authority (NNEDA) in FY 2003. The main buildings on the site were demolished to allow construction to begin in FY 2005. Besides providing a home for the Police headquarters, this project advances the City's redevelopment and beautification goals in its Mid-City Enterprise Zone.

- During FY 2004, the Department of Development negotiated, on behalf of the NNEDA, with City Center's master developer on an amended and restated development agreement for Phase Two of City Center. This will be a mixed-use district of almost 300,000 square feet with an emphasis on fashion retail and restaurants. The district will also contain office space and 40 to 45 condominium residential units. The Department also began negotiating a development agreement with Armada Hoffler and Crestline for the development and operation of a 256-room Marriott hotel and a 70,000 square foot conference center. Both development agreements are expected to be signed in FY 2005, with construction beginning by the second quarter of that fiscal year. The mixed-use district would be supported by an 880-car parking garage to be owned by the NNEDA.
- Fiscal year 2004 saw substantial progress toward the completion of Phase One of the City Center project. Fountain Plaza Three and Merchants Walk One were completed. Fountain Plaza Three (80,000 square feet) is owned by the Langley Federal Credit Union, which moved its corporate headquarters to City Center. Another corporate headquarters location associated with City Center was the relocation and consolidation of Specialty Foods Group's corporate offices from Chicago, Kentucky and Charlotte to space in Oyster Point. Merchants Walk One is a 34,500 square foot mixed-use office/retail building. The first apartment block of the Park Place luxury apartments began leasing and the second block was nearing completion at the end of FY 2004. Finally, Red Star Tavern, an upscale restaurant and pub, broke ground on a site between Fountain Plaza One and Fountain Plaza Three. The restaurant is scheduled to open in the third quarter of FY 2005.
- Elsewhere in Oyster Point, Children's Hospital of the Kings Daughters (CHKD) has opened its new Peninsula care center on an 8-acre lot sold to it by the NNEDA. Oyster Point Eye Associates has moved into its new 20,000 square foot office building located across from CHKD. Hamner Development has constructed 30,000 square feet of office condominiums and is planning to develop additional office condominium units on other property it owns on Rock Landing Drive. The NNEDA has negotiated a sale of one of the last remaining properties on Rock Landing Drive to Cedars Enterprises to construct a new 20,000 square foot office building for an expanding AH Environmental Consultants. ADG, an architectural firm, has developed a 10,000 square foot office building on Pilot House Drive. Finally, in what the NNEDA hopes will be the beginning of a trend to redevelop industrial and distribution property in Oyster Point for office and commercial use, the former Franz Aluminum Building on Middle Ground Boulevard is being redeveloped as a Golds Gym. Virginia Natural Gas also began a redevelopment of its property on Diligence Drive with a new 11,000 square foot office building.
- Port Warwick, a 115-acre new urbanism project, is a resounding success. Port Warwick is being developed totally by the private sector, with the City allowing land use regulatory flexibility. This \$150 million project includes upscale housing, live-and-work residential units, luxury apartments, an assisted living community, a health care complex, retail and office uses. A community within a community, Port Warwick is built around a series of public squares with liberal sprinklings of public art installed and commissioned by the developer. Retail shops, restaurants apartments and condominiums are now open and weekly events have created a lively, urban atmosphere. The Melville, a luxury condominium project, is now under construction and sales of single-family homes remain strong.
- Along the City's Cultural Corridor, the Virginia Living Museum opened its new exhibit building; Riverside Regional Medical Center opened its new emergency and trauma center and continued its \$250 million renovation and expansion program and the Christopher Newport University Educational Foundation (CNUF) began a second round of construction and redevelopment along Warwick Boulevard. CNUF is

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investing more than \$17 million in four new residential suites buildings for off-campus student housing, a parking garage and commercial space fronting Warwick Boulevard. CNU also has opened the first phase of its Center for the Arts.

- At Oakland Industrial Park, the Department continued to assist in the marketing of the former Evercel Building, a 97,600 square foot class A industrial building. The Department and the Industrial Development Authority of the City of Newport News, Virginia (NNIDA) facilitated the purchase of the Twinpak business unit from Amcor by Printpack, with Printpack assuming Twinpak's long-term lease of the 108,000 square foot manufacturing facility from the NNIDA. Also, at Oakland, the former Curtis Contracting Building was purchased by Advanced Electrical Service, allowing that firm to expand.
- Throughout the year, the Department has supported the NNEDA as it evaluated responses to its Request for Qualifications (RFQ) to develop its properties in the Greater Lee Hall Area (Endview, Carleton Farm and the Hoover Tract). Based upon this work, the Newport News City Council chose L. M. Sandler and Sons to develop an upscale, mixed-use, transformational community on the NNEDA properties.
- Funding was also provided by the NNEDA for implementation of a program operated by the Virginia Electronic Commerce Technology Center (VECTEC). VECTEC, which is housed at Christopher Newport University, will provide technical assistance to small businesses in Newport News to design websites and e-commerce platforms. Funding for this assistance comes through a grant from the NNEDA.
- Retail sales in Newport News remain strong. Retail sales in 2003 exceeded \$1.8 billion. Much of this strength is due to the Patrick Henry retail corridor having become the major shopping district for the Virginia Peninsula. Besides the retail planned for City Center, Jefferson Commons--a 400,000 square foot power/fashion center--has broken ground, boasting Kohls, Sports Authority, Ross Dress for Less and A.C. Moore as anchor tenants. About one-third of the Virginia Peninsula's retail sales increase in 2003 occurred in Newport News.

### **Major Initiatives and Accomplishments**

We are pleased to report the following major initiatives and accomplishments:

**Codes Compliance** - The Department continues the implementation of the permit software system that was acquired in FY 2003. The system will coordinate property information databases that will be available to other City departments. During FY 2004, the software was installed in the Engineering Department and is scheduled for implementation in Codes Compliance and Planning Departments. The implementation of this system is an interim step toward the acquisition of an advanced software application that will utilize the internet and interactive voice recognition technology to provide public access to property information records such as the status of building inspections and property maintenance complaints. To continue improvements to the City's code enforcement efforts, City Council has allocated five new Property Maintenance Inspector positions for FY 2005.

**Court Services** – Work continues with the Annie E. Casey Foundation to reduce reliance on secure detention for youthful offenders and to reduce minority overrepresentation within that detention population. As a part of this initiative, the Department has developed a detention assessment instrument to gain insight into the detention process. During FY 2004, the Department has had several meetings with critical team members within the

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community to address the initiative goals. A certification audit of our Court Services unit was completed by the Department of Juvenile Justice and the Department passed with high marks.

**Development** – The Department of Development is responsible for a full range of economic development activities undertaken by the City. The Department’s initiatives during FY 2004 are:

- Expand and diversify the City’s tax base by attracting new businesses to the area and by assisting existing businesses to expand, thereby creating new jobs and retaining existing jobs.
- Administer the City’s Virginia Enterprise Zones, the federal HUBZone program, the Commercial Rehabilitation Real Estate Property Tax Abatement Program.
- Provide small business counseling and loan origination/underwriting for a variety of low-interest loan programs, including the Newport News Capital fund, Newport News Urban Development Action Grant Loan, Peninsula Revolving Loan Fund, Newport News Micro-Loan Fund and Newport News Façade Improvement Assistance Program.
- Provide staff support to the City’s Economic/Industrial Development Authority (NNEDA/NNIDA) and its various committees, the Newport News Parking Authority; the Green Foundation, and the Newport News Wetlands Board.
- Serve as liaison with a variety of local and regional agencies.
- Manage the City’s Seafood Industrial Park.
- Manage the public sector role in the development of City Center at Oyster Point.
- Manage various properties owned by the NNEDA/NNIDA and the Parking Authority, including several industrial and business parks, buildings occupied by tenants and parking garages.
- Manage and facilitate various real estate transactions undertaken by the City, NNIDA/NNEDA and the Green Foundation.
- Manage the public sector role in the development of Greater Lee Hall, including Endview, Carleton Farm and the “Hoover Tract.”
- Manage pre-development activities for the Southeast Commerce Center.

**Emergency Management** – The following projects/initiatives were in process or completed during FY 2004:

- Completed all requirements to receive award of the National Weather Service (NWS) Storm Ready Community designation for the City of Newport News.
- Prepared for the Local Capability Assessment for Readiness in order to continue to qualify for VDEM planning grant funding. Hired a contractor, held a kick-off meeting for City Staff, and directed the completion of the project and the final report.

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- Completed Office of Domestic Preparedness Homeland Security Assessment and Strategy Jurisdiction Assessment in order for the City to be eligible for future Homeland Security Grant funding.
- Directed and coordinated the response and recovery activities related to Hurricane Isabel. This involved several weeks of Emergency Operations Center (EOC) activation, and coordination with state and federal agencies. During the recovery phase, the Office of Emergency Management (OEM) was instrumental in reorganizing the Peninsula Disaster Recovery Task Force (PDRTF). The task force is made up of local government, non-profit organizations, and the religious community. The Newport News Emergency Information Center (EIC) was home base for the task force's unmet needs hotline, and was staffed with PDRTF volunteers. Hurricane Isabel disaster victims unmet needs on the Peninsula were coordinated and met through this valuable organization.
- The OEM staff attended multiple regional, state and federal meetings and workshops related to the Hurricane Isabel response and recovery. The OEM directed the completion of the City's documented critique of Hurricane Isabel. The OEM assisted with the submission of Mitigation Projects to FEMA as a result of Hurricane Isabel, to include property buy-outs in flood prone areas, and the elevation of pump stations.
- Participated with several task force groups including the Governors Task Force on Hurricane Isabel and the Hampton Roads Regional Task Force. OEM participated with Dominion Virginia Power in identifying high priority power restoration that will better serve the City infrastructure needs.
- The OEM staff met all requirements for award of the state and federal Hazard Mitigation Planning Grant. On behalf of the Peninsula region, the City of Newport News, Office of Emergency Management, applied for a regional planning grant that will allow for the hiring of a contractor to complete a Peninsula Region All Hazards Mitigation Plan, and is serving as the grant administrator. This plan is a requirement of the Disaster Mitigation Act of 2000 in order to qualify for future post-disaster mitigation funds.
- Directed, coordinated, and participated in the City's response to Determined Promise 2004 (DP 04) exercise (a military North America Command National Terrorism Exercise). DP 04 involved numerous monthly regional and statewide meetings, workshops, and tabletop exercises. A contractor was hired to design the exercise play for the City of Newport News with planning grant funds. In addition, exercise specific grant funds were used to pay exercise participants overtime, meals and equipment purchases.
- Hired a temporary planner, utilizing planning grant funds, to develop a Severe Weather Annex to the Emergency Operations Plan. The plan is currently in draft form.
- The Department began the update and reorganization of the Basic Emergency Operations Plan, and held meetings with Emergency Support Function (ESF) Staff to develop a comprehensive plan. Also assisted in development of the City's Amber Alert Plan.
- OEM staff participated in the quarterly Peninsula Local Emergency Planning Committee meetings, monthly HREMC and REMTAC meetings, Health Department planning meetings, Seniors and Law Enforcement Together (SALT) meetings, the Mayor's Committee on Disabilities meetings,

Radiological Emergency Response Preparedness meetings, and Dominion Power planning response meetings.

- OEM staff applied for, received, and administered the following grants: (1) All Hazards Planning Grant, (2) Local Emergency Management Planning Grant, (3) Homeland Security Grant 04, (4) Mitigation Planning Grant, and (5) Determined Promise '04 Exercise Grant. Approximately \$45,000 of the Department's operating budget was funded through grants. Another \$83,891 was received through federal grants from the Office of Homeland Security, and the Determined Promise 04 exercise.

**Engineering** - The Department of Engineering administers projects in the city capital improvements plan (CIP), involving more than \$30 million a year, and accomplishes inspection of all public facility construction activities as well as monitors all private development projects. Each year, the department has more than a hundred public projects under way. Major initiatives for FY 2004 include the following:

- The Department of Engineering, in conjunction with the Department of Public Works, continued its program involving the replacement of radio monitoring units at sewage pumping stations. The units transmit reports to a centralized location at the Operations Center, providing real-time information to support operational and maintenance activities related to the pump station network. Approximately \$3.2 million worth of sanitary sewer rehabilitation projects were programmed for FY2004.
- The Department contributed to the Hampton Roads Regional Standard Specifications initiative to create a set of standard specifications for application by local municipalities. This action enhanced working relationships among local municipal governments, developers and contractors in their mutual pursuits of construction activities, effectively delivering improved services to citizens who live and work in the southeastern region of Virginia.
- Through its Mapping/GIS Division, the Department of Engineering continually populates the Geographic Information System (GIS) with sanitary sewer network data obtained from global positioning systems. The department maintains and updates GIS data for parcels, streets and other geospatial data as needed for applications within the E-911 emergency response system as well as for the tax map and zoning programs. The department contracted for and obtained aerial photographs in March 2004 in order to maintain, update and verify the accuracy of planimetric data related to buildings, roads and other facilities within the separate GIS data layers. The Department's goal is to support citizens and city staff with mapping on the Internet and the Intranet.
- Through its Stormwater Management Division, the Department of Engineering issued a contract in FY 2004 that will ultimately determine impacts of all drainage crossings along the CSX railroad tracks, which traverse the total length of the city. The department also contracts for detailed computer modeling of watersheds to support capital project initiatives.
- In 2004, the city applied for grants totaling several thousands of dollars from the State and FEMA for its Flood Assistance Program, which is administered by the Department of Engineering. Six of those were specifically associated with Hurricane Isabel, which was particularly hard on this area of Virginia in September 2003.

- Through its Permits and Site & Subdivision offices, the Department of Engineering collected and deposited nearly \$1.2 million in revenue. The majority of this revenue represents fees and charges related to right-of-way permits, over-dimensional permits, sewer connection authorizations, on-street parking permits, fabrication of signs, sales of maps and publications, review of plans, land disturbance activities, etc.
- Through its Transportation Services Division, the Department of Engineering applies for and receives several types of fully funded and cost-share grants related to roadways and public safety each year. During FY 2004, the department was involved in the administration, design and construction of a Congestion Mitigation Air Quality (CMAQ) project encompassing more than \$12.2 million in Federal cost-share funds and seven Hazard Elimination Safety Improvement projects worth approximately \$825,000 in grant funding from state and federal sources. The department also administered railway crossing replacement projects at five locations using local, state, federal and private enterprise (CSXT) monies.

**Fire** – The following projects/initiatives were in process or completed during FY 2004:

- Acquired a 2003 Pierce Saber engine and placed it in service at Station 9. This unit has a built-in compressed air foam system, which entails adding chemicals and compressed air to water to make a more effective and efficient fire suppression agent.
- Acquired a 2004 Freightliner medic unit and placed it in service at Station 3.
- Acquired a 2004 Pierce tractor-trailer Haz-Mat vehicle and placed it in service at Station 6. This unit will vastly increase the capabilities of the Haz-Mat team.
- Purchased new hydraulic rescue equipment and placed it on the Department's two heavy rescue units and all aerial apparatus. This equipment will be used for vehicle extrications and other incidents as needed.
- Purchased glucometers for the Department's engines and vital sign monitoring components for the Department's Lifepac 12s located on all advanced life support apparatus.
- Developed and built a Field Support Unit and placed it in service at the Logistics Bureau. This unit provides employees with many services vital to personal rehabilitation at working incidents. This unit has been a welcome addition for all public safety personnel.
- Awarded a contract to Scott Breathing Air Systems to replace the department's entire complement of self-contained breathing apparatus (SCBA). The Department will receive 191 complete SCBA units, 400 face pieces and other associated equipment in September 2004.
- Awarded a contract to Morning Pride to replace the Department's entire complement of firefighter Personal Protective Equipment (PPE). The Department has received 320 complete sets of firefighting gear – coats, pants and helmets.
- Opened the Department's new training facility and fire station in the Lee Hall area. Construction was completed and a temporary certificate of occupancy issued for the regional training tower located at this site which will be used in conjunction with the regional burn building.

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- Completed installation of the MOSCAD Fire Station Alerting System at all fire stations and the Emergency Communications Center. This system replaced an antiquated dispatch system and significantly improved dispatch procedures.
- The Department completed its strategic plan with implementation scheduled in FY 2005.
- Completed renovations on the 45-foot fire boat obtained from the Newport News Shipyard. The Shipyard is in the process of replacing the engines on the vessel at their cost with completion projected for September 2004.

**Health** – Major initiatives during FY 2004 included the formation of the Coalition for Obesity Prevention, Peninsula, and the completion of a community assessment of overweight and obesity by that coalition. The Department continued to develop its’ plans for response to acts of bioterrorism and other emergencies, and conducted a large drill of the mass medication dispensing plan. The Department also began a formal beach water monitoring program for the first time in the summer of 2003, with weekly testing of the city’s four public beaches.

**Juvenile Services** – The Department continued its preparations for the occupancy of its new 110 bed Secure Detention facility in the latter part of 2004. Preparations involved ordering of equipment and furnishings and the recruitment and training of new personnel to staff this state-of-the-art 74,000 square foot detention center.

The outdated mainframe juvenile tracking system has been replaced by a windows based system which will improve the tracking and reporting for detainees. This new automated tracking system will facilitate information sharing with other juvenile justice agencies.

Newport News was selected by the Virginia Department of Juvenile Justice to be a pilot site for an initiative aimed at developing and implementing more alternatives to confinement of juveniles. The expected outcome of this effort, which is being funded under a grant from the Annie E. Casey Foundation, is lower detention rates and the more effective use of public resources.

**Libraries and Information Services** - During FY 2004, the Newport News Public Library System circulated just under 600,000 materials and answered more than 115,000 reference questions. In addition:

- The Department provided 91 cultural and lifelong learning programs for adults, and 1,542 patrons attended these programs. The Library also presented 550 children’s and teen programs which were attended by 26,617 young patrons and parents.
- The program theme for the calendar year 2004 was “The ‘60s: A Decade of Change at Your Library.” Programs were held at all public library branches throughout the year and encompassed the history, social and political aspects of the decade.
- Patrons donated more than 6,000 cans of food and returned nearly 2,500 overdue items during the annual “Can Your Fines” drive during the winter holidays and a special amnesty program done in June. Library patrons were encouraged to return overdue library materials and allowed to donate canned food and personal care items for the Virginia Peninsula Food Bank in place of money to erase their fines.
- Just under 749,000 citizens entered the public libraries to check out materials, attend a program or use the research materials. Staff handled more than 115,000 reference requests; patrons used the electronic

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resources nearly 345,000 times; and library customers entered the library's electronic databases almost 16,000 times.

**Parks and Recreation** – While a good percentage of the Department's resources were devoted to cleaning up after Hurricane Isabel, the following initiatives were still realized:

- Replaced playgrounds at five elementary schools and one City recreation site to meet the minimum safety standards endorsed by the Consumer Product Safety Commission (CPSC) and the American Society for Testing and Materials (ASTM). Began construction of the Boundless Playground in Deer Park, the City's first fully integrated-accessible public playground.
- Continued with the development of the Stoney Run Athletic Complex at Stoney Run Park, a \$5 million athletic complex which is scheduled to open in the fall of 2004.
- Coordinated the refurbishment of the landscape at the Interstate 64 interchange north of Patrick Henry Mall. This \$195,000 project involved the planting of over 385 trees, 1,017 shrubs, 1,000 perennials and over 7,200 daffodil bulbs.
- Coordinated landscape improvements at J. Clyde Morris and Jefferson Avenue, as well as at J. Clyde Morris & I 64 that involved planting over 273 trees, 205 shrubs, 390 perennials and over 500 annuals.
- Hosted the AAU "12 & Under" Boys Basketball National Championship. This involved 113 teams from throughout the United States that competed in a seven day tournament. Along with NN Public Schools, the Department successfully hosted the Virginia High School League State AAA Girls Softball Championship at the new Stoney Run Athletic Complex.
- The Promotions and Special Events Division created and managed three after-work events at City Center and two annual outdoor concerts by the Virginia Symphony were added to the City Center line up.
- In partnership with the Virginia Peninsula Chamber of Commerce Leadership Institute, Virginia Civil War Trails, and Civil War Preservation Trust, the Lee's Mill Park was opened to the public with trails, riverwalk, and interpretative signs. Lee's Mill contains significant earthen fortifications overlooking the Warwick River and was the scene of the April 5, 1862 skirmish which started the Peninsula Campaign's Warwick-Yorktown Line siege.
- Completed the re-construction of the Endview Plantation smoke house.
- Participated in the Newport News schools Foundation of Freedom grant projects teaching teachers how to utilize inter-active and hands-on learning activities. This five year project has generated over \$20,000 and will secure another \$50,000. Revenues from the SOL-based learning activities reached over \$62,000 in FY 2004. Educational revenues provide significant revenues used to underwrite museum operations.

**Planning** – The Department of Planning initiatives completed during FY 2004 were the Warwick Boulevard Corridor Study, Chesapeake Bay Preservation Act Ordinance revisions, Handbook for Development in the

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Chesapeake Bay Preservation area (Second Edition), draft revisions to the City's Sign Ordinance, Dr. Martin Luther King, Jr. Memorial Committee Recommendations (Dr. Martin Luther King, Jr. Plaza), the City's annual apartment survey and the initial phases of the adaptive reuse of the former Walter Reed School into the Downing Gross Cultural Arts Center. In addition, the Department completed the following research and analysis: Federal building analysis, shoreline protection structure survey, BMP (Best Management Practices) agreement analysis, and the City Subdivision Housing Value Analysis.

City planning projects underway during the year included a continued effort for the following projects: the urban waterfront plan for the Southeast Community, the Southeast Community Plan, the HRT North Terminal, the 2026 Regional Transportation Plan, the Stoney Run Greenway Corridor Plan implementation phase, the Rivermont Streetscape Enhancement Project (engineering), the Ft. Eustis Second Access Road, the Lee Hall Train Station, the Downing Gross Cultural Arts Building Phase II (second floor), and the coordination of the development of the City Center at Oyster Point project activities. The Department has conducted Zoning Ordinance reviews for the following: portable signs, tattoo parlors, and freight containers.

Recurrent city planning activities include providing staff for the City Planning Commission, the Hilton Village Architectural Review Board and the North End/Huntington Heights Architectural Review Board. The city planning staff reviewed development projects for compliance with the Chesapeake Bay Preservation Ordinance and regulations, landscaping requirements, and conformance with the site plan ordinance, the subdivision ordinance, and special requirements established by City Planning Commission and City Council in approved rezonings and conditional use permits.

During FY 2004, the planning staff reviewed and recommended for City Planning Commission action 56 applications for zoning changes, zoning text amendments, comprehensive plan amendments, conditional use permits and special exceptions. 38 of these applications ultimately were acted on by the City Council or Board of Zoning Appeals. The department also reviewed 220 site and subdivision plans for consistency with the City's Framework for the Future and the Zoning Ordinance.

**Public Utilities (Waterworks)** – The following are major initiatives and accomplishments for FY 2004:

- **Securing Future Water Supply** - Since 1987 the City of Newport News, in partnership with other Virginia Peninsula localities, has been working to develop and implement a long-term water supply plan including more aggressive water supply conservation, maximizing the use of available groundwater and constructing a new 12 billion gallon off-stream reservoir and Mattaponi River pump station in King William County. During FY 2004, Newport News Waterworks continued its work with the North Atlantic Division of the U.S. Army Corps of Engineers to bring the King William Reservoir Project to the point where a federal permit could be issued. This involved completion and submission of an extensive Wetland Mitigation Plan and substantial progress toward development of a Memorandum of Agreement to address archeological and cultural resource matters in accordance with the National Historic Preservation Act of 1966. Also during FY 2004 a substantial effort was made toward obtaining from the Virginia Marine Resources Commission the last remaining State permit which authorizes construction and operation of a water intake structure in the Mattaponi River. Subsequent to the end of the fiscal year on August 12, 2004, the Virginia Marine Resources Commission granted this necessary river intake permit.
- **Lee Hall Water Treatment Plant** – At the end of FY 2004, construction of a modern state-of-the-art

treatment facility at Lee Hall and Harwood's Mill treatment plant upgrade modifications (estimated cost approximately \$84 million) was 98% complete. The Harwood's Mill portion of the project became operational in FY2003; the Lee Hall portion of the project is scheduled for completion in mid-FY 2005. Once finished, the Lee Hall plant will be capable of meeting water treatment requirements necessitated by changes in drinking water regulations and should be able to operate for the next 50 years or more. Lee Hall will utilize an evolving technology for drinking water treatment termed dissolved air flotation for clarification of the water. Like Harwood's Mill, the Lee Hall water treatment plant will utilize ozone as a primary disinfectant. One other significant improvement is the addition of on-site power generation facilities that will allow the uninterrupted delivery of treated water to the Northern Zone portion of the distribution system.

- Security Enhancements – During FY 2004, Waterworks continued its comprehensive efforts to enhance water system and employee security. Waterworks completed the related Emergency Response Plan in September 2003 under the grant funds and provided certification to EPA as required by the Bioterrorism Act. Waterworks has improved control of facility and site access through guards, video surveillance and improved lighting. Waterworks has formed a Security Advisory and Threat assessment Team (SATT) made up of volunteer employees who review and make recommendations to improve security policy and procedures. Waterworks interacts with law enforcement and first responders from all five service jurisdictions in security exercises to improve response to adversarial events. In addition, Waterworks interfaces with interdependent utilities to respond to emergency events of all kind.
- RENEWS Project - Waterworks has initiated a project to replace its business systems with modern, integrated computer systems. The project is named RENEWS, which stands for “Replacing Existing Newport News Waterworks Systems”. Waterworks mainframe systems are approximately 20 years old and built on technology that has increasing limitations. The RENEWS project will allow the Department to move to newer technology and increase its customer offerings. The first system to be replaced is the Customer Information System (CIS). This system includes customer care, account management, billing, service orders and meter inventory management. Waterworks plans to begin implementation of the CIS in the spring of 2005.

**Public Works** – The following are major initiatives and accomplishments for FY 2004:

- Administrative Division – CityWorks is a multi-year project that will change the computerization of every Public Works' operation. The project provides a comprehensive computerized inventory of all Public Works' assets. The implementation of the Geographic Information System (GIS) facilitates project tracking of work performed to all public works assets. CityWorks Call Center, Service Request and Work Order subsystems were fully implemented. Mainframe interfaces were tested and are in place. Locations were updated in the GIS system for pump stations, storm ditches, buildings, and customer request; training was conducted for employees. Implementation of the system began on July 1, 2004. In addition to this project, Route Smart is being used in the bulk collection call-in program.

- Building Services Division – Environmental improvements to ten buildings continue to provide substantial savings to the City in energy costs. Energy savings as a result of cost avoidance for year six of the Honeywell contract was \$593,784. The cumulative energy cost avoidance through the end of year six is \$3,646,568, as compared to the cumulative energy guarantee per the contract of \$2,202,552.
- Street Division – Street improvements are continuing in the North Newport News Community. The only street remaining in this project area is North Avenue. The improvements are funded with Capital Improvement Project funds and the Public Works operating budget. Sidewalk installations have continued in the Southeast Community, utilizing CDBG (Community Development Block Grant) funds and City funds. Arterial and residential street reconstruction, maintenance and resurfacing continue citywide, utilizing Highway Maintenance funds from the State and the Capital Improvement Project funds. The annual Concrete Contract project was completed, utilizing Public Works operating budget. This contract is used to address concrete requests on the curb/sidewalk backlogs in this division in addition to concrete projects. Division staff is currently in the process of implementing a pavement management program with APWA’s Paver software program. This will assist the division in producing annual paving programs in the future and become proactive instead of reactive to streets requiring paving in future years.
- Solid Waste Division – In FY 2004, the Household Chemical Collection (HCC) program serviced 1400 residents; 20 tons of chemicals and 10 tons of electronics were diverted from the waste stream. The compost facility at the closed Denbigh Landfill accepted 17,736 tons of yard waste for recycling. The compost facility marketed 30,823 cubic yards of Earth-N-Rich mulch, compost, and soil/compost blend, with sales of approximately \$264,500. Processing costs have averaged \$14.48 per ton (factoring in revenue). Compared to landfill disposal costs of \$27.98 per ton, the Solid Waste Division realized \$227,020 cost avoidance in landfill tipping fees.
- Wastewater Division:
  - Sanitary Sewer - Personnel restructuring centralized all Sanitary Sewer Operations under one Superintendent’s control. Work processes of the Pump Station and Collector line sections are more streamlined and integrated since they are designed to function together naturally. This gives customers a more effective use of the limited operational resources and tax dollars available to this section.
  - Stormwater: A new maintenance program for the Back and Sidelot Ditch Crews was initiated utilizing the growing GIS (Geographical Information System) capability in the Public Works Information Technology section. Before using GIS, the Department cut and cleaned city ditches once a year. By using GIS, the cleaning process starts at every major stormwater outfall or exit point in each area of the city and then works backwards until the entire feeder system of back ditches and swales in this “service area” are clean. This eliminates any previously unclean ditch sections’ debris or sediment from moving into and blocking the cleaned service area. As a result, there are fewer repeat service calls and has maximized the manpower capability to ensure the year round cleanliness and drainage effectiveness of all of the back and sidelot ditches in the city.
- Vector Control Program: The Department has established a separate operational section with four additional Vector Control Technicians, along with a newly established Operations Superintendent position to lead and direct all of the Vector Control operations within the city. Previously the section, although diligent in their efforts to treat and spray for mosquitoes and rodents, lacked specialized and trained

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leadership to maximize the knowledge, skills and abilities of this key section of the Stormwater Team.

**Sheriff's Office** - As a commitment to community involvement and public safety, this office continues to provide resource programs such as Safety of Our Seniors (SOS), Keeping Kids Safe, Straight Talk, and participation in the public schools' Achievable Dreams program.

Recognizing the increasing challenges faced by our older citizens, and the need to identify and offer resources to effectively deal with the needs of seniors, the Sheriff's Office partnered in the establishment of the Newport News Triad Chapter in 2004.

In FY 2004, additional revenues were collected with the implementation of a "\$1 a Day Room & Board Fee" charged to inmates. Inmates serving sentences ordered by the courts on weekends were assessed a fee of \$16.00 per weekend served. These programs were implemented in 2003 in accordance with Virginia State Code, and collected revenues used to defray the costs associated with the prisoner's keep.

### **Financial Information**

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

**Single Audit** – As a recipient of federal and state financial assistance, the City is also responsible for establishing and maintaining an adequate internal control structure to ensure and document compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the City. As part of the City's Single Audit, tests were made to determine the adequacy of internal control and its compliance with applicable laws and regulations, including that portion related to federal awards. Although this testing is not sufficient to support an opinion on the City's internal control systems or its compliance with laws and regulations, the audit for the fiscal year ended June 30, 2004 disclosed no material internal control weaknesses or material violations of applicable laws and regulations.

**Budgetary Controls** – The City maintains budgetary controls to ensure compliance with the budget approved by the City Council. General government activities are controlled to keep actual expenditures within the approved annual budget. Capital projects are controlled to ensure expenditures do not exceed approved project budgets.

**Fund Structure** – The City uses individual funds to maintain its financial records. These funds can be grouped into three broad classifications: governmental funds, proprietary funds and fiduciary funds.

- **Governmental Funds** – The City's governmental funds include the general fund, debt service fund, special revenue funds and capital project funds. The general fund is the main operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. Special

revenue funds have been established for programs that the City needs to track separately. There are nine special revenue funds for specific purposes, such as street maintenance, stormwater, wastewater and solid waste funds. The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The capital projects fund accounts for proceeds from public improvement bond issues (bond fund), local funding sources and construction grants and expenditures relating to capital projects. When capital projects are completed, the costs of the improvements are transferred from construction in progress to the appropriate fixed asset category.

- Proprietary Funds – Proprietary funds are classified as enterprise funds or internal service funds.

An enterprise fund is used to report an activity for which a fee is charged to external users for goods or services. The City maintains separate enterprise funds for two distinct activities: Public Utility and the Parking Authority. The City's water utility has continued to provide stable income, with an increase in net assets of \$14.6 million. The Parking Authority posted a decrease this year of approximately \$12,900.

The City's internal service fund is used to centralize certain services and then allocate the cost of those services within the government. The Vehicle and Equipment Services Fund accounts for financing, replacing and servicing vehicles and equipment for all City departments and agencies of the City, except school, public utility and firefighting vehicles. The Fund's net assets decreased approximately \$840,700.

- Fiduciary Funds – The fiduciary funds are used to account for assets held in a trustee and agency capacity for others and cannot be used to support the City's programs. The City's fiduciary funds include pension trust and agency funds.

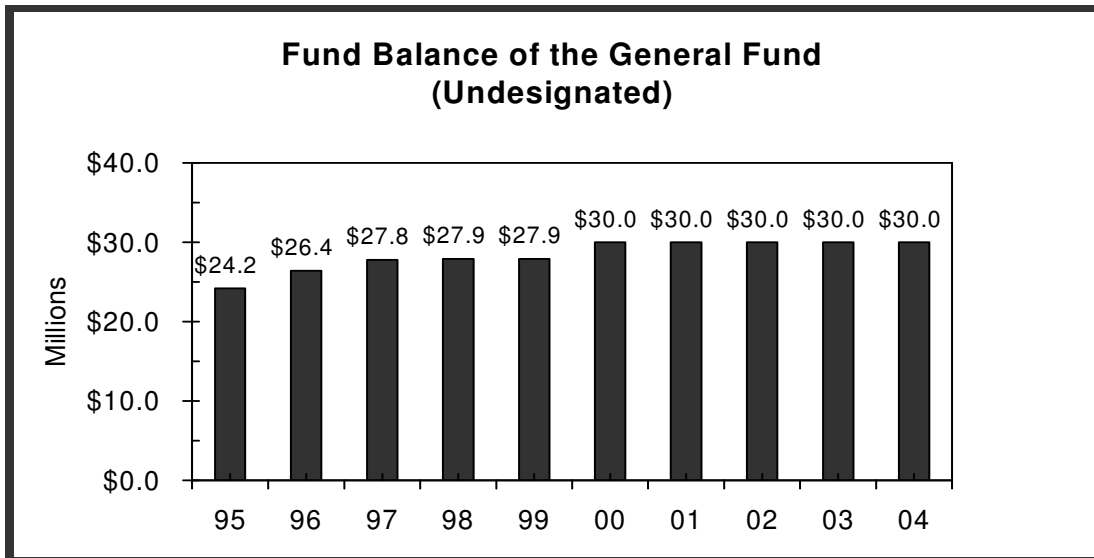
Additional information and analysis on the City's fiscal activity can be found in the Management's Discussion and Analysis section of this report.

**Financial Position** – The City maintained positive financial performance with net debt per capita at \$2,408, a ratio of 5.4% net debt to estimated full valuation (EFV), and a 7.7% ratio of debt service payments to expenditures. Net debt to EFV (5.4%) is above the median benchmark of 3.5% used by credit rating agencies, and is well below the 8% high benchmark. Although debt service payments are increasing, the City's ability to provide services to citizens is not being eroded as indicated by the low ratio of debt service payments to expenditures (7.7%). The City's debt burden is moderate and bond payout is above average at 67% over the next 10 years.

**Fund Balance of General Fund** – The General Fund fund balance is an important element in the financial position of the City. The fund balance is divided into reserved and unreserved portions, and the unreserved fund balance is subdivided into designated and undesignated portions. Reserved fund balance is used to reserve assets that are not available for current spending, and designated fund balance represents planned uses of current resources. Fund balance is a positive factor when the rating agencies consider bond ratings for the City. At the end of the year, \$50,282,177 has been set aside in various reserves and other designations.

The undesignated General Fund fund balance, which represents available current financial resources, totaled \$30,000,000 at June 30, 2004. Uses of the undesignated fund balance are carefully evaluated to ensure that the balance will be sufficient for future needs. A healthy undesignated fund balance allows the City to provide adequate services for the citizens, plan for future projects, and retain its sound financial position. City council

established a goal of maintaining an undesignated fund balance not less than 5% of actual general fund revenues for the year. The goal was reached in FY92, and with the undesignated General Fund fund balance at \$30.0 million, the City enjoys a comfortable fund balance position.



**Debt Administration** – On June 30, 2004, the City’s total authorized indebtedness, subject to limitation, was approximately \$412.1 million. The limit of indebtedness is established by the City Charter at 10% of the total assessed value of real estate, or approximately \$851 million. An additional \$10 million in water bonds, authorized by voter referendum, can be issued. The margin for additional borrowing was approximately \$443 million at June 30, 2004.

The City has a self-imposed policy to limit annual debt service cost to 9.5% of annual revenues, less Public Utilities. The current actual percentage is 7%. The City’s credit ratings for general obligation bond issues have remained very good: Aa2 by Moody’s and Aa by Standard and Poor’s rating services.

The City continues to guarantee the payment of principal and interest for the Peninsula Airport Commission Airport bonds, Series 2001, whose outstanding balance totaled \$6.2 million at June 30, 2004. Additional information regarding the City’s debt outstanding and debt administration is provided in the notes to the financial statements and the statistical section contained in this report.

**Cash Management** – The City Treasurer, an elected constitutional officer, is the custodian of all City cash, and is responsible for investment of idle cash. During the year, unused bond funds were invested in two investment pools known as Local Government Investment Pool (LGIP) and State Non-Arbitrage Program (SNAP). Both pools are operated for local governments by the Commonwealth of Virginia. Any remaining cash was invested in certificates of deposit, money market accounts, repurchase agreements or checking accounts. Interest rate yields ranged from 0.24 to 1.3%. The City’s primary government earned revenues of \$4,513,534 on investments for the year ended June 30, 2004. The breakdown of the interest earnings is as follows:

**Interest Earned by the Primary Government**

<b>Fund Type</b>	<b>Interest Earned</b>
General Fund	\$ 3,926,705
Special Revenue Fund	192,766
Capital Projects Fund	86,929
Enterprise Funds	301,763
Internal Service Fund	5,371
	\$ 4,513,534

The pension trust fund investments include common stocks, bonds, cash equivalents and real estate. The City employs 18 professional fund managers to invest the funds. The Board of Trustees approves the allocation of funds among the different types of investments and the fund managers. The performance of the fund managers is subject to additional oversight by an independent investment consultant employed by the Board of Trustees and an investment committee with citizen members. Pension fund investments gained 16.9% during the year.

**Pension Trust Fund Operations** – The employees’ retirement fund’s operating gains for the year were \$109.0 million, including investment gains and expenses (interest, dividends and losses) of \$94.6 million, net of investment expenses, and employer contributions of \$14.4 million. Operating expenses of \$35.2 million reflected an increased number of retirees. Net increase was \$73.8 million. The fund remains sound with a net asset value of \$655.9 million.

**Self-Insurance** – The City self insures for the first \$1 million of any incident that would be covered by automobile, school bus or general liability insurance policies. The City then purchases an excess liability insurance policy that would cover catastrophic events of that nature. Claims are paid from the general fund or the schools operating fund. A premium is charged to each department and agency to obtain resources for the payment of claims and the purchase of the excess liability insurance policy. Insurance coverage is also acquired for machinery, artifacts, public buildings and their contents, and special events sponsored by City departments. Public officials surety and fidelity bonds are in place where required. The administrator of the Self-Insurance programs utilizes numerous accident and loss prevention programs to help control claim costs.

The City and the School Board self insures for workers’ compensation through the general fund and school board operating fund. The City’s claim administration services for workers’ compensation are provided by a third party. Claims administration services for schools are performed in-house. For workers’ compensation the self insured retention for City and the School Board is \$750,000 and 350,000 respectively.

Additional information on the City’s and School Board’s self-insurance can be found in Note 9 of the financial statements.

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### **Other Information**

**Independent and Internal Audit** – The audit as of and for the year ended June 30, 2004 was performed by Cherry Bekaert & Holland (CB&H), independent certified public accountants, appointed by the City Council. Their opinion on the financial statements is presented in the financial section of this report. In addition, the audit was designed to meet the requirements of the Single Audit Act of 1996, as amended, and related OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The auditors' reports on internal controls and compliance can be found in the compliance section of the report. No instances of material weaknesses were identified by the independent auditors. The City's Internal Audit Department performs periodic financial audits of City programs and provides assistance to the independent auditors.

### **Acknowledgments**

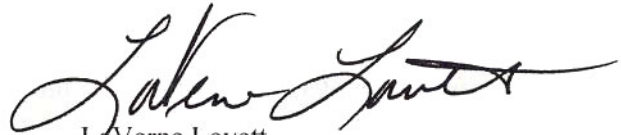
The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Department of Finance. We would like to express our appreciation to all members of this Department, and to the many other City departments and agencies which have contributed to the completion of this report.

We also acknowledge the members of City Council for their leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Sincerely,



Edgar E. Maroney  
City Manager



LaVerne Lovett  
Director of Finance

**CITY OF NEWPORT NEWS, VIRGINIA**

City Government Officials

**Year Ended June 30, 2004**

**City Council**

Joe Frank ..... Mayor  
Charles C. Allen ..... Vice Mayor  
Herbert H. Bateman, Jr. .... Member  
William F. Haskins, Jr. .... Member  
A. Madeline McMillan ..... Member  
Sharon P. Scott ..... Member  
Joseph C. Whitaker ..... Member

**Office of the City Manager**

Edgar E. Maroney ..... City Manager  
Randy W. Hildebrandt ..... Assistant City Manager  
William P. Mitchell, Jr. .... Assistant City Manager  
Neil A. Morgan ..... Assistant City Manager

**Department of Finance**

LaVerne Lovett ..... Director of Finance

**Other Officials**

Marty Eubank ..... City Treasurer  
Charles D. Crowson, Jr. .... Commissioner of the Revenue  
Joseph C. Street ..... Real Estate Assessor  
John Hartman ..... Director of Budget and Evaluation  
Cathy S. Matthews ..... Director of Internal Audit