City of Las Vegas

Agenda Item No.:

AGENDA SUMMARY PAGE
CITY COUNCIL MEETING OF: MAY 5, 2010

DEPARTMENT: CITY MANAGER
DIRECTOR: ELIZABETH N. FRETWELL ☐Consent ☒ **Discussion**

SUBJECT:
ADMINISTRATIVE

Report from various local business sectors/organizations on the current state of the economy in Southern Nevada and its effect on their industry and business operations - All Wards

Fiscal Impact

☐ **No Impact** ☐ **Augmentation Required**
☐ **Budget Funds Available**

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:
The national economic downturn has had a significant impact on the economy in Southern Nevada. Therefore, local businesses in both the private and non-profit sectors have been affected. Representatives from the Associated General Contractors, Fremont Street Experience, Greater Las Vegas Association of REALTORS, Las Vegas Chamber of Commerce, Las Vegas Convention and Visitors Authority, Nevada Resort Association, and the Southern Nevada Homebuilders Association will provide an update on the impact that the economic downturn has had on their industry, business, and/or organization.

RECOMMENDATION:
Report only, no action required.

BACKUP DOCUMENTATION:
1. Submitted at Meeting Report by Jeff Victor
2. Submitted after Meeting PowerPoint Presentation by Tom Perrigo
3. Submitted after Meeting PowerPoint Presentation by Rossi Relenkotter Las Vegas Convention and Visitors Authority

Minutes:
No motion required. A report was given.

MAYOR GOODMAN thanked the private sector for being present to provide an update on the impact the economic downturn has had on their industry and businesses. It is important for the City Council to hear from them, so that when the City Council makes a decision, it will be based, not only on what happens to the public sector but also as it relates to the private sector.

CITY MANAGER ELIZABETH FRETWELL also thanked the selected key groups from the business community for their presentation, and introduced TOM PERRIGO, Deputy Director of Administrative Services, to remark on the current status of the overall economy in Southern Nevada. She indicated that short presentations would be made by MIKE BONNER, Chairman-Elect of the Las Vegas Chamber of Commerce (Chamber), ROSSI RALENKOTTER, President and CEO of the Las Vegas Convention and Visitors Authority (LVCVA), JEFF VICTOR, President of the Fremont Street Experience, from the gaming industry, IRENE PORTER, Executive Director, Southern Nevada Homebuilders Association, STEVE HOLLOWAY, Executive Vice President, Associated General Contractors of Southern Nevada (AGCSN), DEVIN REISS and SEAN FELLOWS, Greater Las Vegas Association of Realtors, and JEREMY AGUERO, Analyst with Applied Analysis. CITY MANAGER FRETWELL indicated that KEITH SMITH, Nevada Resort Association, and DANNY THOMPSON were unable to attend, but she would provide their updates to the Mayor and Council during their briefings. RANDY HIGHLAND was unable to attend.

MAYOR GOODMAN stated that JOE WOODY was also invited but suffered a loss in his family. He has been a supporter of the City.

Through a PowerPoint presentation, MR. PERRIGO provided an overview of local and regional economic conditions relevant to the City's budget situation. The report was provided by Moodys Economy.

After his presentation, MR. PERRIGO introduced MR. BONNER, who introduced the new President and Chief Executive Officer of the Las Vegas Chamber of Commerce, MATT CROSSON. MR. CROSSON has been the President of the Long Island Association for 16 years. During his tenure, he has helped bring new changes and technology to the Long Island Association working together with the community and local government. He served as an administrator for the court system and civic leaders. He will bring a tremendous amount of skill and energy to the Las Vegas Chamber of Commerce. MR. CROSSON was excited to be present and looks forward to working with the Mayor and City Council.

MR. BONNER stated that Chamber represents 6,500 members and the membership covers 200,000 employees. The Chamber is the third largest metropolitan chamber of commerce in the United States. Eighty-five percent of their membership is small business, which is the backbone of the economy, and it has taken the biggest hits during the recession.

MR. BONNER stated that the State of Nevada employment rate in March dropped under 13.4 percent. Nearly 200,000 jobs have been lost in the State of Nevada since the beginning of the recession, and Nevada stands second to the State of Michigan. No segment of the economy has escaped the effect of the economic downturn. During the recession, members of the Chamber have endured many difficulties. Every segment of industry has been affected; gaming, food service, real estate, banking, health care and construction. Survival has forced to operate more efficiently with fewer resources and a smaller workforce. Some members have had to close their doors, have cut jobs, reduced salaries and suspended benefits. Many business leaders have had to make difficult decisions that impact the business and human beings that work in those businesses. The private sector can no longer pay the same amount of money, in terms of base compensation. Meeting payroll every week has been difficult. In addition, companies have had to evaluate every aspect of their business. The businesses that have survived are those who had to make difficult decisions in cutting overhead and expenses. In surviving they have been able to preserve jobs; otherwise, the employment numbers would be worse. Employers and employees have come to a conclusion that todays business environment is significantly different than what was enjoyed in the past.

MR. BONNER stated that some members are beginning to see recovery; however for most, it cannot be foreseen when recovery might happen. The Chamber is optimistic about the future of the community. The Chamber has been able to utilize outreach services to the members to help them survive. He looks forward to work with the business community and the government. He is optimistic. He looks forward to the opportunity to work together with the City and he knows that tough decisions will need to be made.

COUNCILMAN ROSS asked what the City Council can do to help this situation in these tough times. MR. BONNER recommended becoming well informed, be prepared to compromise, make tough decisions but with a brighter outlook of what has to be done. The Councilman stated that all local governments need to be more aggressive and do everything they can to assist every industry in Southern Nevada to be successful.

COUNCILMAN WOLFSON stated that many people moved to Southern Nevada every month but that number has dropped significantly. MR. BONNER responded that JEREMY AGUERO would provide those statistics. The Councilman asked if the public sector is different from the private sector, as is relates to expenditures. MR. BONNER replied there are similarities and differences.

Through a PowerPoint, MR. RALENKOTTER, gave an overview on the numbers, statistics and trends, how the LVCVA had to offset the revenue shortfall and the positive visitors forecast. Tourism, conventions and gaming impacts the entire economy of Southern Nevada.

As a result of the recession, US Airways reduced the number of flights. In order to fill the rooms at the pre-recession level, those airline customers have to be brought back. The LVCVA has been meeting with both national and international carriers to bring that back. On a positive sign, average daily auto traffic from Southern California, has increased. The value proposition in Las Vegas has never been greater, either for vacation or a meeting. The LVCVA is in the midst of putting together their Fiscal Year 2010-11 budget. They are projecting a flat $150 million room tax. The ability to fill those rooms has been impacted, and it is important to get the room tax up. He pointed out that as their revenue decline, so does the Citys revenue stream, as is pertains to the room tax. MR. RALENKOTTER outlined the financial actions they took to offset the revenue shortfall and decrease in expenditures.

The LVCVA has been closely watching the Consumer Confidence Index; 90 is the number when the economy will start to turn. On a positive note, they have seen an increase in visitors volume in the last four months. The Consumer Electronics Show had an increase in delegates, the Magic Show sold 15 percent more exhibit space, and the National Association of Broadcasters had 8,000 more attendees. The LVCVA signed six-year of leases with the National Hardware Association, which will bring about $170 million of non-gaming revenue for Las Vegas. British Airways will be adding another non-stop flight from London. Las Vegas has traditionally gotten out of recession quicker, but this is unlike any other recession. The LVCVA has changed its marketing strategy five times and will continue to monitor the consumers and the market conditions.

MR. RALENKOTTER stated that the City Council can invite people to visit Las Vegas, and encourage what the resorts have to offer. Locals should take advantage of what the resort industry has to offer and that will help people who work in the tourism industry.

In response to COUNCILMAN BARLOWS questions on US Airways reducing the number of seats, MR. RALENKOTTER responded that the biggest impact was from the Midwest and the east coast. Thirty percent of auto traffic comes from Southern California.

COUNCILMAN WOLFSON asked if there is a direct correlation to the amount of money spent in Las Vegas between the auto traffic and flying. MR. RALENKOTTER replied that drivers spend less than the airline visitors.

MR. VICTOR indicated that Las Vegas enjoyed prosperity for many years, but there has been a recent decline in visitation of about 7.5 percent affecting gaming to the tune of almost 19 percent. This makes the hotel industry highly dependent on traffic, such that casinos are really being pressured. Room rates are significant and fixed cost, anything over is profit, but has dropped in the last two years of 30 percent. Downtown properties have done whatever possible to maintain operations, including sharing costs, delay retirement plans, reduce operating hours, reduced services, and staffing. Marketing is hurting, because less is being spent to attract customers. There has been a rapid decline in the amount of money coming in and, as a result, having to respond operationally to these changes. He appreciated the opportunity to speak, and will sit as a group to discuss some of the impacts and current situation.

COUNCILMAN ROSS acknowledged the great job that the LCVCA and the Fremont Street Experience have done during this economic downturn.

COUNCILMAN ANTHONY asked what impact downtown has had compared to the Strip. MR. VICTOR responded that some of the downtown statistics may or may not reflect what is happening on Fremont Street, but mostly they have declined at a similar rate. The Strip has reported significant increases in baccarat play and significant decrease in slot play that downtown has not seen.

MR. HOLLOWAY pointed out that the AGC is the largest construction trade association in Nevada. In the past 20 years have flourished as result of a growth economy and has been the second largest construction industry in the state, but have lost 60 percent of the total jobs in the past two years. This greatly impacts the livelihood of others that depend on the construction industry. During this two-year period, they have cut benefits and salaries, laid off employees. Unfortunately, the worst is yet to come, because have overbuilt and many commercial businesses will remain vacant for another three to five years, while vacant office space shall remain at all time high. Payroll taxes will decline as continued layoffs take place; property taxes will increase; sales tax revenues will decline and now paying less than [illegible]0 percent of what is used to receive in sales taxes.

With regard as to what the City Council can do, he believes the need to use available capital improvement money to create jobs; support extensions of sales tax during the next legislative session. During the Special Session, the AGC and the Wynn Coalition were able to get the Jobs Bill to remove the sunset on sales tax from the Regional Transportation Commission, creating about $1 billion or more in revenue for capital improvement projects, resulting in about 28,000 jobs and additional revenue. Need to extend the bonding authorities and do whatever efforts to stabilize the economy. MAYOR GOODMAN stated that what is being done through the Redevelopment Agency is helping to meliorate the problem.

MS. PORTER stated that the housing industry has been battered but not completely broken. The beginning of 2006 there were 196 active homebuilding companies. As of January 2010, there are only 30 active homebuilding companies, and building permits have decreased. There are 90 percent layoffs. One of the major builders did its tenth round of layoffs, and suppliers and contractors have been impacted, from construction workers to CEOs. The hardest hit has been local companies. The major publicly traded companies are still in business, and recently had a bit of encouragement as a result of the homebuyer tax credit program. She does not see a lot happening for the next few months, not until August to see if this was just due to the tax credit program.

MS. PORTER indicated that a research found there are 19,500 of finished lots Valley-wide, and as these are sold, it will generate revenue from the sales tax. The City can help by not increasing fees for a couple of years. Banks are not lending to the construction industry and appraisals are becoming a problem. The economic downturn will create new ideas, such as building smaller homes that are more family oriented, and this will become a nationwide concept. She is hopeful that the economy will start to come back next year, but it will depend on the national economy and tourism. But it will be at least five years for a recovery. It has been a distressing time for the housing industry, and there have been no raises for five years or bonuses and people are working part-time, no car allowances, cell phones and eliminated the 401K match. The industry is working with the congressional delegation on financial reform. SENATOR REID was trying to move TARP (Troubled Asset Relief Program) money into community banks with the idea that banks would grant loans. The AGC and the homebuilders are working together.

COUNCILMAN ROSS was pleased with MS. PORTERS attitude. He pointed out that Ward 6 homebuilders are back, a sign that the economy is slowly coming back. COUNCILMAN BARLOW asked MS. PORTER if proposed low to moderate income residential developments in the City of Las Vegas, help the housing industry and the overall community. MS. PORTER replied that any type of construction helps the community, but most of these are done by non-profit organizations.

In response to COUNCILMAN BARLOWS question as to what the City can do MS. PORTER responded that the City must support the housing industry to try to get loans back into the community, as well as talk with the congressional delegation in this regard. Local builders are now working as general contractors for banks to build houses on foreclosed lots.

MS. PORTER wished the City Council well and she knows how heartbreaking it is to do layoffs. The private sector has also dealt with reductions in revenues. Adjusting the budget is a tough decision the Council has to make.

COUNCILWOMAN TARKANIAN asked what the City can do with regards to the banks. MS. PORTER replied that the City should look at those financial institutions willing to invest in businesses and the residents when decisions are being made.

MR. FELLOWS commended the City Council and CITY MANAGER FRETWELL for reaching out to the leaders of the community. He introduced MR. REISS to provide the report. MR. REISS stated that the economic downturn has affected the individual members, employees and the entire community, and the services they have been able to provide in the past have greatly diminished. Membership count in 2007 was 17,129; today that amount is 12,500, equating to a 30 percent decrease. This reduction impacts the dues and the lack thereof to support the association services, including lock boxes, vendors, contractors, and government affairs program. This led to dues increase enough to impact the members making a decision whether or not they would stay in the association. The National Association of Realtors statistic says that as employment goes up, usually the membership follows. However, Las Vegas has been different. Since 2007 and 2008 the Association of Realtors has implemented a hiring and salary freeze, and

eliminated the annual $15,000 employee assisted program to use as a down payment. Additionally, the Association of Realtors eliminated the budgeted $235,000 annually in college scholarships, donations to charitable organizations, and decreased the budget from $340,000 to $90,000.
MR. REISS explained that the median home price for a single-family home in March of 2007 was $305,000; March of 2010, $136,000. Median condominiums price in 2007 was $199,000; today $65,000. Foreclosure list in March of 2007 was 14; in March of 2010, 1,509.

As far as what at the City Council can do, the real estate business owners need to be kept in business so that they can keep their employees. Keep their cost down so they can continue to survive on a day-to-day basis. For every company that goes out of business, the number of people that have to go back to the work force grows exponentially.

COUNCILMAN WOLFSON asked if those people who leave the association remain in the community or look for jobs elsewhere. MR. REISS replied that some do but he is not sure where they move to.

COUNCILMAN ROSS acknowledged the challenges the real estate industry is experiencing, and stated that some agents have to work harder to get that same dollar than few years ago. Investors are coming into town buying homes and paying cash but the money is not the same. He appreciated the industry's input on how the City can assist those people struggling to pay their bills.

MR. AGUERO focused on the overall economy. The current recession began in December of 2007 when Southern Nevada's unemployment rate was 5.6 percent. Today it is 13.8 percent. During that same period, the private sector's employment has fallen from 834,000 jobs to 697,000 jobs. Pay rates and the average hours have been reduced. Fewer hours on the job affects the unemployment rate. The US Bureau of Economic Analysis reported total private sector earnings in the fourth quarter of 2007 for the State of Nevada at $68.5 billion. The national trend clearly points to reductions in private sector benefits and or health care. The current economic downturn has required private sector employers to reduce hours, wages and benefits for their remaining employees. In terms of looking forward for the City, MR. AGUERO opined that the City of Las Vegas is living on commission. The economy that generates the revenue is 20 percent smaller than it was years ago. The expectation that is going to get better has to be tempered by understanding exactly where those revenue sources come from. Sales tax and consolidated tax come from three principal sources; construction, consumption, and tourism. However, wages and salaries are down and their ability to continue to spend predicated on that. There are no projects for the construction industry. Regarding the devalue on properties, and when put into place the three and eight percent caps on property tax escalation, essentially created a limiter for property tax to rebound should property values rebound.

MR. AGUERO stated that the plight facing local government is somewhat different than the plight facing the private sector. People are laid off as a result of less demand. However, the Citys overall demand for services is no less than they were before, combined with the fact that Southern Nevada has fewer public employees than almost anywhere else in the United Stated, but also have the highest paid employees. There is an economic problem first, a fiscal problem second. The worst case scenario would be to lay off employees and allow an escalation for the wages and benefits for the employees that remain. The City should try to keep as many of the capital programs whole, and continue the commitment to economic development.

Regarding population and migration, MR. AGUERO stated that the economy still reflects people moving in but they are also moving out. School enrollment is dropping and the number of people paying their income taxes in Nevada is decreasing. The population growth is in the minus one percent range.

COUNCILMAN BARLOW stated that the City has an opportunity to increase property taxes, fees and licenses, but not on consolidated taxes. Revenues are down but expenses continue to increase, and adequate funds must be available in order to provide services and programs for the community, as well as staff salaries. How can this be achieved when revenues are down. MR. AGUERO replied that it begins with prioritizing, and the next step is to eliminate those things where there is no demand. Where there is an increase of demand and opportunity, reallocating revenues is the best economic outcome for this community. This is the worst economic downturn and conversation is still going on as to whether certain groups should have merit or COLA increases and or longevity. Those conversations are not happening on the private sector side of this economy.

COUNCILMAN WOLFSON understands that the worst thing the City could do is to lay off employees and allow escalation of wages and benefits. The City is trying to do everything it can to avoid laying off employees. He has been advocating the creation of the new employee, which is the people hired today and forward, not those already on payroll, is the most important thing the Council can do in order to be responsible for the community and sustain services. MR. AGUERO responded to make adjustments and not make the same promises to the new employee. This would limit similar challenges in the future and still provide the same level of services.

COUNCILMAN ROSS stated that MR. AGUEROs presentation seemed gloomy, but there is a silver lining. The private sector is not doing business as usual and their workload has decreased. However, the Citys workload has increased because of code violations, animal control issues, and social services because of the economic downturn. The City is doing a lot of work with less people than elsewhere in the country. The Councilman was concerned about the unemployment numbers. MR. AGUERO responded that in August of 2007, the average worker was working about 37.5 hours a week. Today, the average private sector employee works 34 hours per week, translating to about 109 million fewer hours being worked per year and translates in unemployment rate, now approaching 21 percent.

MAYOR GOODMAN clarified that he meant there are no major new hotel projects. MR. AGUERO agreed and added that the office market has a 25 percent vacancy rate and seven years of inventory, industrial 15 percent vacancy and a four-year inventory. Residential, there are still 30,000 vacant units throughout the community. The construction industry will continue to have layoff. MAYOR GOODMAN emphasized that the City has its own stimulus money through the Redevelopment Agency (RDA). If it were not for the RDA, there would not be a new City Hall project, Smith Center for Performing Arts or the Lou Ruvo Brain Institute. He sees this as a role that plays an important part, not only to create employment, but philologically because there is no other place in the Valley where construction cranes can be seen. MR. AGUERO asked that the City maintain that commitment to economic development.

MAYOR GOODMAN appreciated MR. AGUERO'S intellect and presentation but the City has collective bargaining agreements. Unless those employees that are members of the bargaining units come to the table and recognize what was reported, the City Council is at a loss and has no alternative but to layoff employees. MR. AGUERO agreed.

COUNCILMAN REESE remarked that it is difficult to make these hard decisions but they must be made.