

CITY OF CHESAPEAKE ORGANIZATION

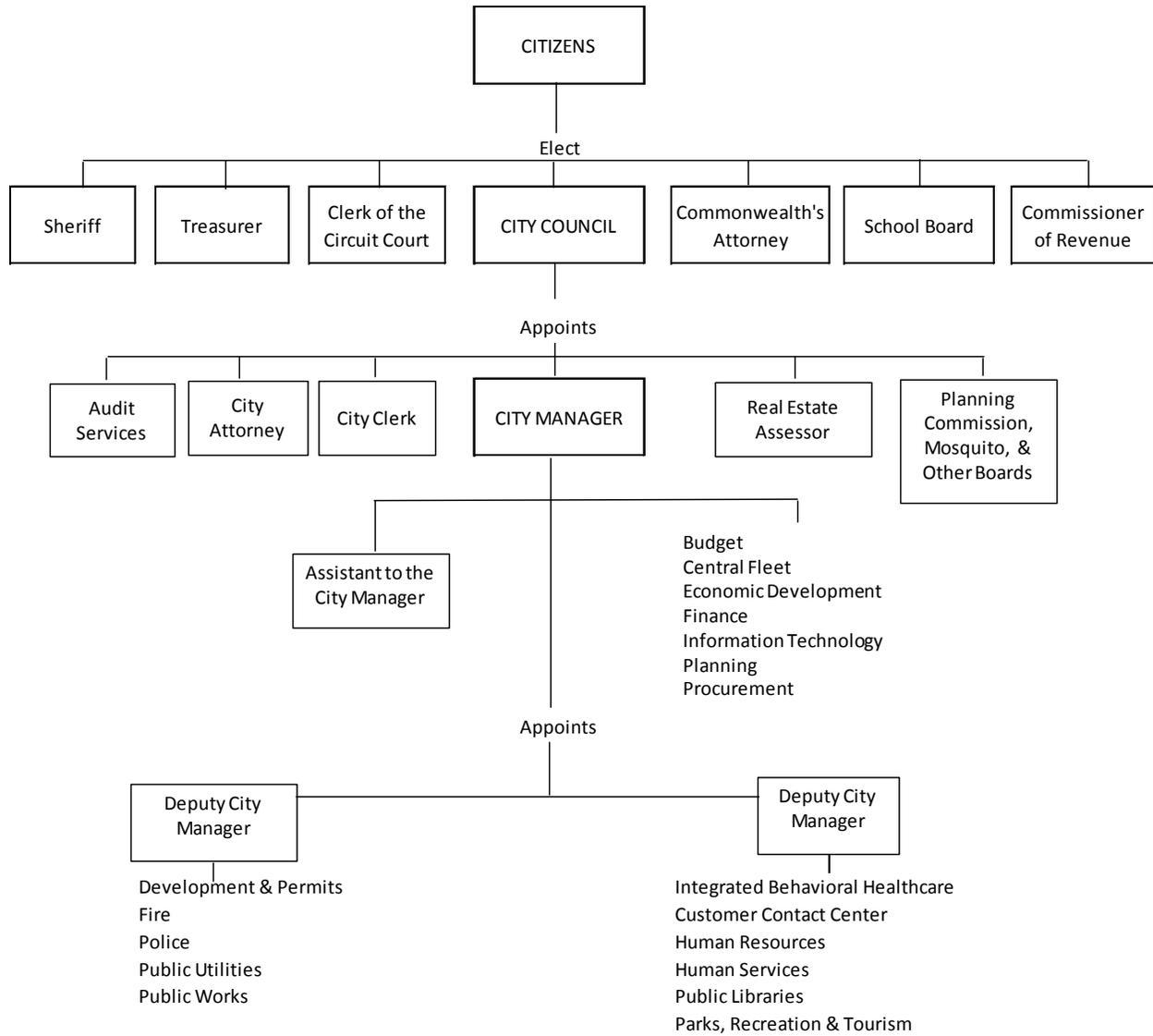
The City of Chesapeake derives its governing authority from a Charter granted by the General Assembly of the Commonwealth of Virginia. The City is organized under a Council-Manager form of government in which the citizens elect the Council and the Council appoints the City Manager. Council also appoints 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



Included in this budget document are other State agencies which receive City funding, but are not appointed by the City Council nor the City Manager. These include:

- | | |
|---|---|
| <p>Courts:</p> <ul style="list-style-type: none"> General District Juvenile & Domestic Relations Circuit Court Services Unit Magistrate's Office | <ul style="list-style-type: none"> Agriculture Elections/Registrar Health Department |
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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 statistics about the City, the City Charter, a chart of accounts, revenue 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 (continued)

Operating and Capital Budget Calendar:

<u>Date</u>	<u>Activity</u>	<u>Responsible Party</u>
07/01/2016	Review upcoming planning with department heads (Management Meeting)	Budget Director, City Manager
08/03/16	Position changes and additions for FY 2017 due to Human Resources	All Departments
08/04/16 to 08/12/16	Initial budget targets and instructions distributed to departments	City Manager, Departments and Budget Office
09/30/16	Five Year Projections complete	Budget Office
10/03/16	Operating budget proposals due to Budget Office	All Departments
Optional	Council Budget Update: revenue, operating impacts of capital projects, and related topics	City Council, City Manager and Budget Office
10/03/16 to 01/13/17	Analysis of budget requests and reporting to Budget Review Committee	Budget Office
12/01/16	Review of five-year forecast and projections	
12/02/16 to 01/27/17	Review of department operational plans and funding requirements	Budget Review Committee and Budget Office
01/20/17	Final real estate assessments for July 2016	Real Estate Assessor
02/01/17	Revenue and spending summaries to City Manager	Budget Office
02/24/17	Final date for revisions to Manager's proposed budget	Budget Office
03/14/17	Manager's budget message to Budget Office	City Manager
03/14/17 to 03/18/17	Print Proposed Operating Budget	Budget Office
03/28/17	Operating Budget presented to Council (deadline April 1 st)	City Manager and Budget Director
	Advertise Operating Budget	City Clerk and City Attorney
04/11/17 to 05/09/17	Council work sessions	City Manager and City Council
04/26/17 05/09/17	Public Hearings on Operating Budget and Appropriations	City Clerk and City Council
05/09/17	City Council establishes tax rates and appropriations for Operating and Capital Improvement Budgets	City Council
06/27/17	Technical corrections and amendments presented to City Council for action prior to July 1 implementation	City Manager and City Council

OPERATING BUDGET PROCESS (continued)

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 approval of the City Manager and notification to the City Council. Budget transfers between the Operating and Capital budgets require approval by 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 in advance of 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 projection each year. The projection includes the available resources and anticipated costs over five years. It incorporates levels of anticipated revenues, 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.

DISCUSSION OF MAJOR FUNDS

General Fund

General fund revenue is expected to grow by \$15.4 million to \$559 million, or 2.8% above the FY 2017 budget level. That represents a slowdown compared to the 3.3% estimated for FY 2017. Most of the increase (\$12.73 million) is related to increases in property taxes as real estate values improve, new construction is brought onto the tax rolls, and the values of personal property (vehicles) grows.

Estimates of current real estate taxes have climbed by nearly 4.6% as the assessments for existing properties grew and new construction has strengthened. Continued growth in personal property taxes are anticipated as residents replace older automobiles and the used vehicle market improves.

With a few exceptions, most of the remaining revenue accounts are expected to decline slightly as a result of slow growth and changes recently approved by the Virginia General Assembly. General Fund revenues that are projected to grow include:

• Permits, primarily related to construction activity	up \$370,000	14.6%
• Interest and rental revenue	up \$380,000	30.4%
• State non-categorical aid	up \$260,000	0.9%
• State shared costs – Sheriff (new jail annex)	up \$1.0 million	10.7%
• State categorical aid for street and road maintenance	up \$800,000	2.4%

Transfers to Chesapeake Public Schools – Under revenue sharing procedures in place since 2004, most local tax revenues are shared with, and allocated to, Chesapeake schools on a formulaic basis. Budget allocations are based on projected revenues, but are “true-up” after the end of each year based on actual revenue collections. For FY 2018, the revenue sharing formula provides \$194.5 million dollars for the School Operating Budget, an increase of \$6.9 million (3.7%) above the FY 2017 allocation.

We also recommend continued sharing of surplus funds in the Greenbrier TIF. Consequently, school transfers include \$1 million of the Greenbrier TIF surplus. We recommend using \$2.9 million of the FY 2016 “true-up” for school operations. Finally, we recommend using \$1.3 million of reversion funds also from fiscal year 2016. This is due to unspent appropriation from prior fiscal years. Use of the true-up will permit a system-wide transition to full-day kindergarten by transferring all kindergarten teachers currently funded by the Federal Title I program to local funding. In summary, we propose an increase of \$9.4 million in City transfers to school operations. Below is a comparison of all operating transfers to schools for fiscal years 2017 and 2018; and it is worthwhile noting that the increase in recommended allocations to the Chesapeake Public Schools is proportionally larger at 4.9% than the anticipated growth in the City’s General fund revenues (2.8%). This continues to reflect the very high priority the City places on funding for K-12 education.

DISCUSSION OF MAJOR FUNDS (continued)

<i>School Allocations (in millions)</i>	FY 2017	FY 2018	Change	%
School allocation based on revenue sharing formula	\$ 187.6	\$ 194.5	\$ 6.9	3.7%
Recommend declaration of surplus in Greenbrier TIF	1.0	1.0	0.0	
Reversion of prior year appropriations (for textbooks)	1.7	1.3	(0.4)	
True up based on actual revenue from previous years	0.0	2.9	2.9	
Total transfers to school operations	\$ 190.3	\$ 199.7	\$ 9.4	4.9%

Employee Compensation – General Fund wage and benefit costs increase by \$4.9 million as employee pay raises are recommended and 30.3 FTE positions are added to the budget. Listed below are the major factors that impacted personnel costs in the General Fund budget:

Employee pay raises – 2.5% increase starting July 2017	\$ 3.9 million
New positions (30.3 FTE) and employee reclassifications	2.6 million
Market pay adjustments based on regional wage comparisons	0.2 million
Employee pay raises – performance awards	0.5 million
Employee health care	3.0 million
Savings realized from employee turnover	(1.6 million)
Removal of one-time provision for transition to arrears pay	<u>(3.6 million)</u>
Net increase in personal service costs	\$ 5.0 million

Transfers to Other Funds – General Fund resources support a number of other funds, including several Human Service funds, Chesapeake Integrated Behavioral Healthcare, and the Debt Service Fund. Operating transfers to special revenue and capital projects funds are proposed to increase by \$2.97 million, primarily due to a reduction in cash requirements for school capital projects. Transfers to the Public Assistance, Interagency, Integrated Behavioral Healthcare and Juvenile Services Funds reflect partial recaptures of excess transfers during FY 2016. A summary of fund transfers appears below.

General Fund Transfers	FY 2017	FY 2018	Change from FY2017	
Virginia Public Assistance Fund	\$ 5,787,808	\$ 5,858,549	\$ 70,741	1.2%
Interagency Consortium	1,414,767	1,460,011	45,244	3.1%
Integrated Behavioral Healthcare	7,850,631	7,533,867	(316,764)	-4.2%
Juvenile Services Fund	1,481,637	1,484,574	2,937	0.2%
Debt Service Fund	33,878,264	33,804,440	(73,824)	-0.2%
Other Operating Funds	31,615	1,506,458	1,474,843	N/A
Grant Fund (local match)	15,264	15,300	36	0.2%
Capital Improvement Funds	24,998,766	26,768,136	1,769,370	6.6%
	\$75,458,752	\$78,431,335	\$ 2,972,583	3.8%

With respect to the Debt Service and Capital Funds, most transfers are provided from locked or dedicated revenue and from Fund Balances accumulated during or before FY 2016. However, \$10.15 million of FY 2018 debt service payments are for debt issued before the lockboxes were established. Pre-lockbox debt service is funded with a combination of current General Fund revenue (\$6.15 million) and the surplus in the Debt Service Fund (\$4.0 million). In preparing the Capital Improvement Program (CIP), we previously recommended that savings realized from the significant reduction in debt service requirements be reinvested into the Capital Program through the existing capital lockboxes. The approved FY 2018 budget is consistent with recommendations for the CIP.

DISCUSSION OF MAJOR FUNDS (continued)

Purchased Services – The General Fund Budget for purchased services decreases \$1.06 million, primarily due to anticipated reductions in solid waste fees. The existing waste disposal contract with South-eastern Public Service Authority (SPSA) will expire January 2018. With the elimination of SPSA’s debt, solid waste fees are scheduled to decline from \$125 per ton to around \$65 per ton. We expect to save \$2.5 million during FY 2018 and approximately \$5.8 million annually starting in FY 2019. Additional purchased service costs are projected for temporary services (\$190,700), repairs and maintenance (\$737,000), the Registrar’s polling equipment (\$80,795), and the Sheriff’s medical services contract (\$556,000).

Fund Reserves and Dedicated Revenue – The City Charter requires the maintenance of a cash flow reserve equal to six percent (6%) of General Fund revenue. Further, City Council recently adopted a policy requiring an undesignated fund balance of at least ten percent (10%) in order to address emergencies and other unpredictable events. In order to ensure compliance with the policy provision, we budget for a 12% undesignated fund balance. The combination of existing balances and reserves planned for FY 2017 requires that \$1.3 million of FY 2018 revenue be reserved for cash flow and emergencies. More information is available on the Charter reserves and undesignated fund balances on page B-21.

For FY 2018, operating revenues of \$47.25 million are committed to current and future capital purposes through two lockbox mechanisms. Of this amount, \$27.7 million will be transferred to the Debt Service Fund and \$17.8 million will be transferred to the Capital Projects Funds. The remainder of the locked revenue is committed to future capital projects. Finally, several tax or fee levies are dedicated by City Council or the Virginia State Code for specific purposes. In order to comply with such mandates, reserved funds are either added to the ending fund balance of the General Fund or included in a department budget specifically to address the reservation requirement.

School Operating Fund

In accordance with the Virginia Constitution, school funding is a shared responsibility of the Commonwealth and its localities. Unlike many school divisions throughout the United States, Virginia school districts do not have taxing authority, and are, therefore, fiscally dependent upon the locality in which they are located. For this reason, the School operating budget is part of the City budget. The School Board approved a \$488.694 million operating budget for Chesapeake Public Schools (CPS) that includes:

School General Fund	\$ 440,716,372
School Nutrition Services (breakfast and lunch programs)	13,087,144
Federal and State Categorical Grants	29,482,714
School Textbook Fund	2,392,660
Other school funds	3,010,000
<hr/> Total school budget approved by School Board	<hr/> \$ 488,688,890

DISCUSSION OF MAJOR FUNDS (continued)

The School Board continues to struggle with maintaining competitive teacher pay and resource constraints remaining from the recession. For FY 2018, the School Board also seeks to begin a transition to full-day kindergarten throughout the City. Full-day kindergarten is currently available in eight (8) schools that have access to Federal Title I grants for schools with concentrations of economically disadvantaged students. In those schools, Title I funds are used to pay approximately one-half of the kindergarten teachers and assistants. The FY 2018 budget proposal includes a provision to move kindergarten staff currently paid with Federal Title I funds to CPS' General Fund. While this proposal does not expand the kindergarten program, it is a necessary step to a transition to a full-day kindergarten program system-wide. (Title I funds cannot be used to supplant local funds.)

The school spending plan for FY 2018 is \$19.0 million (4.0%) above the FY 2017 budget and includes a 2.5% pay raise for all school employees. Such funding includes \$245.5 million in state funding, \$30.9 million of federal assistance, \$7.2 million from fees and related income, and \$199.7 million from the City's General Fund. The school budget also relies on non-general fund balances (accumulated surpluses from prior years) of \$5.35 million. **While the school staff has requested the transfer of funds from the school capital lockbox to address the shortfall, we do not support the strategy and, therefore, have recommended a school budget limited to available operating resources.**

For many years, Chesapeake has shared growth in general tax revenue equally with the School Board. The School's share of local revenue and its annual operating budget are based on local revenue projections. However, the ultimate allocation of local tax revenue is based on actual receipts. City staff monitors local revenue throughout the year so that CPS may adequately plan for spending adjustments in the event actual revenue falls short of the projection.

While state statutes require school districts to return any unspent funds at year end, the city has a long-standing practice of returning unspent School funds to the School Board. FY 2018 will use \$1.3 million of such funds. Further, if local revenue collections exceed those projected in the revenue sharing formula, such excess revenue is also shared with CPS. The FY 2018 budget includes \$2.9 million of excess local revenue collected during FY 2016.

As is discussed in more detail under TIF Funds, we recommend that City Council declare a surplus in the Greenbrier TIF at the end of FY 2016 and that \$1 million (one-half) of the surplus transfer to the School Board for FY 2018 operations. The \$1 million surplus from the TIF is part of the City's transfers to CPS.

DISCUSSION OF MAJOR FUNDS (continued)

Debt Service Fund

Debt service payments are expected to drop by \$384,300 in FY 2018 to \$41.9 million. Listed below are the debt funding sources for FY 2018:

City General Fund:	
Pre-lockbox debt	6,148,145
School capital lockbox	14,847,659
City capital lockbox	12,808,636
Greenbrier TIF Fund	1,465,613
South Norfolk TIF Fund	1,009,281
Debt Service Fund Balance	4,000,000
Federal subsidies - American Recovery & Reinvestment Act	890,649
Integrated Behavioral Healthcare Fund	287,150
Open Space	64,430
Interest income and other revenue	415,662
Total Funding Sources for Debt Service	41,937,225

Since 2004, the City has designated certain revenue for capital lockboxes that support financing of School and City capital projects. Debt service on all debt issued after 2003 is paid from the designated revenues. During FY 2018, pre-lockbox debt payments decline by \$4.6 million while debt payments funded with locked revenues increase by a similar amount.

At June 30, 2016, the Debt Service Fund (DSF) balance was \$19.0 million which the City plans to use for future debt payments. The FY 2017 and 2018 budgets draw \$4.1 million and \$4.0 million respectively from the available fund balance in order to pay pre-lockbox debt. The City will continue utilizing the DSF fund balance until pre-lockbox debt is entirely retired (FY 2024), at which point, the DSF fund balance will be depleted.

Virginia Public Assistance Fund (Social Services)

The Social Services Division of Human Services is the local agency that administers federal and state public assistance programs. Social Services' primary function is to determine the eligibility of local residents for a variety of federal and state social benefit programs. The Social Services budget is increasing slightly from \$21.4 million in FY 2017 to \$21.9 million in FY 2018, an increase of \$496,022 (2.3%). The primary factors impacting the VPA budget are:

- Employee compensation – 2.5% pay raise \$ 344,822
- Increased cost of employee healthcare 264,600
- Employee turnover and savings in general expenditures (113,400)

No changes in the division's level of services are planned for FY 2018. The proposed funding level is adequate to meet state and federal mandates for the programs it administers.

DISCUSSION OF MAJOR FUNDS (continued)

Chesapeake Integrated Behavioral Healthcare:

Chesapeake Integrated Behavioral Healthcare (CIBH) was established as a community services board to provide mental health, development, and substance abuse services in accordance with Virginia statute. These services are provided through CIBH, the agency that reports to a local board appointed by City Council. The FY 2018 operating budget for CIBH is proposed to increase by \$2.57 million (10.4%) to \$27.27 million. Much of the increased funding needed to add staff is related to statewide efforts to improve mental health. A complete listing of new positions starts on page B-28. A summary of significant changes in the CIBH budget is noted below:

- | | |
|--|------------|
| • Expand Therapeutic Day Program in public schools | \$ 569,250 |
| • Redefine behavioral healthcare to assure emergency assessment and intervention, coordination with primary healthcare, and greater access | 384,000 |
| • Employee compensation – 2.5% pay raise | 390,000 |
| • Market pay adjustments to address recruitment and retention | 711,000 |
| • Increased cost of employee healthcare | 267,000 |

Tax Incremental Funds (TIF)

The statutes governing TIFs allow for the transfer of surplus TIF funds to the General Fund. In accordance with past practice, this budget includes provisions to transfer surplus funds from both the South Norfolk and Greenbrier TIF Funds to the General Fund in order to address maintenance cost of projects funded by the TIFs and other costs that are directly related to the TIF districts. We recommend the transfer of \$293,660 of surplus funds from the Greenbrier TIF to the General Fund to pay for maintenance of improvements to the district and to fund the Police Department Hotel Interdiction Program. We also recommend the transfer of \$115,700 from the South Norfolk TIF to fund the maintenance of improvements to that district along with the cost of the Sheriff's work crew assigned to South Norfolk.

In addition to transfers of TIF resources for the maintenance of TIF improvements and related costs, we also transfer \$1 million annually from the South Norfolk TIF to the General Fund to pay a portion of the debt service costs related to the renovation of Oscar Smith Middle School. Ten annual transfers were planned for the OSMS renovation; the transfers are scheduled to end in FY 2021.

Starting in FY 2016, the City declared a surplus in the Greenbrier TIF and transferred \$2 million to the General Fund that supports operations of the City and Schools. The additional funds help Chesapeake Public Schools address the recruitment and retention of teachers, as well as, the increasing cost of employee health insurance. The City's share of surplus TIF funds helps address existing commitments to residents and employees. We recommend a continuation of the annual \$2 million surplus declaration in support of CPS and City operations.

DISCUSSION OF MAJOR FUNDS (continued)

Public Utility Fund

In February 2013, the City Council approved a plan to increase water and sewer rates by 4.9% in each of the next several years. This plan was amended on June 27, 2017 to eliminate the fifth and final scheduled rate increase that was intended to begin July 1, 2017. The utility rate plan includes no rate increases for Fiscal year 2018 and 2019, and an increase of 2% in Fiscal Years 2020, 2021, and 2022.

Utility expenditures reflect a continuation of current service levels with an allowance for modest growth as new residential and commercial properties are built. Spending by Public Utilities is nearly flat, growing by less than \$100,000 to \$65.8 million in FY 2018. The primary factors affecting the Utility budget are as follows:

- Addition of 13.75 new positions (FTE) to improve capital project management, implement meter replacement program, conduct water valve and fire hydrant maintenance, improve customer service, address management and accounting of pro-rata program, and improvement water and wastewater operations and maintenance \$ 770,350
- Contract services for infrastructure repair and pro-rata management 1,099,000
- Employee pay raises (2.5%) 341,750
- Increased cost of employee healthcare 413,000
- Increased internal service costs (fleet and technology) 341,400
- Reductions in water purchases from Norfolk and Portsmouth (911,000)
- Reductions in capital outlays (2,144,000)

The proposed budget increase will allow the department to improve its response to citizen requests, improve maintenance and dependability of the water and sewer systems, and improve department productivity.

As noted above, City Council eliminated a scheduled rate increase that would have been effective July 1, 2017. It also approved a new contract with the City of Portsmouth that reduced purchased water costs. Staff, in consultation with its utility rate advisors, will recommend revisions to the FY 2017 operating budget in the coming months.

Stormwater Management Fund

The Stormwater Management Operating Budget is proposed to increase by \$428,400 to \$11.1 million in FY 2018. Significant changes to the Stormwater budget are noted below:

- Employee pay raises (2.5%) and employee turnover \$ 173,000
- Increased cost of employee healthcare 186,000
- Increase in general operating expenditures (services, materials, etc.) 79,000

DISCUSSION OF MAJOR FUNDS (continued)

Chesapeake Transportation System Fund (toll roads):

The Chesapeake Transportation System (CTS) includes the tolled section of Route 168 and a section of Dominion Boulevard (Route 17) that began charging tolls in February 2017. The Operating Budget for CTS increases from \$19.8 million for FY 2017 to \$25.4 million in FY 2018 and includes:

- Dominion Boulevard operating costs (increase to full year) \$ 1,466,000
- Increase in debt service costs (primarily Dominion) 3,408,000
- Employee pay raises (2.5%) and employee turnover 102,900
- Increased cost of employee healthcare 85,400
- Increased cost of CTS operations and system administration 489,700

As part of financing Dominion Boulevard several years ago, the City borrowed money to refund the existing senior debt on the Expressway. This allowed the Expressway to take advantage of more favorable interest rates. Under terms of the new bonds, all principal payments for both Routes 168 and 17 were deferred for four years while the new road was under construction. A substantial portion of the new project is also funded from a \$152 million subordinate loan from the Virginia Transportation Infrastructure Bank (VTIB). Under the agreement with VTIB, payments for subordinate Expressway debt held by the Commonwealth of Virginia and the City of Chesapeake are also deferred until two years after construction is complete (interest costs accrue during the entire period the loan is outstanding). The operating budget includes all accrued interest, but only principal payments that are due and payable. Principal payments for subordinate debt owed to VTIB are expected to start July 2019.

Juvenile Services Fund

Juvenile Services provides safe and secure detention services for juvenile offenders from Chesapeake and several surrounding localities. The proposed annual budget increases from \$6.81 million to \$7.20 million (5.9%). Significant changes to the budget are as follows:

- Employee pay raises (2.5%) \$ 130,000
- Increased cost of employee healthcare 100,700
- Replace staff nurses with contracted nurses 170,000

E-911 Fund – Emergency Dispatch

Emergency Dispatch operates as a division of the Police Department to answer emergency (911) calls and to dispatch appropriate fire, emergency medical, and/or police personnel to assist citizens. The division is supported by communications sales taxes and payments from the Virginia Wireless Board. The proposed annual budget increases from \$6.23 million to \$6.80 million (9.3%). Significant changes to the budget are as follows:

- Market pay adjustments for dispatch staff \$ 454,000
- Employee pay raises (2.5%) 102,500
- Increased cost of employee healthcare 55,800
- General operating expenditures 60,200

DISCUSSION OF MAJOR FUNDS (continued)

Central Fleet Fund

The Central Fleet Fund operates as an internal service fund to provide vehicle maintenance services to other City departments. Funding is derived from charges to other City departments and from the sale of fuel to Chesapeake Public Schools. In addition to fleet and garage services, the fund is also used to account for activity of the Sheriff's work crews that primarily provide services to Public Works and Parks. The proposed annual budget increases from 16.06 million to \$18.04 million (12.6%). Significant changes to the budget are as follows:

Information Technology Fund

Information Technology operates as an internal service fund to provide technology, communications, and related services to other City departments and Chesapeake Public Schools. Funding is derived from payments received from the other departments and from Schools. The proposed annual budget increases from \$9.84 million to \$11.28 million (14.7%). Significant changes to the budget are as follows:

Employee Health Insurance Fund

The Employee Health Insurance Fund was established during FY 2016 when the City transitioned from a fully-insured health plan where premiums were paid to an insurer, to a plan in which the City is now responsible for actual health expenses (claims) as processed and paid by a third-party administrator (TPA). Under a self-insured arrangement, the City collects premiums through employee withholding and payments from former employees participating in the City plan. These premium payments along with the employer's portion of the program costs are deposited in the health insurance fund. As healthcare providers submit claims to the TPA, the city then reimburses such costs from the money it collects.

The self-insurance program started January 1, 2016 with premiums based on the City's claims history with an allowance for increasing utilization and medical inflation. At renewal, the TPA and the City's insurance consultant recommended increasing premiums by 18.5% starting January 2017. Accordingly, it is necessary to increase the budget for the health insurance, and we recommend a budget of \$40.57 million for FY 2018 (an increase of 16.2%).

The recommended increase is sufficient to pay claims and expenses projected in the 2017 renewal and provide for an eight percent (8%) increase starting January 2018.

DISCUSSION OF MAJOR FUNDS (continued)

Other City Operating Funds

The proposed operating budget also includes several funds whose spending levels are not changing significantly from FY 2017. Separate funds are maintained for the following purposes:

- Interagency Consortium – operates as a division of Human Services to provide services to students with disabilities. City staff work closely with Chesapeake Public Schools and other human service agencies to address educational and behavioral needs of eligible students.

Proposed annual budget - \$3.96 million.

- Fee-Supported Programs – this fund is used to account for activity of several services that are supported entirely by fees. Three services are currently included in the fund:
 - Fire Department’s Hazardous Environmental Action Team (HEAT) focuses on the reduction and elimination of dangers caused by hazardous materials and conditions. Funding of the program is provided by inspection fees and fines issued for violations.
 - Police Department’s Red Light Photo-Enforcement project monitors intersections with higher than average accident rates. The program is funded by fees collected from offenders identified by the contractor maintained cameras.
 - Development & Permit’s Code Compliance/Demolition Program seeks to remove nuisance buildings and conditions that exist in residential and commercial areas. Funding is derived from property owners via liens attached to offending properties.

Proposed annual budget - \$1.06 million.

- Conference Center and Tourism – operates the Chesapeake Conference Center and the City’s Tourism Bureau, both of which are funded from dedicated meals and lodging taxes.

Proposed annual budget - \$4.31 million.

- Risk Management Fund – operates as an internal service fund providing insurance and worker compensation services to other City departments.

Proposed budget for FY 2018 - \$9.59 million.

- Mosquito Control Commission – operates as an autonomous unit governed by a commission appointed by City Council. Its purpose is to control mosquito populations and prevent mosquito borne illnesses.

Proposed annual budget - \$4.48 million.

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.