

City of Las Vegas

Agenda Item 1



AGENDA SUMMARY PAGE

CITY COUNCIL MEETING OF: NOVEMBER 18, 2009

DEPARTMENT: CITY MANAGER
DIRECTOR: ELIZABETH J. REESE

☐ Consent ☒ Discussion

SUBJECT:
ADMINISTRATIVE

Discussion and possible action on the six-month review of the financial forecast model and related Fundamental Service Review - All Wards

Fiscal Impact:

☐

No Impact

☐ Augmentation Required

☐

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

In response to Council direction during the fiscal year 2010 budget preparation process to keep them informed of the economic downturn and its impact on city operations, staff has prepared a six-month review of the five-year financial forecast. Included in this review will be a presentation and update on the Fundamental Service Review.

RECOMMENDATION:

Receive report and direct staff accordingly

BACKUP DOCUMENTATION:

Submitted at Meeting PowerPoint Presentations by Staff and John Restrepo

Motion made by GARY REESE to Approve with direction to incorporate all comments made and to work with the Sheriff and his staff on a controlled Las Vegas Metropolitan Police Department budget

Passed For: 4; Against: 0; Abstain: 0; Did Not Vote: 3; Excused: 0

RICKI Y. BARLOW, LOIS TARKANIAN, STEVE WOLFSON, GARY REESE; (Against-None); (Abstain-None); (Did Not Vote-OSCAR B. GOODMAN, STEVEN D. ROSS, STAVROS S. ANTHONY); (Excused-None)

NOTE: Per clarification by ASSISTANT CITY ATTORNEY BRYAN SCOTT, MAYOR GOODMAN and COUNCILMEMBERS ROSS and ANTHONY stated their affirmative vote on this item prior to being excused from the meeting.

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Minutes:

This item was trailed to be heard in the afternoon session.

CITY MANAGER BETSY FRETWELL outlined the items to be reviewed as well as gave an overview of the local economy and national outlook. Utilizing a PowerPoint presentation, she itemized the very aggressive efforts of the City since Fiscal Year 2008, the voluntary separation program, expanded Fundamental Service Review for a 12% plan. MARK VINCENT, Director of Finance and Business Services, will report on the 14% revenue loss versus the 2% project.

JOHN RESTREPO gave a PowerPoint presentation covering the 23-month recession and the statistical indicators reflecting national improvements. Another slide reviewed the resort industry with construction drop off and projects proposed but not yet started. Visitor numbers have held fairly steady but air passengers have dropped. Gaming revenues are down and it is doubtful they will jump up in the next two months. The job index has a very slight increase, but the growth increase is now being projected at 1.6% over the next few years versus past years.

MR. RESTREPO presented slides comparing the United States rates versus Nevada and Clark County job and unemployment rates. Approximately 400,000 jobs were lost from September 2008 to September 2009, the majority of which came from the resort and construction industry. Jobs grew in the private sector, but stayed nearly flat in the public sector and, as a result, unemployment has been felt more in the private sector.

COUNCILMAN WOLFSON discussed with MR. RESTREPO that private industry makes cuts faster and once the decision is made to reduce job reductions, eliminate benefits or other actions of that type, it happens quickly. The per capita ratio of government employment has been reduced to 44 per 1,000.

MR. RESTREPO reviewed the comparison in taxable sales in Clark County versus the State of Nevada. Sales tax has dropped faster than the decline of employment. Some rates are improving, some are slowing and others are continuing to decline quickly. The lack of consistency in the indicators reflects a longer recession than projected. The Clark County population has slowed as well. Cost of living ratio is more consistent with the national ratio. The slide regarding adjusted median income reflects stagnation of the middle class. He described a situation where many borrowed their way to the middle class and increased their debt level due to easy credit. This may be the biggest single contributor to the current economy.

He reviewed the foreclosure ratio comparison between the United States, Nevada and the Las Vegas/Paradise MSA, housing permits, the housing price index for western cities and median house prices for new and resale homes. It is believed that the \$8,000 tax credit impacted home sales but the ultimate impact is unknown. It should help in Nevada. A lot of the sales are to long-term investors who rent the property, but it removes the property from the foreclosure lists. The banks seem to prefer the cash buyer. The challenge is local buyers are out bid by these investors. The projection is that properties will not return to pre-recession values for ten years. The stigma of walking away does not exist like it did in the past.

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COUNCILMAN ANTHONY confirmed that cash buyers tend to be long-term investors. MR. RESTREPO explained that the long-term investor still improves the situation. He reviewed slides regarding commercial and office property impacts, including vacancy rates. This is anticipated to be hit hard in the near future. There are years of supply across the office, commercial and industrial inventory that will have to be exhausted before developers build again.

MR. RESTREPO covered the new reality and potentials being predicted that will further impact the economy through 2011 and possibly sustain recovery in 2012. Sustained recovery is predicated on consistent job growth for at least six months and then the consumer confidence that will drive afterward. MAYOR GOODMAN and MR. RESTREPO discussed the monthly mathematical calculations used to make the projections. Southern Nevada came out of recessions earlier than other states in the past and then leaped to the next level. The current question is whether this recession is different than others in the past. The local economy is based on discretionary spending but what happens if people are more conservative even after a recovery. The focus will be what diversification could have been done. He compared Las Vegas to Phoenix where the unemployment rate is 8% lower than here.

The last slide involved a study recently completed that analyzed how long state revenues took to return to pre-recession levels across the nation. The answer was five years. If it is assumed that this recession is worse, there are things that need to be looked at. On the up side, confidence is high in Nevada.

COUNCILMAN ROSS cited a recent summary of local governmental entities and the limitations on the state level. The type of diversification needed must be addressed collectively which strongly encourages entrepreneurship. MR. RESTREPO stated public investment is critical to recovery when private investment is not possible. MAYOR GOODMAN indicated a recent City survey returned a result reflecting 82% who named job creation as the number one priority.

MR. RESTREPO agreed that there are stimulus programs that are still pending, but the \$82 million investment by the Las Vegas Visitor and Convention Authority to market Las Vegas is well worth it. MAYOR GOODMAN described the \$1 million investment by Nevada Development Authority as a joke. He also referenced the Cleveland Clinic and the draw that that will create for other private investment. CITY MANAGER FRETWELL stressed that many of the points being discussed have already been addressed by the City.

COUNCILMAN BARLOW questioned how the current economic position validates the Council's efforts toward diversification. MR. RESTREPO answered that the model worked great for twenty years, but a more sustainable economy in the future must be diversified like others nationally.

COUNCILMAN WOLFSON discussed with MR. RESTREPO the benefit of national developers coming into Las Vegas and the difficulty with lending. Banks will need to see a more stabilized economy before the lending environment loosens up. Local governments must remember that

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the health of the private sector drives the health of the public sector. Public sector encouragement and partnership of whatever type, enables the economy to flow better. Neither public nor private sectors can sit on the sidelines or nothing will change.

MAYOR GOODMAN listed many well-known local and national structures built during the great depression as evidence of the benefit of public investment.

CITY MANAGER FRETWELL stated the six-month check-in points are to ensure the City does not over or under-react to the current economic situation. MR. VINCENT presented PowerPoint slides regarding the Southern Nevada economy, impacts, income levels and savings rates. The index of leading economic indicators shows a national recovery while the local economy continues to decline.

The City formed a Financial Oversight Committee as a source of expertise. The slide includes five years in the past and five years in the future. Negative growth in tax revenue started three years ago and the City's projections are in 2011 for Fiscal Year 2012. The next impact is expected as a result of decreased commercial property values. COUNCILMAN BARLOW asked about the adjustments that will be necessary to sustain the City. MR. VINCENT indicated that is in the report.

MR. VINCENT presented the impact on revenue that has doubled over the last six months. The new financial model projects a revenue shortfall of \$430 million over five years. Fiscal Year 2011 is not set at a deficit of \$60.5 million. The new City Hall project has no impact whatsoever because there is no debt service during the time period in question. COUNCILMAN ROSS stressed that the City moving forward with any project will not change these numbers. MR. VINCENT emphasized the deal structure would put any future payments well into the future and therefore not impact the projects shown in the slide. COUNCILMAN BARLOW and MAYOR GOODMAN commented on the independent tracks for the budget and the new City Hall project.

CITY MANAGER FRETWELL utilized a PowerPoint presentation to identify the three focus points for the process, the 12% reduction plan created by the departments and the prioritized options. The City entered the Fundamental Service Review based on a projected deficit that has dramatically changed. The City has reached an imbalance for public employees versus population. COUNCILMAN ROSS stressed that service needs have actually increased. CITY MANAGER FRETWELL responded that the divergence is not sustainable. Again, the bond rating is a testament to the City being cutting edge.

COUNCILMAN WOLFSON asked the bond rating of other local entities. MR. VINCENT answered the County is slightly higher at AA+ and North Las Vegas just dropped to AA-. The City reaped the benefit of having four of the top ten taxpayers downtown being non-gaming.

CITY MANAGER FRETWELL indicated that \$8 million has been identified to reduce the shortfall, still ending \$5 million greater than that budgeted for. She expressed her extreme distress at showing the slide in the corrective action plan that would still require eliminating 19

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filled positions. At this point, it is simply unavoidable. She reviewed the Tier 1 Impacts and the services being rolled out to assist those who will separate from the City. These programs will be available through January 29, 2010.

She added the benefits of freezing all currently vacant positions through March, amending the Capital Improvement Program for adjustment, eliminate all but certification required training and travel and reducing the executive salary cap by 5%.

The next steps were summarized in preparation for Fiscal Year 2011 as well as the efforts to communicate both externally and internally. The situation has not reached the bottom yet, but there is an obligation to maintain fiscal integrity. That is the basis of this aggressive fiscal approach. The City has been proactive and thus avoided having to back track. Hard decisions are difficult, but circumstances require they be made.

CITY MANAGER FRETWELL reviewed the timeline for Council presentations as well as proposed townhall meetings. MAYOR GOODMAN encouraged staff to continue to work closely and brief the Council. There were steps taken very quickly and had to be made, but he directed she involve the Council so they can fulfill their responsibilities as elected officials.

COUNCILMAN BARLOW advised that he has been with the City for ten years and is amazed about the current situation. The numbers contained on the Tier 1 slide represent only 12% of the hole to be filled and requires desperate measures. This is not an easy situation for the Council or the Managers office. He wanted the community, through the City's transparency with this discussion and data, to understand that action is essential.

COUNCILMAN WOLFSON commended the members of the City Managers office for their dedication and diligence. This economy has driven the need for a new type of public employee. Employee expectations are going to have to change because the same salary and benefit packages cannot be provided. That is the reality, but so is the fact that the City will start an upward trend.

COUNCILWOMAN TARKANIAN commented on the complexity of the situation and the inability to answer with absolutes. The City will just have to provide access, transparency and everyone will have to come together to get through this period. Things may never return to where they were in the glory days, but certainly there are some advantages for those who are smart and focused.

MAYOR PRO TEM REESE acknowledged that it is difficult to work through this type of situation, but there are some good things and the City has been prepared well by MR. VINCENT. His hope is that the City is a leader in finding a way to provide services, especially for the seniors and meet public safety needs. All the existing elected officials are prepared to make decisions based on the reports provided by the City Managers office. He also expressed his appreciation to the Sheriff for the working relationship they have had and directed CITY MANAGER FRETWELL to work with him on a controlled Metro budget.