



MEMO

To: Honorable Mayor Gears and Members of the City Council
From: Tomas "Tommy" Gonzalez, City Manager
Date: August 6, 2010
Subject: 2010-11 Manager's Proposed Budget

It is my privilege to present the 2010-11 City of Irving budget for your consideration. The budget is in alignment with the City's Strategic Plan. Management, Directors and city staff worked to identify resources and prioritize programs to align City operations and capital projects according to the City Council's ten strategic goals. This budget focuses on meeting the Council's highest priorities and maintaining current levels of service for all programs. Benchmarks have been established to track progress toward each goal, and new goals and action steps will be incorporated as the current ones are completed.

Strong governance and fiscal management remains a high priority. The FY 2010-11 budget is structurally balanced, with operating revenues meeting operating expenditures. The impact of the national recession and sharp declines in key revenues has resulted in drastic budget cuts from many city and county governments.

On that note, Irving has not been immune to the recession. Key General Fund revenues have declined by 13.7 million from the prior year and by \$20.2 million over the last three years. The recession has impacted several revenue sources: property tax revenues have declined by \$10.3 million, sales taxes are down by \$5 million, interest income is down by \$1.5 million, and zoning and development fees have decreased by \$1 million. Franchise fees were reduced by \$2.4 million because of a ruling from the Texas Public Utilities Commission reducing the electric franchise rate.

The city has taken proactive steps to review processes and reduce operating costs ahead of revenue declines while maintaining excellent levels of services. We will be sharing examples of how we reduced operating costs in the budget retreat session. Key indicators including the crime rate, resident satisfaction with city services and the overall look of the city demonstrate that city staff has been able to increase services and customer satisfaction while at the same time reducing costs. We have shared the survey results with you in a published report and with the entire community via the City Spectrum. Cumulatively over the last four years, the city has identified over \$12 million in cost savings, cost avoidance, cost recovery and productivity enhancements. This, in part, has helped offset the loss of \$20.2 million in revenues mentioned above.

The city has also strengthened financial policies and procedures to ensure adequate reserve balances, conservative expenditure policies, and monitoring and projections of key revenues. The use of tools such as the five year financial forecast have allowed management to project future revenue and expenditure trends and adjust revenues and expenditures to produce a structurally balanced budget.

While these policies have enabled Irving to remain financially sound and maintain current service levels, further declines in key revenues, most notably property tax valuation and sales tax which continues to drop each month, require further expenditure reductions, deferral of maintenance and equipment replacement, as well as increases in revenues to balance the budget. Accomplishing this balance was a daunting, but not insurmountable task for City staff. A structurally balanced budget will help maintain the City's double AAA credit rating and set the foundation for prudent fiscal management of City operations in the following years.

FY 2009-10 RESULTS

We are focused during these times on helping those in need, and as part of the city's strategy to enhance affordable housing initiatives, the City received two stimulus grants totaling \$1.5 million from the U.S. Department of Housing and Urban Development including Community Development Block Grant-Recovery funds for home restoration projects and Homelessness Prevention and Rapid Re-Housing Program funds to provide assistance to the homeless and near homeless. An additional \$3,619,308 in competitive grants were also awarded. These funds have allowed the Housing and Human Services Department to develop new programs to address the needs faced by residents in the current economic and housing markets.

Another way we are assisting residents is by providing affordable recreational opportunities. The **West Irving Aquatic Center** opened on June 12, 2010. This state-of-the-art facility offers a variety of amenities with an emphasis on family activities. This is the second aquatics center to be constructed since 2008, and response has been phenomenal with an average of over 1,300 visitors per day. Neighborhood splash parks are proposed for Northwest and Southwest Parks where outdated pools were closed upon the completion of the aquatic center.

The **Animal Care Campus** opened in March, 2010. This 25,000 square foot facility is a unique partnership between the City and DFW Humane Society, which is also housed at the new location. The facility is designed to attract more visitors and increase the number of pet adoptions. Adjacent to the facility is **Irving's first Dog Park**, which provides another free recreational opportunity for residents..

Another high priority area for the Council and staff is public safety. We have seen a 20% decline in the crime rate over the last five years, including a 9% reduction so far this year. The City's emergency medical services have been recognized as having the highest **cardiac survival rate** in the state of Texas that is also double the nation-wide average.

The City has over 10.8% of the workforce currently receiving bi-lingual pay, an increase of 3.8% since 2007. The percentage of contracts competitively awarded to M/WBE vendors has met the goal of 25% of total value of the contracts.

Transportation has been a successful endeavor for Irving for quite some time. The 13th annual **Transportation Summit** was held in Irving at the Omni Mandalay Hotel on August 10-13, 2010. This event brings together key elected and appointed officials from local, state and federal levels to discuss the challenges associated with improving mobility in our region and throughout the state. It is also instrumental in developing the framework for the policies that will shape decision-making on this key issue, locally and nationally.

The Summit is well-known and highly regarded both within Texas and at the federal level. Because of its demonstrated effectiveness, the City Council continues to support this event; it is also staffed by the Intergovernmental Services and Corporate Communications departments and the Irving Convention and Visitors Bureau (ICVB). Any additional funding required for the summit is provided by the General Fund. Dean International, with the assistance of a special events coordinator and city departments coordinates the Summit each year. He also provides additional transportation consulting services to the city.

The **Texas Department of Transportation (TxDOT)** has moved forward with plans to begin the reconstruction of the State Highway 183, Loop 12 and State Highway 114 interchange. The City will be responsible for right-of-way acquisitions and utility relocation costs associated with this project as well as for the expansion of SH 183 through Irving. Total funding will be significant, potentially exceeding \$30 million; staff is currently conducting a detailed analysis of the obligations.

In 2009, the city signed a ten year lease with TxDOT for the use of the former **Texas Stadium** site as a construction staging area for the Diamond Interchange and SH 183 projects. The city received \$15.4 million from TxDOT for the lease. This funding has been used to demolish the stadium and begin to prepare the site for future development. The city retains ownership of the property and has the ability to relocate TxDOT in the event of a development opportunity before the end of the lease.

Redevelopment in the **Heritage Crossing** district continues despite the recession and steep reduction of commercial and residential development throughout the Metroplex. So far, 88 properties have been acquired for redevelopment. This includes 6 substandard apartment complexes that have been demolished and are awaiting redevelopment. **Another tangible benefit to the removal of the apartment complexes has been a 35% reduction in the crime rate in the Heritage District compared to 2007.** The first independent redevelopment project is underway, with the McDonald's on Irving Boulevard demolished in July 2010 and reconstructed to meet the Heritage District development and aesthetic guidelines. It is scheduled to reopen in the Fall of 2010. Additional existing retailers, such as JPT Graphics, have upgraded their facades to match the district's design guidelines.

Transparency - The Finance Department and Corporate Communications have teamed up on getting more financial information to the public. In recognition of our efforts, the City received the Gold Transparency Award for Financial Transparency from the Texas Comptroller for placing budget documents, annual financial reports, and check registers in the city's website for public review.

The Irving Community Television Network (ICTN), has expanded its services by offering programming 24 hours a day, seven days a week. Videos and shows are now also posted on the city's website, On Demand, You Tube and free iTunes for convenient viewing. For the 09-10 fiscal year, Irving Community Television Network won first place awards in the following state-wide categories from the Texas Association of Telecommunications Officers and Advisors (TATO): Community Event Coverage, Magazine Format Series, Special Audience Programming, Profile of an Organization or Department, Interview/Talk Show, and Documentary. They were also named best programming in the state for the second year in a row by TATO.

Last, but not least, we have also found a way to reward our employees while saving the city money. Employee wellness is now a key focus throughout the organization to promote a healthy workforce, enhance employee morale, and provide incentives for employees to take control of their health. **IWIN** (Irving Wellness Incentive Now) was launched January 2009 to offer wellness and fitness rewards to employees who achieve and maintain good health. When employees are healthy and strong, residents, visitors and businesses are well served, productivity is high and health insurance costs are kept low. Through IWIN, employees are able to receive a wellness screening and have the opportunity to participate in a fitness assessment using benchmarks established by the Cooper Clinic. The success of this program is evidenced by the number of employees who are participating in the various IWIN programs. More than 590 employees have qualified to receive fitness incentive pay. By incentivizing employees to take active control of their health, become more physically fit, and have regular wellness screenings, the city will see a reduction in overall healthcare costs and insurance rates.

DEVELOPMENT OF THE FY 2010-11 BUDGET

The FY 2010-11 budget is the fifth to be organized around the city's **Strategic Plan**. City departments and teams have been re-aligned in order to match the ten goals of the strategic plan. In developing the budget, existing and proposed programs and projects that meet the Strategic Plan's goals and strategies have the highest priority for funding and resource allocation.

In July 2010, City Council held a workshop to review the progress of the Strategic Plan, suggest new action items, and provide staff direction on the key initiatives for the FY 2010-11 budget. The Council revisited the key focus areas for the FY 2009-10 Budget and determined to continue to focus on the same eight areas with new initiatives for the new budget year. A comprehensive review of the strategic plan's goals, strategies, and key focus areas will be undertaken in the fall

of 2010 to review the progress and accomplishments of the last five years and to revise the Strategic Plan objectives for the next five years.

In developing the FY 2010-11 budget, city management took proactive steps to ensure that the national recession did not adversely impact the operations of the city. For the past four years, a **Five Year Financial Forecast** analysis has been conducted to project operating revenue and expenditure trends. Cost savings were implemented, with many vacant positions being eliminated or temporarily frozen. Over the past three years, 91 vacant positions have been eliminated across all funds. These position reductions were achieved by reducing layers of management, increasing span of control, and achieving efficiencies by combining like services and duties into single departments. These savings were achieved while service delivery was enhanced, new programs were added and customer satisfaction increased. An additional 62 positions are currently being held vacant and frozen, with a savings of \$4 million estimated for FY 2010-11. **Of the 62 frozen positions, 16 have been reviewed and proposed to be eliminated for the current budget year.** Staff continues to review the list as further vacancies occur to ensure staffing levels are adequate for maintaining current levels of service. Once revenues recover, the frozen positions will be revisited to determine which represent truly require staffing and which can be permanently eliminated. Up to this point, this has involved the attrition of positions as vacancies occur and no filled positions have been eliminated.

OVERVIEW OF THE FY 2010-11 OPERATING BUDGET

For the FY 2010-11 budget year, the impact of the continuing national recession has presented the greatest challenge to creating a structurally balanced budget. Key revenues in all major operating funds have declined significantly since FY 2008-09. In the General Fund, both property tax and sales tax revenues have declined significantly. Hotel Occupancy Taxes, primarily derived from business travel, has also been significantly impacted by the recession. Water and Sewer revenues have declined due to over 14 months of unseasonably cool and wet weather reducing customer demand. In short, each operating fund has been presented with revenue challenges and each fund must stand on its own by reducing expenditures and increasing revenues to balance. Additionally, each fund must pay their proportional share of the costs associated with their operations.

The electric franchise fee has been arbitrarily reduced by the Public Utilities Commission to a rate of 4%. The city is working with other municipalities to reverse this decision through administrative, legislative, and legal channels, but for FY 2010-11, the loss in revenue is approximately \$2.4 million.

The **General Fund** revenue estimates for FY 2010-11 are \$168.55 million Operating expenses are also \$168.55 million, achieving a structurally balanced budget. This budget is \$14.75 million lower than the \$183.3 million FY2008-09 budget. With the transfer of Solid Waste Services into a separate enterprise fund last year, general expenditures were reduced by \$7.7 million. The remaining \$7 million has been reduced to match revenue estimates. General fund revenues

declined by \$13.7 million due to the economic impact of the recession, while salary costs, insurance, and contractual obligations were projected to increase by \$6.3 million creating a total budget gap of \$20 million for FY 2010-11 alone.

The \$20 million represents the full budget gap for the year. Throughout the budget development process, staff has worked diligently to close the funding gap and report progress to the Council. While we were at \$20 at the beginning, we rolled our sleeves up and reduced that down to \$12 million. You may recall, the update given to the council in the spring was a funding gap \$12 million. That \$12 million had been reduced down from \$20 million. By late June, we reported the funding amounts were reduced down to \$5 million. The \$5 million then increased to \$6 million in July with the receipt of the certified tax roll and continued sales tax declines. The proposed budget closes the gap completely and presents a structurally balanced budget. It is important to note that continued drops in property tax valuation and sales tax valuation will continue to impact revenues received into the General Fund. With this said, it is vital that some of those dollars are captured in the form of keeping some of the effective tax rate dollars. If values and sales tax continue to decline, you could see a decline in services provided.

With over two thirds of the General Fund budget allocated to salaries and benefits, the budget could not have been balanced in the past two years without significant realignment of the organization. The following strategies were used to balance the FY 2010-11 budget. Some are short term measures for the current year, while others reflect long-term cost savings and improved operational efficiencies. In total, they reduce General Fund expenditures by \$14.2 million.

- Hold all General Fund positions (59 of the 62) vacant for FY2010-11
- Pay Plan step increases for all city employees will not be given for FY 2010-11. Sales tax will be monitored to determine if we do any adjustments to pay during the year.
- The compensation plan, which has the goal of maintaining employee pay at the 65th percentile compared to benchmark cities will also not be adjusted for FY 2010-11
- Health Insurance - For the Choice POS II plan, which covers the majority of the workforce, the cost allocation will shift from 90% city/10% employee to 87%/13%
- The IWIN physical fitness program will be implemented for retiree insurance on January 2011
- All capital requests in the General Fund, with the exception of those with a dedicated revenue source, have been deferred
- Computer replacement transfers from the General Fund have been deferred for FY 2010-11. Computer equipment will only be replaced when the current system is no longer functional
- Equipment replacement transfers from the General Fund have been deferred for FY 2010-11. Only the most critical needs, such as Police patrol vehicles, will be replaced
- Supplies, maintenance, outside services, and other non salary accounts in the departmental budgets have been reduced

In addition to these cost saving strategies other revenues, primarily Municipal Court fines, of approximately \$930,000 helped offset the decline in other revenues. It is important to note that the state takes a significant portion of all revenues collected from Municipal Court.

The loss of over \$1.3 billion in taxable value in the last two years, due primarily to steep reductions in commercial real estate values results in an effective tax rate of 5.12 cents above last year's rate to produce the same tax revenue as last year. However, due to the cost savings and expenditure reductions listed above, the effective tax rate is not necessary to balance the budget. A tax rate of 2.98 cents above last years rate has been proposed to fund requested items discussed in the council strategic planning session in operations and capital maintenance, including neighborhood sidewalks, drainage improvements, neighborhood splash parks and renovations to Trinity View Park athletic facilities. This rate is only 60% of the effective tax rate, and will provide \$4.9 million in additional revenue. When combined with the cost savings, operational efficiencies and expenditure reductions, this rate is sufficient to reach a structurally balanced budget.

The combination of these cost savings, expenditure reductions and an adjustment to the tax rate that is well below the effective tax rate allow for a balanced budget without the closure of city facilities, reduction in programs or critical services or the eliminations of filled positions.

General Fund and related internal service funds combined reserve balances are projected at \$48.5 million, which is equivalent to 105 days of operating reserves or 29% of budgeted expenditures. In FY 2006-07, the City Council formally adopted a policy maintaining combined General Fund reserves at levels at or above 90 days of operating expenditures. This policy provides clear direction to the staff to ensure financial stability and maintain the creditworthiness of the City's debt obligations.

The **Water and Sewer System** Fund budget funds operations and a capital program with a consumption-based rate structure in water rates to encourage conservation. Total expenditures are \$84.1 million, a \$2.3 million increase from the prior year's budget of \$81.8 million. A twenty-year model for the water and sewer system has also been developed to identify future water needs, infrastructure requirements and alternative uses.

Other Operating Funds include the following: The **Solid Waste Services** fund was created as an enterprise fund in FY 2009-10 and accounts for all refuse and recycling collection and landfill operations with a budget of \$11.7 million. The **Municipal Drainage Utility** funds operations, capital projects and transfers to four flood control districts for assistance in their maintenance programs. Falling hotel occupancy taxes have contributed to reduced operating budgets by the **Irving Convention and Visitors Bureau** and **Irving Arts Center**. Construction is under way on the Convention Center complex, which is scheduled to open January 2011. **Housing and Human Services** budgets have returned to normal funding levels after receiving over \$5 million in one-time stimulus funds and increased competitive grant awards to expand the city's grant programs in FY 2009-10.

In total, these operating groups will expend approximately \$283.5 million dollars in the coming fiscal year. This budget funds a reduced number of general government staff at **1,859** full-time and **411** part-time personnel, including the 46 of the 62 vacant positions mentioned above that are not proposed to be eliminated at this time. The programs served by these employees will be supported by a fleet valued in excess of \$33 million and consisting of more than 750 vehicles and 490 other pieces of equipment. The City's technology infrastructure is valued in excess of \$15 million and includes nearly 1,600 work stations served by a combination of local and wide area networks. This workforce is housed in 74 buildings with more than 1.37 million square feet of space.

Summary of Operating Expenditures for Major Programs

<i>Fund/Program</i>	<i>2009-10 Adopted Budget</i>	<i>2010-11 Proposed Budget</i>
General Fund	\$176,362,533	\$168,550,318
Water and Sewer	\$81,812,269	\$84,128,881
Solid Waste Services	\$11,622,026	\$11,723,038
Municipal Drainage Utility	\$4,646,044	\$4,883,382
HOT Revenue Funds		
ICVB	\$6,327,498	\$6,046,256
Arts Center	\$4,424,410	\$3,891,693
Main Street and Events	\$113,799	\$115,173
Heritage and Museum	\$368,423	\$244,846
Total HOT	\$11,234,130	\$10,297,968
Housing & Human Services	\$8,655,743	\$3,901,254
Total Major Funds	\$294,332,745	\$283,484,841

Cost Savings and Efficiencies

Position reductions have been achieved without laying off staff or reducing the level of services. Cost savings and efficiency tools like **Lean Six Sigma** have been used to analyze work flow and processes. These efficiencies have translated into improved customer service, faster response times, and elimination of waste. Many process improvements have allowed for staffing to be reduced when positions become vacant. When vacancies occur, they are not automatically filled. Each position is reviewed by senior management to determine if the job duties can be re-assigned to remaining personnel without a decrease in service levels. Employees are compensated for taking on additional duties. City staff are also rewarded with special pay

incentives for education, training, certification, and mastery of specialized job duties. All special pays and incentive programs are fully funded for the FY 2010-11 budget. Listed below is a sampling of the special pay categories available to employees:

Incentive Programs

- Lean Six Sigma incentive pay
- On the Spot incentive pay for exceptional service
- All Eyes On Irving incentive pay
- Rewarding Excellence – incentive for sanitation workers with perfect safety records
- Temporary Assignment Pay
- Occupational language skills pay
- IWIN Fitness Incentive
- Certification Pay

Police Incentive Pay

- School Crossing Guard Training pay – allocated 3% pay differential to four guards as trainers
- Shift Differential pay
- Education pay
- Master's Certificate pay
- Sick Leave Bonus Pay
- Annual Physical Fitness Screening
- Bachelors & Master's Degree pay

Fire Incentive Pay

- Paramedic Assignment Pay (On the Box Pay) – Fire Fighters certified as paramedics and paramedics actually assigned to ambulances
- Annual Physical Fitness Screening
- High Angle Rescue pay
- Haz Mat pay
- Swift Water Rescue pay
- Out of Class pay
- Arson Investigation pay
- Bachelors & Master's Degree pay
- Administration pay
- Masters Certification Pay
- Sick Leave Bonus Pay

On the following pages, the highlights of the FY 2010-11 budget are discussed by strategic plan goal.

GOAL 1: LAND USE

A key strategy of Goal 1 is to improve the visual impression of the city. Several projects are currently in design or under way to meet this strategy. These include the construction of screening walls to buffer neighborhoods from traffic noise, developing and installing street light and traffic signal standards by community district, and developing a comprehensive maintenance program for major streets and drainage channels.

Staff will be working to develop incentive programs to leverage redevelopment opportunities in areas of public investment such as gateway intersection projects and other major street enhancement initiatives.

Key Focus: Corridor Improvements – A comprehensive overhaul of MacArthur Boulevard to enhance and improve the roadway from Hunter-Ferrell Road to Northgate Drive is underway. The project includes burying overhead utilities, street lighting, median repairs/improvements, intersection improvements, roadway paving, screening walls to protect neighborhoods from traffic noise, private signage, dumpster screening, code violations, traffic signals and traffic signage. Phase one included the removal of overhead utilities and painting of the bridges at Irving Boulevard and State Highway 183. Other improvements in Phase I include new streetlights to improve safety and repair broken/leaning lights, median repair and beautification and intersection improvements at Sixth Street and Rock Island Road. Future improvements will include upgrades at the Pioneer Road intersection.

Irving has received a \$2 million Energy Efficiency and Conservation Block Grant to install 152 street lights on Irving Boulevard with solar powered street lights. The new lights will reduce energy costs to the city and replace 20 plus year old street lights.

GOAL 2: VITAL VIBRANT NEIGHBORHOODS

Key Focus: Non-Compliant Apartments – As part of the City's strategy to raise standards and increase enforcement of multifamily complexes, Code Enforcement staff evaluated all of the City's multifamily housing stock, which comprises 60% of all residences within Irving. Each property was given a classification of 1-4 with Class 1 being the highest standard while Class 4 represents those properties with the lowest ranking, due to several items being out of compliance with City codes and ordinances. Class 4 properties comprise 20% of the housing stock but contribute to 80% of the complaints and enforcement efforts of the City's Fire, Police, and Code Enforcement staff. For FY 2010-11, the goal is to have all Class 4 complexes brought into compliance.

Key Focus: Code Enforcement – Over the past four years, Code Enforcement staff expanded from eight to 16 positions. A number of Code Enforcement ordinances and processes were reviewed and revised in the past three years to increase standards and increase the number of tools available for enforcement. For FY 2010-11, Code Enforcement will continue to develop and implement strategies to reduce disorder and enhance the visual appearance of the city by targeting enforcement in priority areas.

Key Focus: Neighborhood Improvements – The Neighborhood Enhancement Program is a comprehensive City and community focus on strengthening one neighborhood at a time. This effort involves all City services, working in partnership with community stakeholders in a comprehensive manner to affect positive change and improved quality of life in neighborhoods. In FY 2009-10, the Tudor Lane neighborhood was selected for this program, as the area was noted for sub-standard housing and a high crime rate. As a result of a concentrated interdisciplinary effort among city departments, there has been a **78% reduction in police calls and a 72% reduction in crime in the area**. The city has acquired and demolished two blocks of dilapidated fourplexes. Nearly \$5 million in grant funding is being invested in a residential development that will construct 25 new, energy efficient homes.

GOAL 3: ECONOMIC DEVELOPMENT

Key Focus: New Development and Revitalization - The DART light rail extension to DFW International Airport will include six light rail stations within Irving that will provide opportunities for transit-oriented development. The City is in active discussions with developers regarding several potential projects along the entire length of the DART rail line. In 2009, construction began on phase I of the line, connecting Las Colinas to Love Field. DART also agreed on the final terminus of the Orange Line within D/FW International Airport, which will create a direct link from D/FW terminals to downtown Dallas. Construction is nearly complete on the Irving Convention Center, which is located next to one of the Orange Line stations. Promoting transit-oriented development, by encouraging office, retail, and high density residential development along the transit line, will increase the overall tax base and reduce dependence on automobiles, which will then help mitigate pollution.

The City is working with the cities of Carrollton, Farmers Branch, The Colony and Frisco, DART and the North Central Texas Council of Governments (NCTCOG) to utilize the BNSF line as a north-south commuter rail line. NCTCOG is paying 80% of the costs of a feasibility study, and Federal Transportation funding is being sought to accelerate its development.

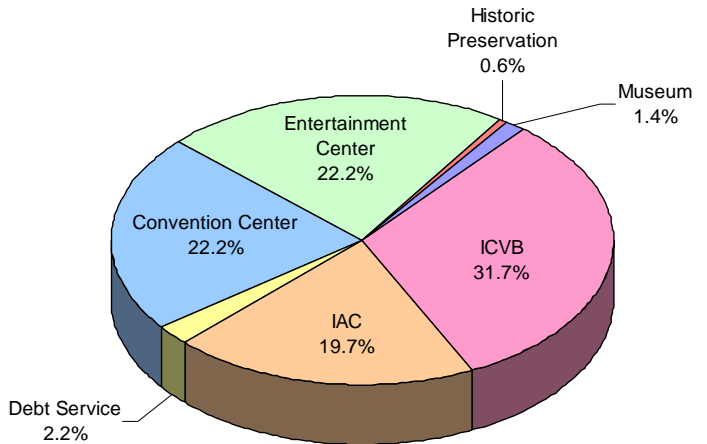
Construction began in the fourth quarter of 2009 on lake reclamation for the **Water Street** development, a major mixed-use project located in the heart of the Las Colinas Urban Center. Approximately 1.2 acres will be reclaimed from Lake Carolyn to provide for the development of this project. Design of the development is complete.

Heritage Crossing - The planned development includes a mixed-use urban village, complete with retail, residential, restaurants, offices and parks centered on the Trinity Railway Express station. The plans will promote a pedestrian-friendly neighborhood with buildings closer together and roads constructed for slower speeds. Design guidelines will ensure the master plan is compatible with existing neighborhood design, and that appropriate architectural design strategies for restoration and new construction are implemented.

The Guaranty bank building, completed in July 2009, was the first project of the development. This two story building sets the standard for architectural excellence in the redevelopment area.

Activities Supported by Hotel Occupancy Taxes

Hotel/Motel Occupancy Tax (HOT) supported functions include the Main Street and Events Fund, the Heritage and Museum Fund, the Irving Arts Center (IAC) and the Irving Convention and Visitors Bureau (ICVB). The HOT revenues are based upon the City portion of revenues. The total HOT percentage collected from local hotels, excluding the state portion, is 9 percent, of which 5 percent is allocated to four operating groups. State law specifically defines the legal uses of Hotel Occupancy Tax for direct tourism promotion. The additional four percent of revenue is allocated to the Convention Center Complex Fund (2%) and Entertainment Venue Fund (2%) to finance the construction of the Convention Center and the proposed adjacent Entertainment Venue. Revenues from these allocations will be used to pay the debt issued to purchase the land, design, and build the Convention Center and Entertainment Venue. Estimated tax receipts and interest earnings for FY 2010-11 are \$3.5 million for each 2% allocation.



It is estimated that HOT collections in FY 2010-11 will total \$15.78 million as compared to Fiscal 2007-08 in which \$18.3 million was collected. The sharp decrease over the past three years is due to declines in room rentals and rental rates due to the recession. The majority of Irving’s HOT revenue is generated by business travelers, and Irving’s HOT revenues are a leading indicator of business activity.

In FY 2006-07, the City Council authorized the development and construction of the Convention Center. Construction began in FY 2008-09. The center will open January 2011 and has already booked its first major event, Zest Fest. In addition, the site will include a convention center hotel and an entertainment venue featuring contemporary live musical performances and to the development of complimentary high-quality retail and dining outlets. Planning for the entertainment venue has already begun, with \$24 million in bonds issued for the design and construction documents. Funding for the entertainment venue is supported by the 2% occupancy tax and parking and ticket tax dedicated revenues approved by voters in 2006 under

a Brimer election. By state law, these funds can only be used for the development of an entertainment venue.

GOAL 4: SAFE AND SECURE CITY

Key Focus: Public Safety – For the first six months of FY 2009-10, the crime rate has declined by an additional 9% for an overall decrease of 20%. Another key success has come from aligning Code Enforcement with the Police Department. Working together, the two departments are able to coordinate efforts in targeted areas, such as Tudor Lane, where significant reductions in crime are accompanied by improving the appearance and livability of the area. A key focus for FY 2010-11 will be to decrease crime throughout the community by providing problem-oriented policing targeting specific areas of concern. Violent crime will be targeted through the use of disorder operations to provide intensive enforcement in areas statistically prone to such issues. The Crime-free multi-housing program and other community education efforts will also reduce the potential for violent crime by increasing security and educating citizens to avoid creating opportunities for crime to occur. The current focus of the problem solving team is the area surrounding Walnut Hill and Beltline roads. A community website has been established to provide information to the residents concerning criminal offenses and safety information.

GOAL 5: DIVERSITY

The city will continue to expand the Minority/Women owned Business Enterprise program to include four planned community outreach events in FY 2010-11. These events will be targeted workshops on aspects of how to do business with the City of Irving and comply with all purchasing and bidding requirements.

Funding in the amount of \$110,000 for the Hispanic Chamber of Commerce has again been allocated for FY 2010-11. This program is administered through the Chamber of Commerce, and will promote the community outreach and retention of Hispanic-owned businesses, which make up 19% of the small businesses within the city. Funding will also be increased for the Sister Cities program to \$164,800. This program is also administered by the Chamber of Commerce to promote the city and its businesses globally.

GOAL 6: COMMUNICATIONS

Key focus: Communications and Customer Service – A key focus for FY 2010-11 will be to strengthen the city's strategies and messages to residents and stakeholders. A plan of monthly to communicate the key focus areas of the strategic plan is being developed that will include the City Spectrum newsletter, ICTN cable programming, and the city's website.

For FY 2010-11, a continued focus will be the expansion of technology to communicate with the community. Projects include the development of targeted communications programs to inform residents in a specific area or with specific interest about key information.

The city continues to develop new programs to improve **customer service** and enhance external and internal communications with residents and employees. Interactive video kiosks are being installed to allow for quicker access to municipal services.

Enhanced communication with city employees is another key strategy. Current actions include programs to boost educational opportunities for frontline customer service personnel and plans to address communication during emergencies.

GOAL 7: CULTURE, RECREATION AND EDUCATION

Following on the success of the Cimarron Aquatics Center, which opened in 2008, and the West Irving Aquatic Center, which opened in 2010, design will begin on a third state-of-the-art Aquatics Center at Senter Park. Neighborhood splash parks will be constructed to replace the obsolete neighborhood pools which were closed in 2010.

In 2008, the Library board approved a new master plan that will result in the construction of two new libraries of similar size and scope to the Valley Ranch Branch Library completed in 2008. These new buildings will be owned by the city and will replace two branches currently in leased buildings throughout the city. The West Irving Library will be completed in 2011. This state-of-the-art facility will incorporate new and innovative technology and services to enhance the use and functionality of the library. The building is also innovative, being designed as LEED certified net-zero building, which means that the net energy costs for the building will be offset with solar and geo-thermal energy to reduce energy costs to zero. Additional funding will provide the design of a new Central Library Facility with construction to begin in 2012

Construction of the Champion Trails will continue with an emphasis on completing the primary trail segments. The Champion Trails will connect to the Lake Carolyn Promenade located at the Las Colinas Urban Center, which is also under construction.

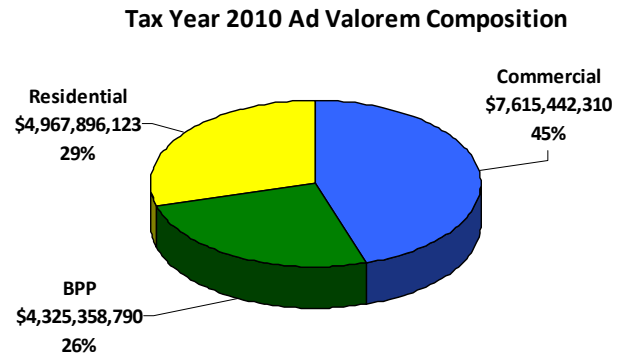
GOAL 8: SOUND GOVERNANCE

Tax Rate, Assessed Value and Fee Changes

Taxable values for Irving, based on the 2010 Certified Tax Roll provided by the Dallas Central Appraisal District, have declined for the second year in a row to \$16,908,697,223. This is a \$1.3 billion decline in taxable values from the 2008 valuation of \$18.2 billion. For FY 2010-11, the budget is based on the tax rate of \$0.5704 per \$100 assessed valuation. This rate is 2.14 cents below the effective tax rate of \$0.5918. The effective tax rate is the rate that would generate the same amount of tax revenue on existing properties as was levied in the prior year. With the proposed rate of \$0.5704, General Fund revenues will decrease by \$1.4 million to \$68,541,067. While the proposed rate increase is only 60% of the effective tax rate increase, the expenditure reductions and deferral of capital, replacement funding, and equipment purchases reduce the

budget requirements for FY 2010-11. Of the proposed increase, 2.5 cents will fund operations while 0.48 cents will fund priority infrastructure maintenance and replacement. The bottom line is that the city is able to do more in FY 2010-11 with less revenue than was received in 2008. This tax rate is once again the second lowest rate among our 10 benchmark cities.

The Residential component of the tax roll decreased by \$113 million or -2.25%. Business Personal Property decreased slightly by only \$1.8 million or -0.04%. The greatest change to the tax roll was a decrease in Commercial taxable value by \$1.08 billion or -12.8%.



This tax roll represents the impact of the recession on the local economy. Irving did not see a dramatic increase in residential property values over the past few years, so there has been no corresponding decline as the housing bubble burst in other real estate markets. Commercial values have declined as vacancy rates for office buildings have increased and lease rates have declined. Since 2008, **Commercial values have declined by \$1.3 billion, or over 14.5% of their total value.** Also affecting commercial values have been the decline in home construction, which has affected home builders with offices in Irving. With over two thirds of Irving’s property base coming from real and personal commercial property, Irving is especially sensitive to changes in the business cycle. Residential values have been fairly stable, with only a slight decline in value when compared to the large decreases in commercial real estate values. Staff continues to monitor economic indicators to project future trends.

The Homestead Exemption rate was continued at 20% for eligible taxpayers within Irving. In addition, exemptions for disability and for eligible residents over 65 years of age will be preserved.

Sales Tax collections in FY 2009-10 have declined from the adopted budget and are projected to be \$3 million or 6% below the FY 09-10 budget. For FY 2010-11, sales tax revenue is budgeted at the same amount as the actual receipts for the current year, resulting in a total budget of \$44.5 million.

Employee Compensation and Benefit Adjustments

The FY 2010-11 budget projects a 10% increase in costs for health insurance. This increase will be split between the city and the employees with the city paying for 87% of insurance costs while the employees pay for 13%. In addition to the IWIN fitness benefit, the city has developed a comprehensive wellness program designed to provide incentives, information, and training to employees to encourage healthier lifestyles and to give employees greater control over their health care decisions.

The City's retiree health insurance program has also been changed to incorporate the IWIN program. In order to contain the projected increase of costs for retiree health care, staff has proposed a fixed subsidy for future retirees that can be augmented by fitness annuity credits. This fixed subsidy increases based on years of service, with employees who work for Irving longer receiving a higher level of benefit. The plan will go into effect January 2011.

GOAL 9: INFRASTRUCTURE

Water and Sewer System

The Water and Sewer System Fund is supported from fees charged for water and sewer services. Among the 30 cities served by Dallas Water Utilities, Irving continues to have the lowest residential water and sewer costs. Tax revenues are not used to support the utility function. Funds received from this operation, after expenses, are used to make needed capital improvements to the system to ensure that the users will be provided with adequate service in the future. The 2010-11 Water and Sewer System Fund estimated revenues of \$84.1 million. The FY 2009-10 year-end revenue estimate is \$75.3 million, a difference of \$8.8 million or just over 11%. This amount includes \$3.4 million in wholesale water payments from the Upper Trinity Water District associated with conveyance of water through the Lake Chapman waterline.

For over fifteen months, the North Central Texas region has experienced unseasonably cool temperatures and rainfall significantly above average. This led to a decrease in revenues below the minimum level to provide coverage to meet operating costs as well as goals for debt service coverage. A critical need to upgrade the water system is the increasing need to fund the replacement of water and sewer mains that have exceeded their useful life. Other major capital needs include the Lake Chapman pipeline booster pump station and pipeline relocations necessary due to the reconstruction of SH 183, SH 114, Loop 12 and the Diamond Interchange where all three highways meet. Both of these projects are necessary due to agreements with outside agencies for Irving to finance its fair share of the projects. A rate increase of 5.1% is recommended for FY 2010-11 and is included in the total revenue projection of \$84.1 million.

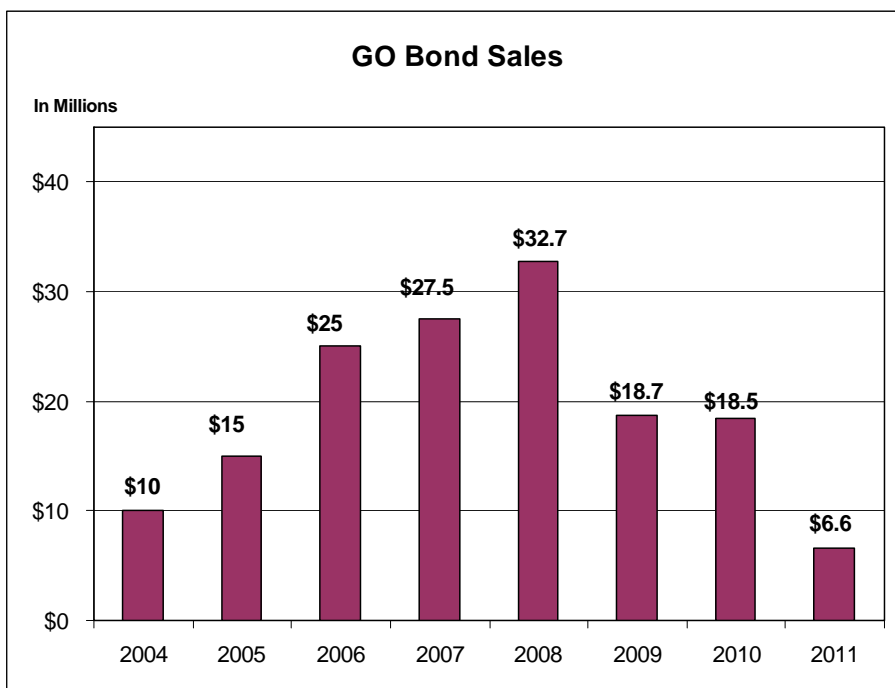
Recommended changes to water and sewer are rates based on a twenty year cost of service model that examines the rate structures necessary to fund operations, ensures adequate debt service coverage, provides for infrastructure repair and replacement and encourages conservation from customers. Base monthly rates have been calculated by meter size, and sewer charges have been calculated by dwelling unit for all residential uses.

The Lake Chapman project was completed in the summer of 2003. It is fully operational and provides 85% of the City's raw water. The remainder of raw water is purchased from the City of Dallas, which also provides water treatment services to Irving. The City is currently in negotiation with the City of Paris, Texas and the City of Hugo, Oklahoma to obtain additional water resources to secure Irving's projected water needs for the next 75 years.

Operating expenditures for FY 2010-11 are \$84.1, which includes transfers to debt service in the amount of \$19.6 million, as well as transfers to the reserve funds. In FY 2006-07 a pay-as-you-go capital fund was established to separate pay-as-you-go infrastructure repair and replacement projects from daily system fund operations. Transfers from operations are budgeted at \$6.25 million for capital projects to replace critical aging infrastructure and fund a water reuse pilot project. Approximately \$2.4 million is budgeted for coverage reserve. This reserve is necessary to maintain coverage ratios established by bond covenants. Fund balance in excess of the 90 day operating reserve requirements are transferred to the pay as you go capital program to finance capital projects and reduce the issuance of revenue bonds for capital funding.

In the spring of FY 2004-05, the City of Irving and the Trinity River Authority (TRA) finalized an agreement that will provide rights of water reuse linked to the City of Irving utilization of water drawn from Lake Chapman reservoir, and ultimately flowing into the TRA wastewater treatment facilities. Access to this water resource should provide the City with the total capacity supply required to meet its long-range 2060 water supply needs. This is a very significant accomplishment, representing the collective efforts of Mayors, Councils and staff administrations extending back to the 1950s. Discussions are currently under way with the Trinity River Authority and the City of Dallas to develop a long-term plan to capture treated wastewater and return it to raw water treatment facilities to be reused by Irving.

Key Focus: Capital Improvement Program – In November 2006, voters approved authorization of \$335 million in General Obligation bonds for various infrastructure improvements. This funding supports the reconstruction and expansion of major thoroughfares; the construction of new parks, libraries, and fire stations; and new programs and facilities such as the West Irving Library, and the recently completed Irving Animal Shelter and the West Irving Aquatics Center.



In order to complete all authorized projects within ten years, an average of \$45 million per year would need to be issued. Since 2006, the average issuance has been less than half of that amount. Council and management have limited the size of each year’s capital program to ensure that the volume of projects was within the capability of staff to manage, and to also not put an undue debt burden

on the tax base. In 2009, 2010, and 2011, declines in the tax base have further restricted the size of the debt issuance. Council and management have focused on funding projects that were the highest priority, had the most impact on the community, and met the goals and objectives of the strategic plan.

The capital improvement program for FY 2010-11 has been developed based on the Strategic Plan priorities and project requests made by Council at the July 2010 planning meeting. The current proposed general obligation bond sale of \$6.6 million includes funding for the design of the South Irving Library, design of Irving's third Aquatic Center at Senter Park, and construction of a neighborhood splash pool. Street projects include the undergrounding of utilities in Las Colinas. As you can see, we have scaled back general capital outlays by 2/3; from an average general bond sale of \$18.5 million to the proposed \$6.6 million. Neighborhood sidewalk renovations and Trinity View park renovations to the fields and buildings are funded from General Fund pay as you go funds. Lease-purchase funding is also budgeted for the replacement of two Fire pumpers that were approved by council and ordered in FY 2009-10. Lease-purchase financing allows the city to finance equipment purchases over a shorter duration and at a lower interest rate than by issuing long term debt. A placeholder has been added to fund the replacement of the Public Safety Radio and Data System as staff continues to evaluate the timing and the best financing strategy for this major capital expenditure. Funding is also included for the construction of the Entertainment Venue. Upon Council approval, this debt will be issued as hotel occupancy tax (HOT) revenue bonds and is supported by revenues generated by the 2% HOT tax and parking and ticket taxes authorized by voters in 2006.

Capital Improvement Program FY 2010-11		
	Debt Financed	Cash Financed
General CIP	\$6,600,000	\$975,500
Streets	\$2,500,000	\$500,000
Parks	\$2,100,000	\$475,500
Library	\$2,000,000	\$0
Lease Purchase	\$17,060,000	\$0
Fire Services	\$1,060,000	
Public Safety Radios	\$16,000,000	\$0
Water & Sewer System	\$27,050,000	\$6,000,000
Water	\$18,650,000	\$4,000,000
Sewer	\$8,400,000	\$2,000,000
Certificates of Obligation	\$33,700,000	\$0
Water Street	\$33,700,000	\$0
Municipal Drainage Utility	\$2,600,000	\$0
Entertainment Venue	\$215,008,000	\$0

Water and Sewer System projects will be funded from both operating funds and the issuance of revenue bonds. A key water project will be the city's share of the design and construction of a booster pump station on the Lake Chapman transmission line. The City is partnering with the North Texas Municipal Water District on this \$45 million project which will allow for full use of the pipeline's transport capacity. Irving's share of the project is \$22 million. Drainage Utility Bonds will be issued to partially fund reconstruction of Delaware Creek to increase water volume carried by the channel and reduce the incidence of flooding along adjacent residential properties. Operating funds will be used for neighborhood and alleyway drainage improvements.

GOAL 10: ENVIRONMENTAL SUSTAINABILITY

Solid Waste Services

In FY 2009-10, Solid Waste Services was separated from the General Fund and established as an enterprise fund. In addition to funding operations of both refuse collection and the landfill, the fund transfers its portion of existing debt service to the General Interest and Sinking Fund and reimburses the General Fund for indirect costs provided by General Fund departments.

Municipal Drainage Utility

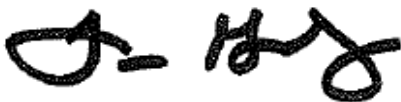
The Municipal Drainage Utility Fund provides resources for drainage channel maintenance and construction, environmental education programs, storm water testing, industrial inspections, erosion control, and dredging and channel stabilization projects.

Drainage utility fund operations include salaries, benefits, and operating costs for 32 full-time and 3 part-time employees at a cost of just over \$3 million. An additional \$424,000 is transferred to the three autonomous flood control districts within the city of Irving to assist with dredging and channel maintenance projects. The remaining budget is allocated to drainage capital projects for the city of Irving. In addition to neighborhood drainage projects funded by the drainage fee, \$2.6 million in drainage revenue bonds are proposed to be sold in FY 2010-11 to finance major drainage capital improvements on Delaware Creek and levee improvements for Irving Flood Control District #1.

CONCLUSION

This budget represents the fifth year of implementation of the shared vision of the City Council as defined in the Strategic Plan and refined by the Council’s key focus areas. The development of this budget has not been without difficulty and compromise due to the current economic climate, but it represents a balance between judicious expenditure reductions, deferment of some capital and maintenance programs and prudent adjustment of revenues in order to continue to provide an exceptional level of service to all Irving residents and above average compensation and benefits necessary to retain and hire quality municipal employees.

In closing, I would like to express my appreciation to the City Council, Directors, Managers, and the Budget and Performance Team staff. Most importantly, I want to thank the hard working employees on our team that collect refuse, enforce our laws, protect lives and property, put out fires, respond to emergencies, and interact with our residents daily to deliver exceptional service. Everyone has worked hard to develop the Strategic Plan and has worked diligently to incorporate the priorities and goals identified by the strategic planning process into the development of the proposed budget.



Tomas “Tommy” Gonzalez
City Manager