

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

October 26, 2010

TO: The Honorable City Council
FROM: City Manager
SUBJECT: City Manager Recommended Capital Improvements Plan

I am pleased to submit for City Council consideration, my City Manager Recommended Capital Improvements Plan (CIP) for FY 2012 - FY 2016. City Code requires that the CIP be updated on an annual basis and that a revised, multi-year City Manager Recommended CIP be delivered to City Council prior to each November 1.

The CIP is the City's five-year plan that establishes both a schedule and funding strategy for high-priority capital projects and equipment purchases. Once the CIP is adopted by City Council, it becomes a schedule of capital spending commitments for the initial year (FY 2012) and a plan for capital investments for the subsequent four years (FY 2013 - FY2016). The annual review and update of the CIP allows for adjustments to previously approved projects based on new information regarding timing, funding requirements and changing priorities, and enables City Council to undertake a comprehensive review of the City's capital spending needs on a regular basis. Furthermore, preparation of the CIP:

- allows for the systematic preservation, rehabilitation and improvement of capital assets
- relates public facilities and investment with private development and redevelopment efforts
- fosters the cooperation and coordination of the interrelated capital improvement activities of City departments
- provides a necessary connection between the capital spending plan and the operating budget
- informs the public of future needs and projects, and
- enhances our ability to maintain or improve the City's creditworthiness.

CIP Development

As in recent years, I assembled a CIP Committee in late summer to assist with the evaluation of capital requests submitted for CIP consideration. The committee was comprised of staff from my office, as well as the Directors of the Departments of Budget and Evaluation, Development, Engineering, Parks, Recreation and Tourism, Planning, and Public Works. The committee worked to evaluate and prioritize each request and met with representatives from Police, Fire, Information Technology, Library and Information Services and the Schools Division to discuss their projects in greater depth. The Committee used several criteria to guide the evaluation of requests, including: (1) legal requirement; (2) prior and/or ongoing commitment; (3) criticality to City operations; (4) necessity due to health or safety concerns; (5) impact on citizens; (6) positive return on investment; (7) fiscal impact; and (8) consistency with strategic initiatives.

The product of the Committee's effort was a committee-recommended plan that served as the basis for my City Manager Recommended CIP. Each respective plan included capital requests deemed most critical, while also adhering to the City's Capital Financing and Debt Management Policies. In an effort to recommend a plan that most closely reflects what I believe are City Council's priorities, revisions were made during the preparation of the Recommended Plan to fund additional public safety requests (Police garage for specialized and tactical response vehicles, construction of Fire Station 11a, and additional funds for the replacement of fire apparatus and vehicles), an earlier start to sidewalk improvement work along Campbell Road, and additional funds for streetscape and redevelopment efforts in the Upper Warwick/Denbigh area.

Financial Impact

The Recommended CIP has been developed in accordance with our Capital Financing and Debt Management Policies adopted in January 2007. With regard to the capital spending plan, these policies are designed to achieve three specific objectives. The first objective is to reduce the City's debt burden ratio (outstanding debt to total assessed valuation) to 3% by FY 2012. The second objective is to fund an increased portion of the CIP with cash and, more specifically, to use cash capital to finance a minimum of 20% of annual CIP expenditures (cash capital and general obligation bond funded) by FY 2012. The third objective is to

ensure that new bond issues and refundings are structured in a manner that 30% of outstanding debt is repaid within five years and 60% within ten years. The Recommended Plan submitted for your review satisfies each of these objectives. In fact, due to our efforts over the past two fiscal years to hold the line on capital spending and delay the issuance of general obligation bonds, the debt burden (first objective) and debt repayment (third objective) were satisfied prior to beginning work on the FY 2012 CIP. The level of cash capital detailed in the Recommended Plan, which includes the addition of funding from the Special Projects Reserve Fund (which is treated as an additional form of cash capital), satisfies the 20% cash capital minimum in each year of the Plan, and averages 21.6% cash capital for the entire five-year period.

Prior to the establishment of the policies in 2007, the City had in place a requirement that debt service in any one year not exceed 9.5% of combined General Fund and School Fund Revenues. Based on projected borrowing needs for this proposed CIP, debt service obligations will remain well below this threshold.

Within the parameters established by these policies, I have attempted to present a CIP that is consistent with City Council's previous capital project priorities. The following is a summary of my submitted CIP.

General Fund Supported Projects

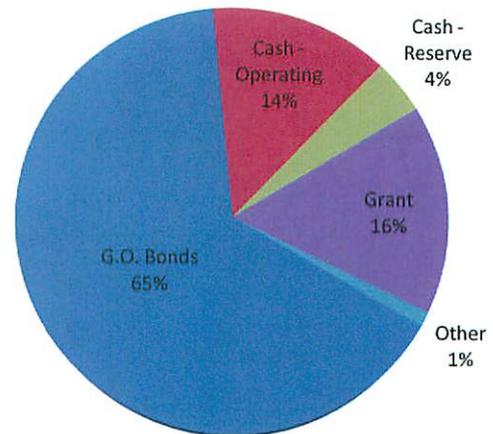
Funding

The Recommended General Fund Supported CIP for FY 2012 through FY 2016 totals \$230,240,000 from all sources of funds (operating budget cash capital, special project reserve cash capital, general obligation bonds, grants and other funds). Of this total, 65% is financed through the issuance of general obligation bonds; 18% is financed with cash capital (including funds from the Special Projects Reserve Fund); 16% is financed with grant funds; and 1% is from other sources (e.g. developer contributions).

It is important to note that this Recommended Plan includes a five-year total of \$150 million of general fund supported debt for capital projects, which is \$7.4 million, or 4.7%, less than the amount of general fund supported debt in the approved FY 2011 CIP.

Recommended General Fund Supported CIP (5-Year Totals)
 Breakdown by Funding Source

| GF CIP by Funding Source | |
|--------------------------|----------------------|
| General Obligation Bonds | \$150,080,000 |
| Cash Capital – Operating | 31,665,000 |
| Cash Capital – Reserve | 9,625,000 |
| Grant | 36,220,000 |
| Other | 2,650,000 |
| Total | \$230,240,000 |

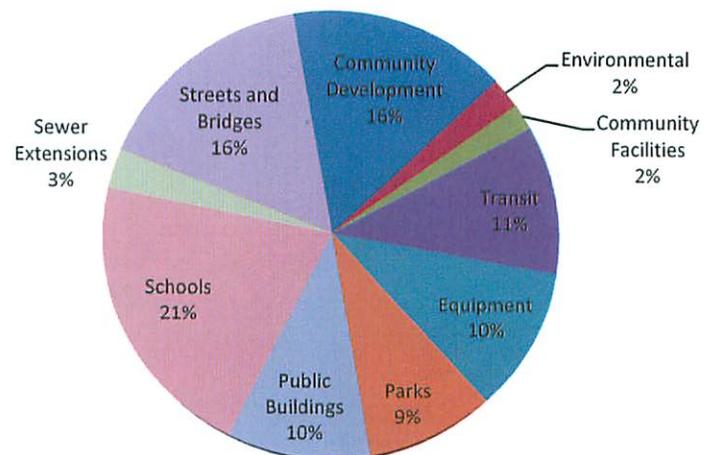


Category Spending

Ninety-three percent (93%) of the \$230 million general fund supported recommended plan is related to seven categories of projects: Schools - 21%; Community Development - 16%; Streets and Bridges - 16%; Transit 11%; Equipment - 10%; Public Buildings - 10%; and Parks and Recreation - 9%.

Recommended General Fund Supported CIP (5-Year Totals)
 Breakdown by CIP Category

| GF by CIP Category | |
|-----------------------|---------------------|
| School Division | \$48,300,000 |
| Community Development | 36,375,000 |
| Environmental | 5,100,000 |
| Community Facilities | 4,400,000 |
| Transit | 24,650,000 |
| Equipment | 24,410,000 |
| Parks and Recreation | 20,475,000 |
| Public Buildings | 22,830,000 |
| Sewer Extensions | 6,550,000 |
| Streets and Bridges | 37,150,000 |
| Total | \$230,240,00 |



Category Highlights

School Division

A total of \$48,300,000 is allocated over the five years for continued facility maintenance and repairs, Todd Stadium renovations, major renovations at Magruder Primary and Huntington Middle Schools, and for replacement of buses. While the Recommended Plan does not fully fund the total CIP request submitted by the School Division, it does provide an amount that I believe will be sufficient to address the most urgent projects in the Schools capital plan. Consistent with the approved FY 2011 CIP, I am recommending that the purchase of school buses be financed with cash capital.

Community Development

A total of \$36,375,000 is recommended over the five-year period of the plan, with primary focus on development and redevelopment efforts in the Southeast Community and the Upper Warwick Boulevard/Denbigh area. Anticipated activities include the acquisition of strategically located properties, burial of existing utilities, and streetscape and landscape enhancements to improve the visual aesthetic along major corridors in each area. Funds in this category are also identified for future economic development opportunities associated with projects including, but not limited to, downtown redevelopment including the Downtown Shipyard Apprentice School and a downtown hotel, relocation of the AMTRAK station, Jefferson Center for Research and Technology, and the expansion of Oyster Point. Allocating capital resources in this manner sends a clear signal that the City remains committed to its strong economic development efforts to spur continued growth.

Transit

The Recommended Plan identifies a total of \$24,650,000 for the Transit category. The majority of funds is expected from State and Federal grants for the Citywide Bus Shelter Program and the Multimodal Station and Peninsula Rapid Transit projects. Cash Capital funds have been recommended for continued improvement to the Riverside Bus Transfer Center and surrounding area.

Equipment

A total of \$24,410,000 is committed to replace our public safety and public service radio system, purchase equipment and software for the establishment of a 311 system, and to continue our fire vehicle and apparatus replacement program.

Consistent with the approach for funding school bus replacement, I am committed to replacing fire equipment in the future through cash capital financing rather than by borrowing.

Parks and Recreation

A total of \$20,475,000 is provided over five years. Funds are identified for the continued maintenance and renovation of recreational and park facilities, to provide a multi-year approach to the renovation of the Deer Run Golf Course, to replace the Huntington Park Tennis Center Building, to replace the Newport News Campsite Office, to design the second phase of the Stoney Run Recreation Center, to provide matching funds for various Historic Preservation grants that become available, and for improvements to Stoney Run Park and the Stoney Run Greenway.

Public Buildings

A total of \$22,830,000 is committed over the five-year period, with major projects including the aforementioned Police Garage and Fire Station 11a projects, upgrade of Grissom Library, efficiency-related renovation work to the Peninsula Health District Building and facility improvements for our Public Works and Vehicle Services operations. Funds have been provided for the continued renovation and repair (e.g. HVAC, roof replacement) of City buildings and a new item has been established for the expansion and renovation of our library system.

Streets and Bridges

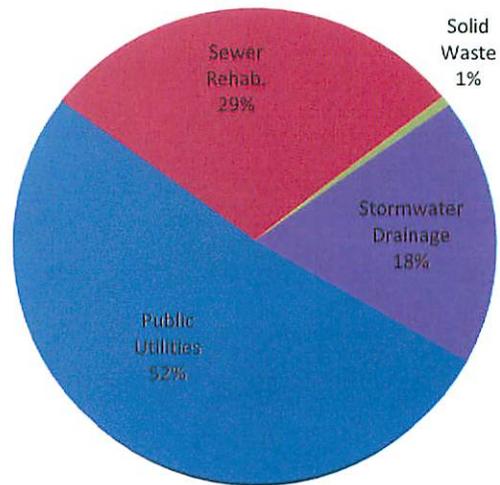
A total of \$37,150,000 is allocated over the five years to fund arterial street reconstruction and resurfacing, bridge replacements, and pedestrian, road safety, streetlight, traffic and intersection improvements. Specifically identified projects include improvements to both Campbell Road and Canon Boulevard, and the Chesapeake Avenue multi-purpose trail.

Self-Supporting Funds

The recommended CIP includes \$126.9 million in capital spending from our various Self-Supporting Funds. Of this amount, 52% is for Public Utilities, 29% for Sewer Rehabilitations, 18% for Stormwater Drainage, and 1% for Solid Waste. During the development of the FY 2012 Recommended Plan, Public Utilities made aggressive reductions to its five-year capital plan to reduce debt service and cash capital-related stress on its operating budget. In total, Public Utilities cut its five-year capital spending plan by nearly \$16 million from the amount approved in the FY 2011 CIP.

Recommended Self-Supporting Funds CIP (5-Year Totals)
 Breakdown by CIP Category/Fund

| Self-Supporting Funds | |
|-----------------------|----------------------|
| Public Utilities | \$65,772,000 |
| Sewer Rehabilitations | 37,300,000 |
| Solid Waste | 875,000 |
| Stormwater Drainage | 23,000,000 |
| Total | \$126,947,000 |



Impact on User Fees

I am recommending that \$37 million be invested over the five years of the plan to continue funding for sewer system rehabilitations and repairs. Effective in FY 2009, the Sewer User Charge was raised ten cents (\$0.10) to cover projected debt service. An initial surcharge of forty-five cents (\$0.45) was imposed in FY 2009, with an additional surcharge of forty-five cents (\$0.45) imposed in FY 2010 to pay for costs associated with the Regional Consent Order. At this time, I am not submitting any change to the Sewer User Charge.

The Recommended Plan includes \$23 million over the next five years for Stormwater Drainage projects. The Stormwater Management Fee was last increased in FY 2010 from \$5.10/ERU to \$5.45/ERU to support ongoing and anticipated projects. No adjustment to the rate is submitted at this time.

Finally, I am recommending \$875,000 be spent over the next five years to meet Department of Environmental Quality requirements for maintaining the structural integrity of the Denbigh and Menchville Landfills. The Denbigh Landfill Gas Project is intended to allow for the recovery of methane gas that can be used to heat other City facilities. The Solid Waste User Fee last was increased in FY 2010 from \$5.03 to \$5.38 per week for a standard size container. No adjustments to the rate are submitted at this time.

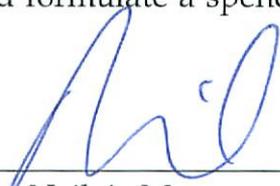
Conclusion

I believe this Recommended CIP achieves a responsible balance between our commitment to limit City borrowing and the need to advance critical capital projects and purchases. It reflects City-wide priorities, with many of the projects that comprise the plan aligning with our eight strategic initiatives.

As with any budget process, there are difficult choices to be made. In the development of the Recommended CIP, some desirable projects had to be eliminated or delayed beyond this CIP's timeframe. Among the more significant projects not included in the Recommended Plan are a new Police Dispatch Center to be constructed at the Police Headquarters site and replacement of the Grissom Library. With regard to the Dispatch Center project, City Council should be advised that funds were approved in the FY 2009 CIP and are included as part of the FY 2011 Bond Authorization to modernize the current E-911 center located in the basement of City Hall. With all required design work now complete, this project is ready to move forward. While the Grissom replacement did not make the recommended list, substantial funds have been included in the plan for major renovation work.

The Honorable City Council
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City Manager Recommended CIP
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My plan is to brief City Council at the October 26 work session on the Recommended CIP and its relationship to our Capital Financing and Debt Management Policies. Time will be scheduled at work sessions in November and December to solicit your input on projects and address any issues or concerns that may arise during your review of the document. I look forward to working with you over the next several weeks to review our capital needs through FY 2016 and formulate a spending plan that is fiscally sound.



Neil A. Morgan

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