



MEMO

To: Honorable Mayor Van Duyne and Members of the City Council
From: Tommy Gonzalez, City Manager
Date: August 5, 2011
Subject: FY 2011-12 Manager's Proposed Budget

It is my privilege to present the FY 2011-12 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 core services to the city's residents, visitors and businesses. 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 remain a high priority. The FY 2011-12 budget is structurally balanced, with operating revenues meeting operating expenditures. The impact of the national recession and sharp declines in key revenues have resulted in drastic budget cuts for many city and county governments.

The national recession has had a significant impact on municipal revenues over the past four years. The two main revenues supporting the General Fund, property taxes and sales taxes, have both declined significantly as a result of the economic contraction. Taxable values of all property within Irving have declined steadily. From a peak valuation of \$18.45 billion in FY 2008-09, values have dropped to \$16.5 billion for FY 2011-12, a reduction of \$1.9 billion. This has resulted in a \$10.3 million decrease in revenues over the past two years. If the current tax rate were maintained, the impact on general revenues would be a further reduction of \$2.6 million, for a cumulative loss of \$12.9 million.

These steady reductions in major revenue sources have been met with offsetting reductions in expenditures to continually rebalance the budget as projections are updated and revenues continue to fall. The city has taken proactive steps to review processes and reduce operating costs ahead of revenue declines while maintaining excellent levels of services. Examples of how operating costs have been reduced will be presented at 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 reduce costs. Cumulatively over the last four years, the city has identified over \$38 million in cost savings, cost avoidance, cost recovery and productivity enhancements. This, in part, has helped offset the loss in revenues mentioned above.

The recession has also impacted the residents of Irving. While municipal revenues have been declining, use of city services has been increasing. In particular, residents are using city programs and facilities as a low cost resource for after school care, tutoring, job searching, and recreational, aquatic and leisure activities for their families. A key goal of the development of the FY 2011-12 budget was to **maintain those services that provide direct benefits to the community** as well as those essential to protect the health, safety and welfare of the community.

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 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. The proposed structurally balanced budget will help maintain the city's double AAA credit rating, prepares the city for the upcoming year, and lays the foundation for the next two to three years.

FY 2010-11 RESULTS

Irving became the first municipality to receive the prestigious **Texas Award for Performance Excellence (TAPE)**. As the state version of the Malcolm Baldrige National Quality Award, TAPE recognizes role model organizations that demonstrate exceptional performance in areas of leadership, customer service, workforce focus, process management, results and strategic planning. The TAPE award comes on the heels of Irving being recognized as one of the **2010 Best Places to Work in North Texas** by the *Dallas Business Journal*.

Genghis Khan: The Exhibition is on display at the Irving Arts Center through September 30. This prestigious exhibition is the largest cultural exhibit ever hosted in Irving. The exhibit is attracting visitors from many states and countries, including some from Mongolia. The Arts Center has worked with several school districts in Texas and Oklahoma to integrate the exhibit into their curriculum and facilitate field trips to the exhibit.

In May 2011, the **West Irving Library** was opened. This state-of-the-art, 25,000 sq ft library offers a wide variety of technology resources in addition to the traditional books, magazines, audio and video resources. These include multi-touch computer tables, a computer lab, a business center, and Wi-Fi access. Constructed with the latest green building techniques, the library is a net-zero building, using solar panels and geo-thermal wells to generate as much energy as the building will use over the course of a year.

Another high priority area for the council and staff is public safety. We have seen a 30% decline in the crime rate over the last five years, including a 12% 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.

Irving received a \$2 million Energy Efficiency and Conservation Block Grant and replaced 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.

Diversity - The city has over 11% 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.

Transparency – The Financial Services and Corporate Communications departments 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 the second year in a row. The award criteria includes placing budget documents, annual financial reports, and check registers in the city's website for public review.

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. Irving Wellness Incentive Now (**I WIN**) was launched January 2009 to offer wellness and fitness rewards to employees who achieve and maintain good health. The cost of these rewards will be offset by lower insurance premiums in the future from a fit workforce as well as encouraging preventative care and a healthier lifestyle. When employees are healthy and strong; residents, visitors and businesses are well served, productivity is high and health insurance costs are kept low. Through I WIN, 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 I WIN programs. More than 1,040 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. Another tangible result has been the loss of almost 2,300 pounds by participating employees over the last two years.

DEVELOPMENT OF THE FY 2011-12 BUDGET

The FY 2011-12 budget is the sixth to be organized around the city's **Strategic Plan**. City departments and teams have been 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.

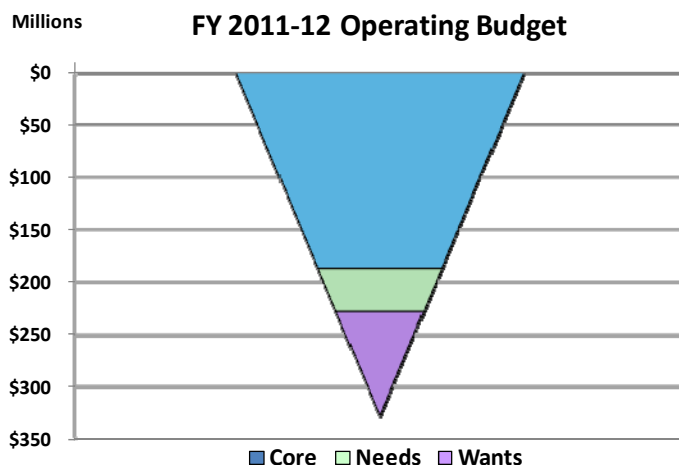
Sales tax revenue peaked in FY 2007-08 at \$50.61 million and declined to a low of \$44.6 million in FY 2009-10. Since then, revenues have recovered slightly, with \$46.6 million being projected for FY 11-12. However, the reduction is a cumulative loss of \$18.6 million over the past four years.

Hotel Occupancy Tax (HOT) revenues, which are primarily driven by business travel was also significantly impacted by the recession, resulting in a 23% reduction in taxable receipts since FY 2007-08. As is the case with sales tax revenues HOT revenues have been increasing from the lowest point of FY 2009-10, but are still well below pre-recession levels.

In developing the FY 2011-12 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 held vacant. Over the past four years, 111 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 135 positions are currently being held vacant, with a savings of \$7.3 million estimated for FY 2011-12. 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, department workloads will be evaluated using lean six sigma to determine which represent truly required 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 2011-12 OPERATING BUDGET

In preparation for the FY 2011-12 budget, all city operations were categorized and ranked according to three categories: core, needs, and wants. These categories were assigned across all goals to build a city-wide hierarchy of services provided, their annual cost, and the personnel needed to provide the service. Core services were limited to the essential services that must be provided in order to maintain the health, safety and welfare of the City. These services include Police protection, Fire suppression and EMS, Water and Sewer operations, Solid Waste Services, and Street maintenance. Other important services, including Code Enforcement, Municipal Court, Fleet Maintenance, that did not meet the definition of core services were classified as Needs. All other services, including certain programs within the departments classified as Core or Needs were classified as Wants and prioritized.



In addition to revenue decreases discussed above, several key expenditure categories also increased for FY 2011-12.

- Health insurance costs increased by 10%, adding \$1.3 million to General Fund expenditures alone, which is offset by the I WIN program mentioned above.
- The recent rise in fuel costs has also been accounted for with Fleet projecting an increase in fuel costs of \$1.28 million.
- Contractual rebates and other economic development incentive agreements have increased from the prior year by \$513,200 for a total of \$10.3 million

All departments were asked by to review all fines, fees, and charges for service related to their operations. All municipal revenues were evaluated against how much it cost the city to provide the related service and were also benchmarked against rates charged by comparable cities. Several fee adjustments were proposed, and adjustments were recommended for some Planning and Inspection fees, Code Enforcement fees and Aquatic Center fees for adults. In total, these adjustments result in \$414,000 in additional revenue.

The Irving Art Center increased ticketing, art camp, and theater rental fees to increase recovery of the costs of service. These revenue adjustments are in line with benchmark rates and will generate an additional \$26,200 in the Arts Center fund group.

The **electric franchise fee**, which had been arbitrarily reduced by the Public Utilities Commission to eliminate the contractual 5% increase in rates in 2009, was reinstated as the result of administrative, legislative and legal efforts by Irving in partnership with several other Texas cities. Prior year revenue of approximately \$670,000 is expected to be recovered from Oncor within FY 2010-11. For FY 2011-12, this resumption of the contractual franchise rate will increase revenues by \$600,000.

In addition to the proposed fee increases, several other revenue enhancements were proposed, but were ultimately not included to balance the FY 2011-12 budget; they follow:

- +1% increase in the municipal franchise fee to 3% (\$700,000 increase)
- +1% increase in the waste hauler franchise fee to 6% (\$124,000 increase)
- +\$1.00 increase in the energy surcharge to \$1.98 to offset fuel costs (\$400,000 increase)

The **General Fund** revenue estimates for FY 2011-12 are \$167.87 million. Operating expenses are also \$167.87 million, achieving a structurally balanced budget. This budget is \$1.3 million lower than the \$169.5 million FY 2010-11 budget.

With over two-thirds of the General Fund budget allocated to salaries and benefits, the budget could not have been balanced in the past three years without significant realignment of the organization. The following strategies were used to balance the FY 2011-12 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 \$9.7 million from preliminary projections. These strategies include the following:

- Continue to hold vacant all identified General Fund positions vacant for FY 2011-12 that are currently being held. New vacancies will be evaluated as they occur to determine if there is sufficient need to fill them. The estimated savings to the General Fund for these vacancies is approximately \$7.4 million.
- Step increases will be delayed for 18 months for all employees, including general government, police and fire civil service. This will produce over \$589,000 in savings to the General Fund alone.
- 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 2011-12.
- Health Insurance - For the Choice POS II plan, which covers the majority of the workforce, the cost allocation will shift from 87% city/13% employee to 85%/15%.
- Departments were asked to review their budgets for further reductions in operational expenditures that totaled \$6.9 million.

- Computer replacement transfers from the General Fund have been deferred for FY 2011-12. 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 2011-12. Only the most critical needs, totaling \$1.58 million will be replaced out of initial departmental requests of \$10.5 million.
- Overtime usage has been reduced by approximately \$1.6 million, a decrease of 35% to the proposed citywide overtime budget of \$3 million.

The combination of these cost savings, expenditure reductions and an adjustment to the tax rate that is 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 \$49.5 million, which is equivalent to 97 days of operating reserves or 29.6% 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 rating agencies indicated that one condition necessary for Irving to maintain its AAA bond rating would be to increase the amount of operating reserves above 95 days. The proposed budget satisfies that requirement.

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 \$86 million, a \$1.8 million increase from the prior year's budget of \$84.2 million. An adjustment to the water rate based on consumption to conserve energy and a flat 3% increase in sewer rates is proposed for FY 2011-12. The twenty-year model for the water and sewer system has also been updated to project future water needs and infrastructure requirements.

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 \$10.5 million. The **Municipal Drainage Utility** funds operations, capital projects and transfers to four flood control districts for assistance in their maintenance programs. Hotel Occupancy Taxes fund the operating budgets of the **Irving Convention and Visitors Bureau** and **Irving Arts Center** as well as the operations of the newly opened **Irving Convention Center**, which is included in the ICVB budget. The **Housing and Human Services** budget has been reduced by approximately \$750,000 from the previous year in response to decreasing federal grant awards.

In total, these operating departments will expend approximately \$282 million dollars in the coming fiscal year. This budget funds a reduced number of general government staff at **1,832** full-time and **405** part-time personnel. This total includes the 135 positions mentioned above that will be held vacant for the 2011-12 fiscal year, but does not include the 111 positions eliminated since 2006. 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

Fund/Program	2010-11 Adopted Budget	2011-12 Proposed Budget
General Fund*	\$169,504,476	\$167,869,223
Water and Sewer	\$84,197,785	\$86,015,875
Solid Waste Services	\$11,723,038	\$10,532,353
Municipal Drainage Utility	\$4,883,382	\$4,970,087
HOT Revenue Funds		
ICVB	\$6,046,256	\$5,733,840
Arts Center	\$3,891,693	\$3,417,253
Main Street and Events	\$45,173	\$85,456
Heritage and Museum	\$240,096	\$289,982
Total HOT	\$10,223,218	\$9,526,531
Housing & Human Services	\$3,901,254	\$3,154,150
Total Major Funds	\$284,433,153	\$282,068,219

*The FY 11-12 budget is \$15.4 million lower than the FY 2008-09 budget of \$183.2 million

Cost Savings and Efficiencies

Position reductions have been achieved without staff layoffs 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. If the increase in duties and responsibilities is great enough, a temporary promotion is another option to fill the vacant position and allow employees to gain experience in position of greater responsibility. City staff is 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 2011-12 budget. Listed below are the major special pay categories available to all employees:

Incentive Programs for all city employees, including civil service

- 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 (Sanitation only)
- Occupational language skills pay
- I WIN Fitness Incentive
- Certification pay

Police Incentive Programs

- 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
- I WIN Fitness Incentive
- Annual Physical Fitness Screening
- Bachelors & Master's Degree pay

Fire Incentive Programs

- 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
- I WIN Fitness Incentive
- Sick Leave Bonus pay

On the following pages, the highlights of the FY 2011-12 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 is developing 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 – In FY 2010-11, a second Tax Increment Financing District (TIF #2) was created along the Irving Boulevard corridor. The goal of this TIF is to provide funding for infrastructure improvements and redevelopment of this corridor. Architectural design and land use guidelines are being developed to ensure that renovations and new development enhance the appearance and property values of the city. The state has awarded a grant through Keep Irving Beautiful which is funding construction of monument signs and landscaping improvements at both ends of Irving Boulevard.

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 comprised 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. Of the sixty Class 4 Properties identified, all were brought into compliance, closed or demolished. One has since been reevaluated as a Class 4.

Key Focus: Code Enforcement – Over the past four years, a number of Code Enforcement ordinances and processes were reviewed and revised to increase standards and increase the number of tools available for enforcement. For FY 2011-12, 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 four-plexes. 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 D/FW 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. Construction began on phases I & II 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. 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.

Heritage Crossing - The planned redevelopment of Irving’s downtown area 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 and undergrounding of utilities. 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.

85 properties in the Heritage district have been purchased, including 6 substandard apartment complexes that have been demolished and are ready for development. In addition to the 7 business being redeveloped, other improvements include a 35% reduction in the crime rate and a 4% reduction in EMS service calls.

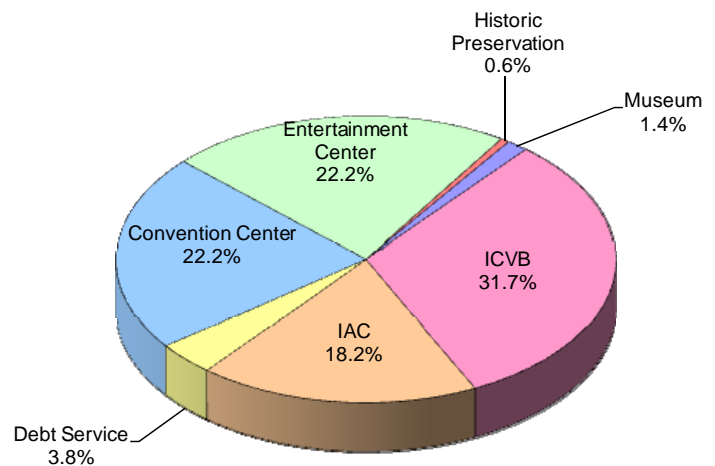
The Guaranty Bank building, completed in July 2009, was the first project of the development. This two story building sets the standard for architectural excellence in the redevelopment area. Additional private sector projects include the reconstruction of McDonalds, JPT Graphics façade improvements, and current construction of a new Burger King restaurant, which will be completed by Fall 2011.

Heritage District, LLC secured a \$26 million line of credit from Comerica Bank for the aggregation of property for the development. McDougal family partnership has secured an additional \$2.65 million loan for further property aggregation and McDougal companies have invested an additional \$300,000 into the project. Approximately \$13.5 million of the \$26 million line of credit was used to acquire and demolish the 6 substandard apartment complexes.

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%, of which 5% is allocated to four operating groups. State law specifically defines the legal uses of Hotel Occupancy Tax

for direct tourism promotion. The additional 4% 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 construction the Convention Center and Entertainment Venue. Estimated tax receipts and interest earnings for FY 2011-12 are \$3.7 million for each 2% allocation.



It is estimated that HOT collections in FY 2011-12 will total \$16.6 million as compared to FY 2007-08 in which \$18.3 million was collected. The sharp decrease in 2009 and 2010 was 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. Projected revenue for FY 2011-12 is 4.7% above FY 2009-10 collections of \$15.83 million, and show slow but steady growth as business travel recovers from the national recession.

In February 2011, Superbowl XLV was held in Arlington, Texas. Irving directly benefited as the city hosted the NFC Championship team as well as many of the international media covering the event. The city entered into agreements with the state and the host committee to be reimbursed for the cost of any city resources, such as police protection, related to the Superbowl. Preliminary estimates show that approximately \$800,000 of the \$1.2 million in projected HOT collections above the \$15.78 million FY 2010-11 budget to be attributable to the event.

As noted above, the Irving Convention Center opened January 2011. Further proposed development of the site will include a convention center hotel and an entertainment venue featuring and dining outlets. Planning for the entertainment venue has been completed, with \$25 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 and the voter-approved resolution, these funds can only be used for entertainment venue related projects.

GOAL 4: SAFE AND SECURE CITY

Key Focus: Public Safety – For the first six months of FY 2010-11, the crime rate has declined by **an additional 12% for an overall decrease of 30% since FY 2006-07**. 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 2011-12 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 with the Minority/Women Owned Business Enterprise program, which will include four to five planned workshops in FY 2011-12. 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 \$120,000 for the Hispanic Chamber of Commerce is again being allocated for FY 2011-12. 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 of \$164,800 will also be

maintained for the Sister Cities program. 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 2011-12 will be to strengthen the city’s strategies, messages, social media opportunities and outreach initiatives to residents and stakeholders.

For FY 2011-12, 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. Opportunities to utilize social media and enhance the city’s website will be a focal point. City Spectrum and ICTN programming will also be used to keep residents informed.

Community Outreach will have a focus on building and maintaining partnerships with residents and strengthening the city’s presence. This also will allow an open exchange of information and communication with residents, which includes neighborhood association roundtables, Town Hall Meetings and Speaker’s Bureau.

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 aquatic center at Senter Park. Neighborhood splash parks replaced two of the obsolete neighborhood pools which were closed in 2010. For the past two years, the popularity of these new aquatic facilities has been demonstrated by a ten-fold increase in attendance at the West Irving aquatic center when compared to the three neighborhood pools’ attendance combined for the preceding year.

In accordance with the Library Master Plan, new, city-owned libraries were constructed: the Valley Ranch Branch Library completed in 2008 and the West Irving Library completed in 2011. These new buildings replaced three smaller storefront branches in leased buildings. These state-of-the-art facilities incorporate new and innovative technology and services to enhance the use and functionality of the library. The West Irving Library is also innovative, being designed as a 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. Capital funding for the construction of a new South Irving Library facility is proposed in the current budget.

Construction of the Champion Trails along the Trinity River will continue with an emphasis on completing the primary trail segments. These trail projects will connect Irving’s trail system with a regional trail network in adjacent cities, including Grand Prairie, Dallas, and Farmers Branch. Funding for the trail system is augmented by grants from Dallas County. The Champion Trails will also connect to the Lake Carolyn Promenade located at the Las Colinas Urban Center.

GOAL 8: SOUND GOVERNANCE

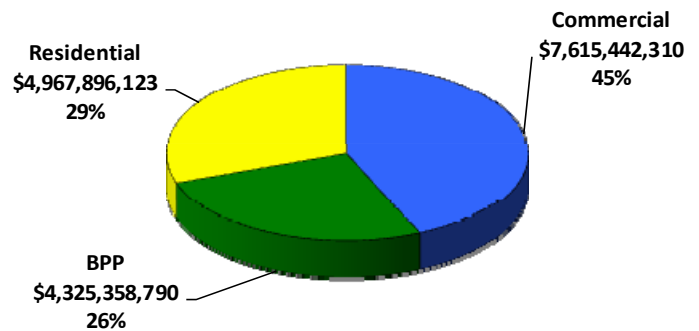
Tax Rate, Assessed Value and Fee Changes

Taxable values for Irving, based on the 2011 Certified Tax Roll provided by the Dallas Central Appraisal District, have declined for the third year in a row to \$16,531,748,675. This is a \$1.9 billion decline in taxable values from the 2008 valuation of \$18.45 billion. For FY 2011-12, the budget is based on the tax rate of \$0.5958 per \$100 assessed valuation. This rate is 0.28 cents below the effective tax rate of \$0.5986. 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 \$0.5958, property tax revenues would be \$70,047,812, \$453,632 below the \$70.5 million that would be generated by the effective tax rate. Although taxable values have continued to decline for the third year, the expenditure adjustments and cost savings discussed above do not require the tax rate to be set to the effective rate in order to balance the budget. This tax rate is once again the second lowest rate among our 10 benchmark cities.

The Residential component of the tax roll decreased by \$35.6 million or 0.72%. Business Personal Property increased slightly by \$53.8 million or 1.24%. The greatest change to the tax roll was a decrease in Commercial taxable value by \$395 million or 5.2%.

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 real estate values have declined by \$2.45 billion, or almost 24% of their 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.

Tax Year 2011 Ad Valorem Composition



The Homestead Exemption rate is being 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 2010-11 have increased from the adopted budget and are projected to be \$1.1 million or 3.9% above the FY 2010-11 budget. The primary driver for the increase was a strong Christmas season increase in collections of approximately \$950,000 over projections followed by several months of collections slightly above the prior year. For FY 2011-12, sales tax revenue is budgeted at the same amount as the actual receipts for the current year, resulting in a total budget of \$46.2 million.

Employee Compensation and Benefit Adjustments

The FY 2011-12 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 85% of insurance costs while the employees pay for 15%. In addition to the I WIN 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 I WIN 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 went 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 one of 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 FY 2011-12 Water and Sewer System Fund estimated revenues of \$84.3 million. The FY 2010-11 year-end revenue estimate is \$83 million, a difference of \$1.4 million or just over -1.7%. This amount includes \$2.8 million in wholesale water payments from the Upper Trinity Water District associated with conveyance of water through the Lake Chapman waterline.

Over the last few months, the North Central Texas region has experienced record high temperatures and rainfall significantly below average. This led to an increase in revenues in excess of operating costs as well as goals for debt service coverage. 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. The main priority of the capital program is a critical 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, and Loop 12 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 adjustment that is based on water consumption equal to 3% and a sewer rate adjustment of 3% is proposed for FY 2011-12. Costs for water purchase and treatment from Dallas Water Utilities is projected to increase by 9%. Sewer treatment costs from TRA are projected to increase by 2%. Combined, these two increases will add \$1.8 million to operating costs for FY 2011-12. A small adjustment is prudent for this year to offset increased operating costs and avoid larger rate increases in future years.

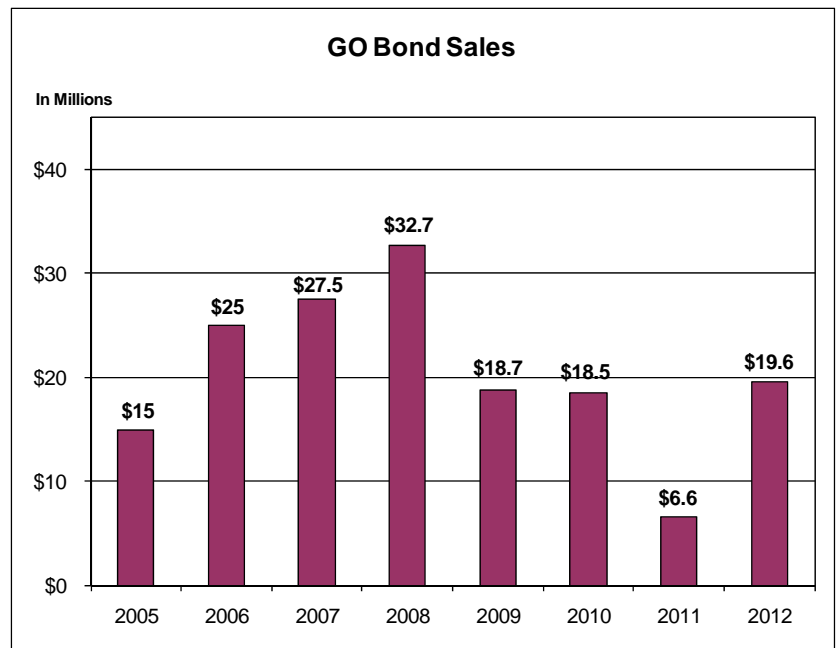
Recommended water and sewer rates are based on a twenty year cost of service model that examines the rate structures necessary to fund operations, ensures adequate debt service coverage, provides for infrastructure repair and replacement and encourages conservation from customers. Base monthly rates have been calculated by meter size, and sewer charges are 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 working 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 2011-12 are \$84.35 million, which includes transfers to debt service in the amount of \$21.7 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 \$6.5 million for capital projects to replace critical aging infrastructure, help finance relocations and expansion of water lines, rehabilitate water tanks, and provide security upgrades to water system facilities.

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 utilization of water drawn from Lake Chapman reservoir by City of Irving, 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 projected water supply needs to the year 2060. 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 recently completed West Irving Library, Irving Animal Shelter and the West Irving Aquatic 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 the last three years, 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 2011-12 has been developed based on the Strategic Plan priorities. The current proposed general obligation bond sale of \$19.6 million includes funding for the construction of the South Irving Library, Park land acquisition, participation in the DART TRE elevated rail line and the initial phase of the Public Safety Radio and Data System replacements.

Capital Improvement Program FY 2011-12		
	Debt Financed	Cash Financed
General CIP	\$19,600,000	\$0
Streets	\$1,600,000	\$0
Parks	\$2,800,000	\$0
Library	\$10,700,000	\$0
Public Safety Radios	\$4,500,000	\$0
Water & Sewer System	\$12,200,000	\$8,000,000
Water	\$7,125,000	\$4,750,000
Sewer	\$5,075,000	\$3,250,000
Municipal Drainage Utility	\$2,600,000	\$300,000
Total	\$34,400,000	\$8,300,000

The **Texas Department of Transportation (TxDOT)** has moved forward with plans to begin the reconstruction of the State Highway 183, including the interchange at Loop 12 and State Highway 114. The city will be responsible 10% of the total project cost. City funding will be allocated to right-of-way acquisitions and utility relocation costs associated with these projects. Total funding will be significant, potentially exceeding \$50 million. The total cost is dependent on the negotiated price of each parcel and the design and construction costs to move the utility lines.

Transportation has been a successful endeavor for Irving for quite some time. The 14th annual Transportation Summit featuring the 4th Annual Global High-Speed Rail Forum is being held in Irving at the Omni Mandalay Hotel on Aug 9-12. 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.

Because the summit is well-known and highly regarded both within Texas and at the federal level, the City Council continues to support this event. The event is staffed by Public Works 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. They also provide additional transportation consulting services to the city.

Water and Sewer System projects will be funded from both operating funds and the issuance of revenue bonds. A key water project will be relocation of the Jameson water supply line, which is required due to TxDOT highway improvements at the SH 183, SH 114 and Loop 12 interchange and along Loop 12. Funding is also included to continue to replace aging water and sewer lines to mitigate pipe breaks, red water from old cast iron pipes and sanitary sewer overflows. 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 (MDU) 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.

MDU 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 \$496,000 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 2011-12 to finance major drainage capital improvements on Delaware Creek. Funding of \$700,000 is proposed to complete levee improvements for Irving Flood Control District #1.

CONCLUSION

This budget represents the sixth 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 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 staff and Performance Team. Most importantly, I want to thank the hard working employees on our team that collect refuse, enforce our laws, protect lives and property, extinguish fires, respond to emergencies, provide recreational, arts, and cultural services, and all our staff that 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.

A handwritten signature in black ink, appearing to read 'Tommy Gonzalez', written in a cursive style.

Tommy Gonzalez
City Manager