



AGENDA SUMMARY PAGE

CITY COUNCIL MEETING OF: APRIL 6, 2016

DEPARTMENT: FINANCE

DIRECTOR: VENETTA APLEYARD

Consent Discussion

SUBJECT:

Discussion for the action regarding the Fiscal Year 2017 Tentative Budget for the City of Las Vegas and the City of Las Vegas Redevelopment Agency - All Wards [NOTE: This item will be heard after the following Discussion items]

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

Discussion and review of the Fiscal Year 2017 Tentative Budget for the City of Las Vegas and the City of Las Vegas Redevelopment Agency with a focus on projected revenues and allow Council the opportunity to provide guidance relative to appropriation levels and resource priorities.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Submitted at Meeting - PowerPoint Presentation

Motion made by BOB BEERS to Approve

Passed For: 7; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 0

BOB COFFIN, RICKI Y. BARLOW, LOIS TARKANIAN, CAROLYN G. GOODMAN, STEVEN D. ROSS, STAVROS S. ANTHONY, BOB BEERS; (Against-None); (Abstain-None); (Did Not Vote-None); (Excused-None)

Minutes:

CITY MANAGER ELIZABETH FRETWELL, VENETTA APLEYARD, Finance Director, and EXECUTIVE DIRECTOR OF COMMUNITY DEVELOPMENT JORGE CERVANTES were present. CITY MANAGER FRETWELL stated the budget process was very vigorous and that the budget includes a 2 percent decrement budget from every department in an attempt to address flat revenue resources, as well as the under-performance of sales tax. The Tentative Budget will be filed within approximately two weeks and will be used to finalize the budget for

CITY COUNCIL MEETING OF: APRIL 6, 2016

presentation, consideration and approval by the City Council at its meeting of 5/18/2016.



CITY COUNCIL MEETING OF: APRIL 6, 2016

MS. APPELYARD went over a detailed PowerPoint presentation, a copy of which was attached as backup, to report on the Fiscal Year 2016-2017 Budget, which will be filed for an amount of \$1.2 billion. In preparing this tentative budget, comparisons were made to last year's budget. As CITY MANAGER FRETWELL mentioned, the underperformance of the C-Tax, jail-bed-rental and court fines revenue losses, as well as permit fees and franchise fees revenue losses caused a revenue reduction of \$4.9 million. Expenditures were underrun by \$9.4 million, with \$3.5 million in the vacancy factor, which greatly helped, a non-labor savings of \$3 million and a positive response by the departments as soon as they were informed revenues were not as positive as projected. Additionally, a \$2.5 million savings was achieved from debt service due to the refunding on the City Hall bonds. Therefore, the actual budget growth was estimated at 4.3 percent and labor growth at 5.5 percent, including the restoration of 625 positions. A one-time request of approximately \$5.4 million will be utilized out of the fund balance to help with the FY17 efforts, for which she gave a breakdown, including \$2 million funded toward health benefit costs.

MS. APPELYARD said staff projects to finish FY16 in the black, so revenues will be in excess of expenditures because of the underruns of \$9.4 million. She detailed the Fiscal Trends slide, adding that the FY17 Tentative Budget will be filed as a 5% deficit.

COUNCILMAN BEERS clarified that the drop is more due to the tax cap on increases rather than a decrease in the property tax bill because the underlying value has decreased. CITY MANAGER FRETWELL interjected and explained that there are two contributing factors; a dramatic drop in value from the recession and the request for relief from the Board of Equalization. The assessed value is trending up, however, the caps are in effect. The initial drop may have been due to the appeals and to the valuation of the land, but the ability to recover has been substantially muted because of the cap. CHIEF FINANCIAL OFFICER MARK VINCENT indicated there was approximately \$25 million worth of abatements this fiscal year, and this is not a cumulative amount, but rather the amount of taxes being abated as a result of this year's tax caps. He went over a property tax bill and said it includes a column that includes the tax cap for the given year. He explained that the property tax revenue represented for FY08 includes the cap applied in 2005, which worked as designed, given the runaway real estate values that happened from 2006 to 2008. So, this is already an abated tax value. Although the values are coming back, the revenue cannot come back because there was no cap on the way down. CHIEF FINANCIAL OFFICER VINCENT projected it will take over two decades to achieve the same revenue level of 2008, assuming inflation is over 3 percent for residential, which is over 80 percent of the City's property values.

COUNCILMAN BEERS questioned the cumulative measure from when the cap was implemented, and whether it would be updated yearly. CHIEF FINANCIAL OFFICER VINCENT answered that the data was tracked, and it is in the billions of dollars for the State of Nevada, adding that there was always some abatement, even for the worse years. CITY MANAGER FRETWELL explained that had the caps remained with a threshold that allowed the property tax revenue to grow back at the natural market supported level since the recession, the projected property tax revenue for FY17 would be closer to \$120 million. At the peak of the recession, staff estimated that it would take approximately 13 years to recover; however, it is

CITY COUNCIL MEETING OF: APRIL 6, 2016

now estimating that it will take another 20 years. This is a significant issue and one that should be communicated to the constituency, because property tax revenue is the most stable form of revenue for the City.

CHIEF FINANCIAL OFFICER VINCENT remarked that there is a misconception that the caps reset upon the sale of property, but the caps carry with the property in perpetuity. This is why all local governments are suffering in FY17, and perhaps beyond, if the Consumer Price Index does not come in at more than 3.5 percent.

MS. APPELYARD commented that there is a tremendous increase in demands for service, but the revenue is not keeping up with those demands. Nevertheless, in creating the budget, staff always keeps in mind the Council's budget priorities that have been identified through surveys and strategic planning. Therefore, in this budget, a total of 43.5 positions are being recommended from the General Fund, as listed on the Positions slides. The revenue source has been identified for those positions marked with an asterisk. She included a breakdown of positions recommended from other funds, for a total of an additional 22 positions.

COUNCILWOMAN TARKANIAN asked why additional parking enforcement officers were being recommended for hire if many parking meters have been stuck due to lack of use. MS. APPELYARD explained that they will be deployed all over the City and into the neighborhoods, where Parking Services needs more patrol to make sure people park in designated areas.

MS. APPELYARD continued with her Fiscal Point presentation with the Full Time Employee History slide and pointed out that compared to 2008, the non-public safety employee level is still 20 percent lower. The public safety level is 5 percent higher than 2008, but that is minimal in consideration of the trend. But even during the economic downturn, approximately 50 percent of the general fund budget has been devoted to public safety as a matter of priority and this budget portion has continued to rise. CITY MANAGER FRETWELL stressed that it is very important to keep an eye on this trend because the numbers show that the City is becoming a public-safety-only agency, as it is nearing 70 percent. COUNCILMAN ROSS asked why it has risen so much from FY08, to which MS. APPELYARD replied that as the overall budget kept being cut, public safety became a bigger portion of the total budget. CITY MANAGER FRETWELL added that layoffs occurred in the non-public safety area while the budget priority remained on public safety.

MS. APPELYARD indicated to COUNCILMAN ROSS that this budget includes costs for all bargaining agreements, except for the International Association of Fire Fighters, and then went over the expenditure assumptions for FY17, which includes a total 4.6 percent increase.

MAYOR GOODMAN asked for the percentage for the portion for Public Employees Retirement System as part of 54.4 percent in salary and benefits, and CHIEF FINANCIAL OFFICER VINCENT replied that it is much less than 42 percent, adding that the current contribution rate for regular employees is 28 percent. For early retirees, which mostly include marshals, corrections officers and fire personnel, it is 40 percent, but this is mostly on eligible compensation. Eligible compensation is approximately 25-30 percent.

CITY COUNCIL MEETING OF: APRIL 6, 2016

In going over the FY17 Revenue Assumptions slide, MS. APLEYARD pointed out that the Financial Oversight Committee, which is made up of professionals from various financial institutions, recommended a 3 percent C-Tax growth, and this is the same percentage the State indicated as well.

As part of presenting the FY17 Final Budget slide, MS. APLEYARD recapped the numbers: \$531.7 in revenues, a \$3.1 million deficit, a one-time transfer-out amount of \$9.1 million, with \$5.4 million to be used in FY17 for expanded and the remainder to be used for capital projects. COUNCILWOMAN TARKANIAN asked where the \$19.3 transfer-out amount came from, to which MS. APLEYARD replied that it was excess fund balance money that was transferred to the FY16 budget. The \$9.1 is excess fund balance carried over. This amount will be included in the augmentation at the end of the year.

COUNCILMAN COFFIN reiterated CITY MANAGER FRETWELL's caution about the danger of becoming a public safety agency, which is critical and important, but the public has to know that it is not the most important service government provides. All services are important and relate to public safety, such as providing parks to keep children busy and safely active. He felt that expanding public safety has been at the expense of other services, whether it be because of an antiquated taxation system or not. Everyone needs to recognize that offering programs to keep kids busy provide public safety.

EXECUTIVE DIRECTOR CERVANTES stated that a variety of funding sources were used in putting together the Capital Improvement Plan, some of which carry restrictions. For example, Community Development Block Grant funding can only be used in eligible areas, ad valorem tax revenues can only be used to improve City facilities and the hom tax revenues can only be used for transportation. He then detailed the FY17 Capital Improvement Plan slides and gave a breakdown of capital project allocations, revenue sources, requested capital funding and unfunded projects, some of which will be considered in the future. The FY17 Capital Improvement Plan totals \$66 million for FY17.

COUNCILWOMAN TARKANIAN asked if any funding will be available for strategic land acquisitions. EXECUTIVE DIRECTOR CERVANTES replied that the intent is to put more money in that budget for future land acquisition opportunities.

EXECUTIVE DIRECTOR CERVANTES summarized the list of recreational projects, which focus more on community facilities this year, and also gave an update on the infrastructure assets. He explained that the near \$8 million deficit for arterial roadways is because this program was funded through fuel revenue indexing approved in 2014 for three years, which expired this year. Hopefully, this program will be approved for extension in November. Regarding sidewalks, \$3.1 million was funded for this years' budget from CDBG funding to do infill sidewalks along Charleston Boulevard. With respect to ADA Upgrades, this is a new line item that was suggested through the Strategic Analysts Program, to identify where these upgrades are needed throughout the City. A lot of the ADA issues will be addressed in this budget cycle through bonded projects.

CITY COUNCIL MEETING OF: APRIL 6, 2016

COUNCILMAN COFFIN stated that the deficits seem lower, which could mainly be due to extension of road life cycles through different maintenance methods, and he questioned how these work. EXECUTIVE DIRECTOR CERVANTES indicated that about every 20 years maintenance is needed and reconstruction at 40 years. If a greater effort is made to avoid the critical point of deterioration, the longer the roads will last. COUNCILMAN COFFIN regarded this view as optimistic because many roads are in need of repair, probably due to the heat experienced in Las Vegas. He would rather not understate the life cycles of roadways and be true to citizens so they can be aware of how much money is truly needed for road maintenance.

MS. APPELYARD resumed with the PowerPoint presentation and gave an overview of the budget for the Redevelopment Agency, which is recovering from the recession, with a projected revenue growth of 7.1 percent in FY17 with a beginning fund balance of \$21.3 million and ending fund balance of \$23.6 million.

Lastly, MS. APPELYARD gave an overview of the Key Budget Takeaways slide and assured the Council members that staff will continue to look at cost reductions and possible ways of reducing the deficit amount before the final budget is filed.

COUNCILMAN ROSS wondered why the budget is back in the black after being in the black for the past four years after the economic downturn and expressed his concern about the C-Tax revenue being so low when it seems the economy is improving. CHIEF FINANCIAL OFFICER VINCENT thought one of the issues that normal growth cycle sales tax would increase at the rate of population growth, plus inflation, but it is down, and population growth is also down. Another key factor of sales tax revenue is tourism, which is also down. For whatever reason, sales tax is off about 200 bases points from previous years and according to the indicators, this will probably be the trend for another year. CITY MANAGER FRETWELL said 3 percent is better than when it was at its lowest, and as consumer confidence improves, this volatile revenue source will increase. There are other revenue sources that are more stable.

CITY MANAGER FRETWELL pointed out that this budget is larger than the budget submitted at the peak of the recession, approximately ten years ago. The budget levels are about the same; however, the service demands have increased and there have been expansions in the areas of public safety, fire safety, transportation, bike lanes, trails, parks and sewer infrastructure. Fortunately, the City continues to experience business and population growth and there are sufficient reserves.

She thanked MS. APPELYARD and her team, and CHIEF FINANCIAL OFFICER VINCENT for their hard work during this budget process, as well as EXECUTIVE DIRECTOR CERVANTES and his team for coming up with significant funding for needed projects throughout the City and to keep current projects going. She also thanked all the employees for keeping up with demands, adding that this budget meets the demands of the citizenry. She assured the City Council that she and her staff will try to run in the black through FY17, despite the deficit.

CITY COUNCIL MEETING OF: APRIL 6, 2016

MAYOR GOODMAN thanked staff for all its efforts. As a big advocate for low revenue estimates and high expenses, she hopes the reserves are kept at the desired level in the future.

COUNCILMAN ROSS commented that CITY MANAGER FRETWELL and her staff have done a wonderful job. With respect to the Capital Improvements Plan and fuel revenue indexing, he mentioned that a lot of the leadership will come from the five mayors that meet regularly because they realize the importance of fuel revenue indexing and how it benefits the community. He hopes the legislators will take a serious look at the property tax issue and fix it.

COUNCILWOMAN TARKANIAN commended CITY MANAGER FRETWELL for crediting her staff. The Councilwoman mentioned that she always brags about how City staff members work hard to stay within the budget. She asked CITY MANAGER FRETWELL to provide her with a copy of the budget for fire services, including any new positions. CITY MANAGER FRETWELL indicated that no changes had been made since the briefing, but she would provide the Councilwoman with a copy.

COUNCILWOMAN TARKANIAN commended EXECUTIVE DIRECTOR CERVANTES for coming up with solutions.

COUNCILMAN BEERS expressed his support for this budget, stating that he believes the .2 percent property tax cap was created to scare the legislature and was predicated upon CPI falling to near .1 percent and near zero inflation. Because CITY MANAGER FRETWELL and her team have demonstrated integrity in the face of extreme government adversity and flat revenues.

COUNCILMEN BEERS and COFFIN indicated to the Mayor that they were at the legislature when the property caps were introduced and voted affirmatively. COUNCILMAN COFFIN clarified that what started out as a simple bill ended up as something far more complex with far-reaching circumstances, but not as a scare tactic.

COUNCILWOMAN TARKANIAN asked if staff could look at preserving historic Howard Wasden Elementary School. The Clark County School District has set aside funding to tear it down and rebuild on the site.

