

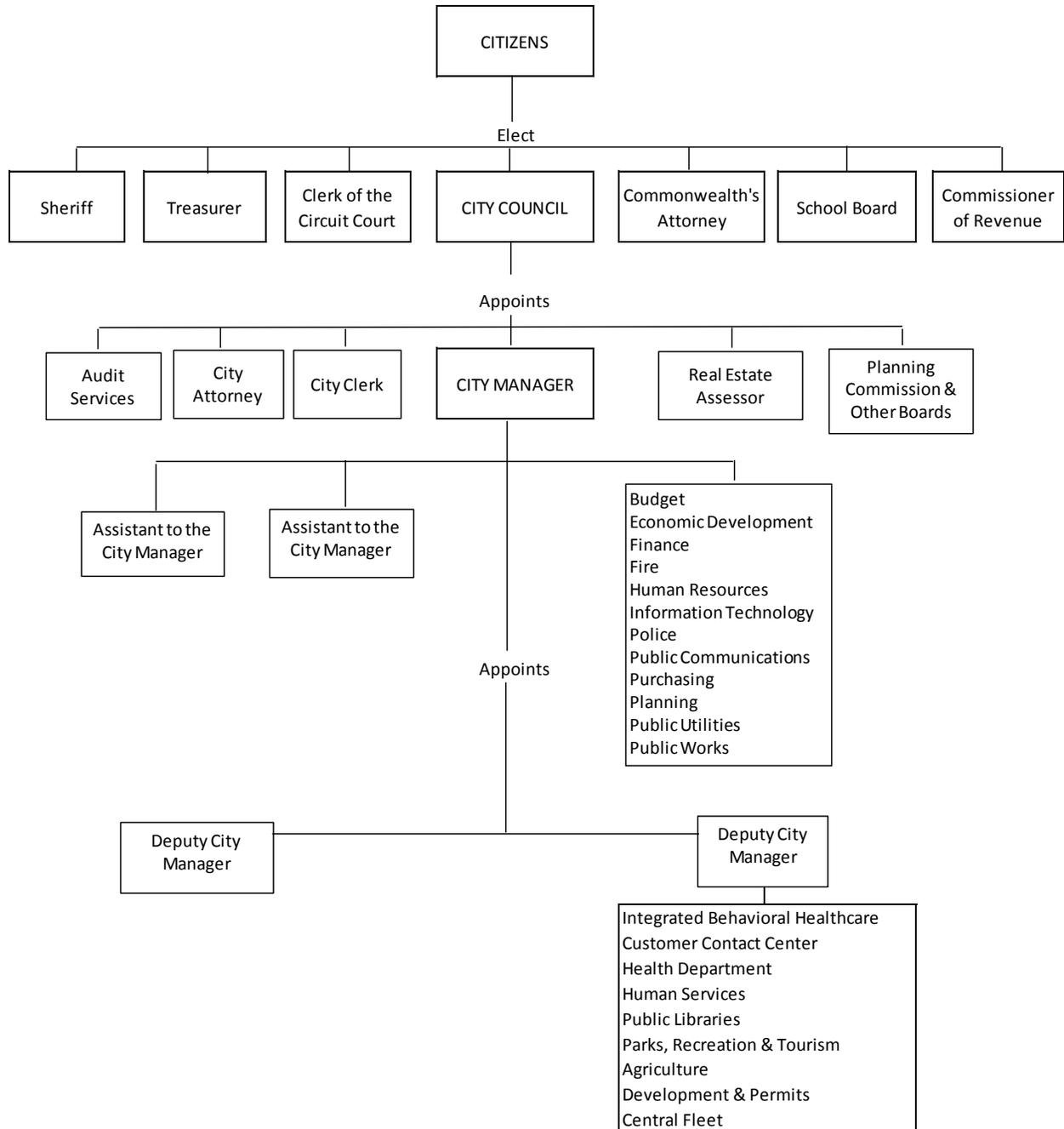
CITY OF CHESAPEAKE ORGANIZATION

The City of Chesapeake derives its governing authority from a Charter granted by the General Assembly of the Commonwealth of Virginia. The City is organized under a Council-Manager form of government in which the citizens elect the Council and the Council appoints the City Manager. Council also appoints the City Attorney, City Clerk, Real Estate Assessor, Planning Commission Members, Internal Auditor, and members of other boards and commissions. The Sheriff, Treasurer, Clerk of the Circuit Court, Commonwealth's Attorney, School Board, and Commissioner of Revenue, are elected by the citizens. The City department heads are appointed by the City Manager.

Cities in Virginia are unique from those in most of the rest of the country. In Virginia, cities are independent from counties; therefore, they usually provide all local governmental services, including those typically provided by counties. As an independent city, Chesapeake is not located in a county. The City provides a full range of general governmental services for its citizens, including, police and fire protection, collection and disposal of refuse, water and sewer services, parks and recreation, libraries, and construction and maintenance of highways, streets, and infrastructure. Other services provided include social services, planning and zoning, mental health assistance, and general administrative services. Public education for students in grades kindergarten through twelve is provided by the separately-elected Chesapeake School Board. Since the School Board is fiscally dependent upon the City and the City Council must appropriate all school funds, the school operating budget is included here. Finally, certain services, including public health, agricultural services, and judicial services are shared with the Commonwealth of Virginia; only the City's portion of those agencies are included in the operating budget.

The City wide organizational chart on the following page lists each City department or agency and its relationship to the City Council, City Manager, and the Citizens.

CITY WIDE ORGANIZATIONAL CHART



HOW TO READ THE OPERATING BUDGET DOCUMENT

The Operating Budget Document is comprised of twelve sections. The first section is the **Manager’s Message**. It highlights the significant changes from the current year, the City’s priorities and issues for funding in the upcoming fiscal year, the short-term financial goals and operational policies guiding the development of the budget, and the assumptions used in developing revenue estimates for the upcoming year.

The second section, the **Overview**, describes the City’s organization, the Operating Budget document, and the process for developing the Operating and Capital budgets. It also documents the City’s short and long term financial and budget policies, summarizes the City’s debt management policies, highlights the City’s strategic goals and objectives, and explains the City’s financial structure.

The third section, the **Summaries**, includes charts and tables, which provide an overview of all of the revenues and appropriations included in the Operating Budget. The fourth section, **Revenue**, describes each fund’s revenue resources, and provides detailed information on the revenue estimates included in the Operating Budget, and provides a summary of the City’s economic outlook which guides the development of revenue estimates.

Specific information about each department is included in the next six sections:

Governance and Management	City Council and Office of the Mayor, City Manager, City Attorney, City Auditor, City Clerk, City Treasurer, Board of Elections/Registrar, Commissioner of Revenue, Real Estate Assessor, Budget, Customer Contact Center, Finance, Human Resources, Public Communications, Purchasing Department
Quality Community of Life	Integrated Behavioral Health (Community Services Board), Health, Community Programs, Interagency Consortium, Juvenile Services, Social Services, Public Libraries, Mosquito Control Commission, Parks, Recreation and Tourism
Economic and Environmental Vitality	Agriculture, Conference Center & Tourism, Development and Permits, Economic Development, Planning and Planning Commission, Public Utilities, Public Works
Education	Chesapeake School Board
Public Safety and Justice	Fire, Police, Sheriff, Courts, Circuit Court Clerk, Commonwealth’s Attorney
Non-Departmental	Debt Services, Central Fleet/City Garage, Information Technology, Risk Management, Health Insurance Fund, and Other Non-Departmental Items

The **Capital Budget Summary** provides an overview of the City’s Capital Improvement Plan (CIP). A list of the CIP projects scheduled for the upcoming fiscal year, and an estimate of the Operating Budget impact of the projects upon completion. However, the CIP is a separate document. Greater detail about the CIP and specific projects is included in a separate capital budget document.

The final section is the **Appendix**. It includes the City Charter, a chart of accounts, revenue budget details, and a glossary.

OPERATING BUDGET PROCESS

Operating Budget Development:

The City Charter requires the City Manager to submit a balanced operating budget to City Council by April 1st for the ensuing fiscal year. The fiscal year begins on July 1st and ends June 30th of the following year. The proposed budget, which may be modified by the City Council, is required to be adopted by a majority vote of the City Council 47 days prior to the end of the current fiscal year. Otherwise, the budget as submitted by the City Manager becomes the budget for the ensuing fiscal year.

Operating Budget Development Process:

- **Multi-Year Forecast** - In the fall of each year, the Budget Office prepares a three-to-five year forecast of revenues and identifies factors that will impact spending over the next several years. These include upcoming debt service payments and the operating cost of capital projects that are scheduled for completion. The multi-year forecast identifies factors that impact government spending, including, fuel costs and the costs for employee compensation and benefits. The first year of the forecast is used in creating framework and target funding levels for departments in preparing the Operating Budget.
- **Department Operating Budget Submissions** - Each department or agency head submits an Operating Budget request identifying their resource requirements for the next three years. During the recent recession, departments were asked to submit a base level of funding at a targeted dollar amount. In order to better gauge resource requirements, this year department leaders were asked to identify all resource gaps within their department without restriction or targets. They were also required to plan their requirements over the next three years in order to ensure the sustainability of any new programs or initiatives. Budget requests are sent to the Budget Office for analysis and recommendations in early October.
- **Budget Review Committee** – The BRC includes the City Manager, the Deputy City Managers, the City Attorney, and several administrative officers who provide services to departments citywide. The BRC meets with each department head to review their operational requirements for the next three years. The committee reviews each proposal and recommends funding based on Council priorities, the affordability of the proposal, its sustainability, and its ability to successfully address citizen demands.
- **School Board** – The proposed budget of the School Board is submitted to the City Manager for distribution to the City Council. The City Manager makes recommendations in his proposed budget regarding the total appropriation for the School System. City Council makes an annual lump sum appropriation to the School Board for its operating expenses.
- **Proposed Budget Presented to Council** – The City Manager proposes an Operating Budget to the City Council. The proposed Operating Budget includes tax rates sufficient to produce revenues needed to meet City and School expenditures contemplated in the combined initial budget. After City Council work sessions and public hearings, the proposed budget may be revised by Council and an appropriations ordinance is adopted. Tax rates are established prior to the beginning of the fiscal year for which the budget is prepared.

OPERATING BUDGET PROCESS (cont.)

Operating and Capital Budget Calendar:

<u>Date</u>	<u>Activity</u>	<u>Responsible Party</u>
07/01/2015	Review upcoming planning with department heads (Management Meeting)	Budget Director, City Manager
08/01/15	Position changes and additions for FY 2017 due to Human Resources	All Departments
08/04/15 to 08/12/15	Initial budget targets and instructions distributed to departments	City Manager, Departments and Budget Office
10/01/15	Five Year Projections complete	Budget Office
10/01/15	Operating budget proposals due to Budget Office	All Departments
10/13/15	Council Budget Update: revenue, operating impacts of capital projects, and related topics	City Council, City Manager and Budget Office
10/01/15 to 01/12/16	Analysis of budget requests and reporting to Budget Review Committee	Budget Office
12/10/15	Review of five-year forecast and projections	
12/14/15 to 01/29/16	Review of department operational plans and funding requirements	Budget Review Committee and Budget Office
01/15/16	Final real estate assessments for July 2016	Real Estate Assessor
01/19/16	Revenue and spending summaries to City Manager	Budget Office
02/19/16	Final date for revisions to Manager's proposed budget	Budget Office
03/10/16	Manager's budget message to Budget Office	City Manager
03/14/16 to 03/18/16	Print Proposed Operating Budget	Budget Office
03/22/16	Operating Budget presented to Council (deadline April 1 st)	City Manager and Budget Director
03/25-16	Advertise Operating Budget	City Clerk and City Attorney
04/12/16 to 05/10/16	Council work sessions	City Manager and City Council
04/26/16 05/10/16	Public Hearings on Operating Budget and Appropriations	City Clerk and City Council
05/10/16	City Council establishes tax rates and appropriations for Operating and Capital Improvement Budgets	City Council
06/14/16	Technical corrections and amendments presented to City Council for action prior to July 1 implementation	City Manager and City Council

OPERATING BUDGET PROCESS (cont.)

Operating Budget Execution:

On July 1 of each year, the adopted budget is implemented. As the City's finance staff complete the annual fiscal year closing (early August), the Budget Office reviews the amount of revenues collected in the fiscal year ending in June. The actual level of revenues realized are compared to the projections and assumptions used in preparing the Operating Budget for the budget year beginning in July. The Budget Office works with the City Manager to identify potential concerns and, if appropriate, advise Council of changes in revenue or spending projections. If necessary, the City Manager will recommend adjustments to the Operating and Capital Budgets to address problems that are identified. The Budget Office conducts a quarterly revenue analysis to determine whether collections are consistent with the Operating and Capital Budgets.

Operating Budget Amendments:

After Council adopts the original appropriation ordinance, the Operating Budget may be amended in two ways. First, Council may adopt an ordinance to increase or decrease the total level of estimated revenue and appropriations. As stated in the City Charter, if during the year the manager certifies that there are funds available in excess of those estimated in the budget, the Council, by ordinance may make supplemental appropriations for the year up to the amount of such excess. Conversely, should revenues not be sufficient, the Council, by ordinance may de-appropriate funds to ensure the budget remains balanced. Second, the City Manager may transfer appropriations between departments (functions) and funds throughout the year upon approval of City Council.

Operating Budget Controls:

The Operating Budget Ordinance sets the legal level of appropriation controls at the fund level. The City Manager implements the following additional budgetary controls to ensure that expenditures are within appropriation approved by Council and the level of realized revenues.

- The City Manager requires that each department's expenditure remain within the appropriations for that department by fund unless another specific level of control has been specified for a department.
- Budget transfers between funds, departments, or expense types require a recommendation of the City Manager and approval by the City Council.
- The City maintains an encumbrance accounting system. The estimated purchase order amount is encumbered prior to the release of purchase orders to vendors. Purchase orders that would result in an overrun of available funds, are not released until additional appropriations are made available. Outstanding encumbrances are disclosed in the Notes to the City's Financial Statements for each year end.

CAPITAL BUDGET PROCESS

Capital Budget Process:

- **Capital Improvement Budget** - The Capital Improvement Budget (CIB) is prepared before the Operating Budget but spans the same fiscal cycle - July 1st through June 30th. As with the Operating Budget, the process for the CIB preparation begins with the City's multi-year forecast in the fall of each year. Through the forecast, the City estimates the resources available and the anticipated expenditures for the Operating Budget and the funding available for additional debt service to support new Capital Improvement Budget requirements. The Operating Budget document includes a Capital Budget Summary, which highlights specific debt management policies, the level of debt service, and the specific capital projects. However, the Capital Improvement Budget is prepared as a separate budget document, which provides greater detail on the CIB development and process.
- **Relationship to the Operating Budget** - Developing and adopting the Operating and CIB during the same general time frame, promotes sound fiscal policy and cohesiveness by allowing Council and management to review both requests simultaneously. Further, the Operating and the Capital Improvement Budget development are specifically integrated by:
 - Incorporating projected operating costs for each capital project in the City's multi-year forecast.
 - Incorporating the anticipated level of debt service in the City's multi-year forecast.
 - Appropriating the required level of debt service as part of the Operating Budget.
 - Appropriating the required operating costs associated with completed capital projects in the Operating Budget

LONG RANGE PLANNING AND THE OPERATING BUDGET

The following is a brief description of planning processes within the City and the impact on the Operating Budget development process.

- Council Strategic Planning Meetings are held throughout the year to focus on the City's goals, vision, and land use issues. Council develops its vision and its list of priorities for the next three to five years. In addition, staff provides Council with a fiscal update, trends and issues in various departments including Economic Development, Planning, Real Estate Assessor and Public Schools.
- The Commonwealth of Virginia requires the City to adopt a Comprehensive Plan for the physical development of territory within its jurisdiction. The Capital Improvement Plan (CIP) is a major tool for implementing the Comprehensive Plan. Projects included in the CIP shall be consistent with the City Comprehensive Plan. A second major tool for implementing the Comprehensive Plan is the Zoning Ordinance and its enforcement by the Department of Development and Permits.
- A five-year Capital Improvement Plan (CIP) is developed during the same time as the Operating Budget. The development of the CIP and Operating Budget are coordinated by identifying projections for both in the multi-year forecast, by identifying the level of Operating Budget support required to finance the CIP, and by identifying the Operating Budget impact of completed CIP projects. The process and policies for the development of the CIP and detailed information about specific projects are included in a separate CIB document. A **Capital Budget Summary** is included in the Operating Budget.
- The Budget Office develops a multi-year forecast each year. The multi-year forecast evaluates the available resources and anticipated costs over a long range time period. It incorporates levels of anticipated revenues over the next several years, the projected levels of operating costs, the anticipated levels of debt service for the CIP, the anticipated impact of the Operating Budget for such increases in operating costs as new capital projects, budget drivers such as increased fuel costs, and increased employee compensation and benefit costs. In turn, the first year of the multi-year forecast is used as framework from which to develop the guidelines and targets for the Operating Budget. This forecast is also used to determine the level of funding the City will have to support Capital Improvement projects.

CITY POLICIES GUIDING THE DEVELOPMENT OF THE OPERATING BUDGET

The following is a list of short term Operating Budget and financial policies used in developing and allocating funding in the Operating Budget. The list is evaluated each year.

Operating Budget Policies:

- Adhere to the City's *Charter* for preparing, presenting, and deciding on budgets.
- Adhere to the State Code requirement (§22.1-93) that the governing body of a municipality shall approve an annual budget for educational purposes by May fifteenth or within thirty days of the receipt by the municipality of the estimates of state funds.
- Develop the Operating and Capital Improvement Budgets under the supervision of the City Manager.
- Coordinate the development of the Operating and Capital Budgets in order to link the two together before making decisions on either.
- Implement approved/amended budgets and policy direction by Council under the supervision of the City Manager with input from the departments.
- Reevaluate "Base Budget" to ensure removal or reduction of any nonrecurring requirement or service in the latest Approved Operating Budget.
- Assure quality of programs in preference to poor or marginal quality programs even if it is necessary to eliminate services to balance the budget.
- Assure "Excellence in Stewardship" with a balance between resources allocated to good management and legal compliance versus resources allocated to service for our citizens.
- Ensure that the personnel complement in the Operating Budget accurately reflects the City's latest *Human Resources Management System and Compensation Plan*.
- Evaluate the benefits of computers, special equipment, vehicles, and other required equipment before purchase and/or replacement according to useful life criteria when not determined "economically non-repairable."
- Recover full costs of common services provided by Central Fleet (Garage), Department of Information Technology, and Self-Insurance by charging the using departments and reimbursing for the services through Internal Service Funds.
- Evaluate the City's allocation of resources to civic and external organization on the basis of need and relative benefits to its citizens and/or humanity. Require contracts and periodic reports of actual citizens and persons served.

CITY POLICIES GUIDING THE DEVELOPMENT OF THE OPERATING BUDGET (cont.)

- Provide for increased operating costs in the Operating Budget of newly completed or acquired facilities that were initially funded through the Approved Capital Budget.
- Adhere to the City's Charter for Public Hearing before approving/amending budget and/or appropriating funds.
- Require prior approval of all affected departments before transfer of charges between departments.
- Execute budget(s) as approved and manage to the extent required to assure compliance with the intent of Council, and advise and seek corrective consent when latest Council intent is not being met.
- Fund, to the extent possible, the capital costs for technology which will improve the City's efficiency and effectiveness.
- Evaluate new technology spending for future cost savings and adjust appropriations accordingly.
- Support economic development programs which will add to the City's tax base.
- Support public safety programs which will have a direct impact on the safety and wellbeing of citizens.
- Support programs and services for education, recreation, development of youth, and senior citizens.
- Look for alternative sources for providing services and programs within the community at no cost or at a lower cost than currently being provided by the City.
- Seek privatization opportunities where programs and services can be offered at a lower cost than what the City spends to provide the same services provided that the quality of services is not compromised.
- Support regional cooperation to the extent that all involved parties receive proportionate benefit and the City of Chesapeake's costs are minimized.
- Actively seek public/private partnerships for services currently funded by the City of Chesapeake in order to reduce the City's costs and/or expand program scope to reach more citizens.
- Appropriate all grants, as defined by the City's Grants Special Revenue Fund Policy, to the Special Revenue Fund.
- Appropriate funds equal to estimated revenues from dedicated funding source.

CITY POLICIES GUIDING THE DEVELOPMENT OF THE OPERATING BUDGET (cont.)

Financial Policies:

- Expect Operating Budget to be balanced on a current revenue and current expense basis.
- Maintain a reserve equal to six percent (6%) of General Fund revenue as “Cash Flow and Emergency Reserve” as required by the charter.
- Maintain a reserve equal to unassigned fund balance of at least ten percent (10%).
- Use lease/purchase financing cautiously and for periods that do not exceed the estimated useful life of the item of equipment and/or facility being financed. Generally, financing of capital projects should not exceed twenty (20) years, except in the case of transportation infrastructure.
- Expect the City Treasurer to pool all unrestricted monies and invest in a manner to maximize revenue in low to no risk offerings while measuring cash availability for payrolls and bills.
- Do not rely upon debt for current operations.
- Continue to solicit and accept external grants only for non-permanent purposes so that the City dollars are not required to fully fund the program at end of the grant period.
- Continue to evaluate the necessity and value of required fund balance and reserves and communicate the criteria and methodology used.
- Use one-time revenues and resources to support projects, programs, and purchases with one-time costs.
- As the governing body, only the City Council has authority to commit the City’s fund balance for a specific purpose. The City Manager has authority to assign fund balance for a specific purpose. The commitment and assignment of fund balance is made prior to the end of the fiscal year. City Council authorizes the use of fund balance through formal City Council action. The fund balance is spent first from the highest level of constraint or restriction to the lowest level of constraint.

POLICIES GUIDING DEVELOPMENT OF THE CAPITAL IMPROVEMENT PLAN

The following is a list of policies used in evaluating projects for the Capital Improvement Plan (CIP). The CIP is a separate document, but the Operating Budget document includes a summary of the CIP under a separate section at the end of this document.

- Prepare the Capital Budget for construction and repair of building, roads, and school with project cost over \$100,000 in any fiscal year.
- Review each project included in years two through five of the Approved CIP for revised cost estimates.
- Review the inventory of unfunded capital projects and revise the inventory to reflect the elimination or addition of projects.
- Rate projects to be considered for funding using the following criteria:
 1. Replacement of existing infrastructure.
 2. Reduce the cost of operations.
 3. Support economic development efforts.
 4. Improve safety and reduce risk exposure.
 5. Comply with the City's current Comprehensive Plan.
 6. Generate additional net revenue to the City of Chesapeake.
 7. Outside revenue sources available to leverage City funds.

Debt Management Policies:

The following list is a summary of the major debt management policies used in developing the CIB. A full list of the City's debt management policies is included under the **Capital Budget Summary**, a separate section, at the end of this document.

- Limit the City's debt to 10% of the assessed value of real estate subject to local taxation according to the mandates of the State of Virginia.
- Further limit the City's debt for bonds and notes other than refunding to amounts authorizing by a majority of qualified voters voting in an election on the question according to the Charter.
- Authorize bonds or notes without election in any calendar year in an amount not to exceed \$4,500,000 plus the amount of debt retired in the previous fiscal year.
- Restrict the City-wide borrowing authority to a maximum of 3½ % of the assessed value of real estate as shown by the last preceding assessment for taxes. (Contracts other than bonds and notes are excluded.)
- Restrict overall per capita debt to \$3,000.

POLICIES GUIDING DEVELOPMENT OF THE CAPITAL BUDGET (cont.)

- Pay back its debt, exclusive of enterprise debt, for specific items within the period of the estimated useful life or twenty (20) years, whichever is less, except in the case of transportation infrastructure.
- Maintain good communication with bond rating agencies about the City's financial condition with full disclosure and integrity on all financial data and debt offering.
- Own water and sewer facilities and finance new construction with general obligation or revenue bonds that are solely supported by enterprise revenues.

LONG TERM FINANCIAL AND PROGRAMMATIC POLICIES

Strategic Goals and Objectives:

- Continue to administer development activities in accordance with the Comprehensive Plan.
- Continue diversification and expansion of Chesapeake's economic base through selective and aggressive recruitment, and retention of existing businesses.
- Provide City water customers with adequate volume and quality of water.
- Continue development of the stormwater management system and continue qualitative drainage measures.
- Continue implementation of the Fair Share agreement with NAACP.
- Maintain competitive pay and benefits for City employees. Continue efforts toward representative workforce.
- Provide support in public safety to maintain current response time and professionalism, to limit injury, loss of life, and property.
- Continue innovative programming of services to youth in the community through Interagency Consortium and the City's youth serving organizations which include Court Services Unit, Bureau of Community Programs, and Chesapeake Juvenile Services.
- Provide a wide range of leisure activities and facilities with a focus on low-income neighborhoods.

Financial Goals and Objectives:

- Maintain and continuously refine the Multi - Year Forecast which is a model for revenues and expenses for the General Fund.
- Continue to provide resources that exceed minimum State requirements to Chesapeake Public Schools.

FINANCIAL STRUCTURE

Description of the Accounting Structure:

The accounting system used by the City of Chesapeake is organized on the basis of funds or account groups. A fund is defined as a separate, self-balancing set of accounts which is segregated for the purpose of accounting for specific activities or attaining certain objectives. Each fund is comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the City: Governmental Funds (such as the General Fund and Special Revenue Funds), Proprietary Funds (such as the Enterprise Funds and Internal Services Funds), and Fiduciary Funds. The appropriations within each fund are further classified into departments, programs or functions. Expenditures within each department are posted to accounts that describe the items purchased.

Basis of Accounting:

The City's Comprehensive Annual Financial Report (CAFR) presents the financial position and results of operations for the City operations of various funds, account groups, and component units. It is prepared using "generally accepted accounting principles" (GAAP).

- Under GAAP, the modified accrual basis of accounting is used for governmental (such as the General Fund and special revenue funds) and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Expenditures are recorded when the related fund liability is incurred.
- Under GAAP, the accrual basis of accounting is used for proprietary fund types (enterprise funds) and nonexpendable trust funds. Under the accrual basis of accounting, revenues are recognized when earned, and their expenses are recognized when they are incurred.
- Under GAAP, a government wide financial statement is prepared using accrual basis of accounting. In the government wide financial statement, certain governmental funds are grouped together for reporting purposes.

Basis of Budgeting:

The City's budget preparation conforms to GAAP by using a modified accrual basis for preparing the operating budgets for the general governmental and agency funds and the full accrual basis for enterprise funds. However, the basis of budgeting differs from the basis of accounting in the following areas:

- The City's CAFR includes the Chesapeake Economic Development Authority, the Chesapeake Port Authority, and the Chesapeake Airport Authority as component entities. The Operating and Capital Improvement Budgets do not include estimated revenues and appropriations for the operation of the three authorities. The portion of the revenues derived from City General Fund support of these agencies is reflected in the Operating Budget.

FINANCIAL STRUCTURE (cont.)

- The estimated revenues and appropriations in the Community Renewal Fund are not included in the estimated revenue and appropriations for the Operating Budget or in the Capital Improvement Budget. The Community Renewal Fund includes revenue from the Community Development Block Grant (CDBG) and the HOME grant. The CDBG and HOME grant are appropriated by Council outside the annual Operating and Capital Improvement Budget cycles.
- The Capital Projects Funds, Utility Construction Funds, and the Community Renewal Fund budgets are adopted on a five-year project basis instead of a fiscal year basis. The first year of the plan is appropriated as the Capital Budget for each fiscal year.
- The purchase of capital outlay is included in the budget in the year of the initial purchase at full cost; capital outlays are not budgeted as a depreciation expense.
- Budgetary accounting recognizes purchase orders as charges to the operating budget during the year in which they are issued. This is different from financial account which recognizes such commitments as expenditures only as orders are filled by the vendor.
- Debt service is budgeted for principal and interest payments that are due and payable during the fiscal year. The budget does not include accruals of interest that are not due at June 30th of each year.