



Las Vegas

Agenda Item No.: 42.

AGENDA SUMMARY PAGE
CITY COUNCIL MEETING OF: APRIL 4, 2018

DEPARTMENT: FINANCE
DIRECTOR: VENETIA APPELBYARD

Consent Discussion

SUBJECT:
Discussion for possible action regarding the recommended Fiscal Year 2019 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 Morning Discussion items]

Fiscal Impact

No Impact Augmentation Required
 Budget Funds Available

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

Discussion and review of the recommended Fiscal Year 2019 Tentative Budget for the City of Las Vegas and the City of Las Vegas Redevelopment Agency, and allow Council the opportunity to provide feedback and guidance relative to Council priorities, appropriation levels and resource allocations.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Submitted at Meeting - PowerPoint Presentation

Motion made by CAROLYN G. GOODMAN to Approve as recommended

Passed For: 6; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 0

MICHELE FIORE, BOB COFFIN, CAROLYN G. GOODMAN, LOIS TARKANIAN, STAVROS S. ANTHONY, STEVEN G. SEROKA; (Against-None); (Abstain-None); (Did Not Vote-None); (Excused-None)

Minutes:

CITY MANAGER SCOTT ADAMS stated the tentative budget responds to a number of issues including Council priorities (particularly public safety), the citizen survey and the employee engagement survey.

He stated this was a difficult budget and includes the expansion in these priority areas largely funded by contraction in other areas. They asked for and used decrements in order to address the priorities Council wished to see. Through the budget process, it was identified that although

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nowhere near that of the great recession, the City is entering a time of a structural deficit. In preparation for the 2020 budget process, he is going to appoint a team called Team 2020.

CHIEF FINANCIAL OFFICER GARY AMELING thanked the Council for their interest and feedback throughout the briefing process. He also thanked VENETTA APPELYARD, Director of Finance, and her staff for the work they did preparing the budget documents and the department heads and their staff for their efforts, as the budget process started in the Fall of 2017 and requires a lot of effort.

He noted the primary focus of the Fiscal Year 2019 Tentative Budget presentation was the City's General Fund which provides the majority of the day-to-day services for the City.

Using the attached PowerPoint presentation, he reviewed the Fiscal Year 2018 budget performance. With regard to revenues, based on year-end estimates, it appears the City will end the year approximately \$1.3 million above budget. This slide outlined those areas which were above and below budget. He noted that with a budget this size, some variations from what is projected are expected.

He reviewed the major revenue sources, of which consolidated tax (C-Tax) growth is the largest, followed by property tax growth, license and franchise growth and the "other" category (i.e., EMS transports, court fines and Municipal Court charges).

It is estimated that the City will underrun its expenditure budget by about \$3.7 million. This is fairly typical due to vacancies throughout the year. Oftentimes these vacancies take a little longer to fill, and the City is looking to slow down vacancy fills in order to take a critical look at each vacant position to determine which positions need to be filled. The labor growth budget, which is the majority of the General Fund budget, is expected to come in \$1.7 million below budget.

During last years budget process, 61.5 new and restored positions were authorized; many of which have been filled. Even though only 61.5 new positions were authorized, there is a lot of turnover throughout the year. Human Resources completed 260 recruitments so far this year, with 541 new staff hired. Part-time positions, such as lifeguards, are also being filled on an ongoing basis but are not counted in the full-time equivalent (FTE) totals. He noted that staff recommended using some of the excess Beginning Fund Balance for one-time costs associated with the expanded requests that will be discussed later in the presentation and for the capital projects program.

CHIEF FINANCIAL OFFICER AMELING proceeded to review the Fiscal Year 2019 Key Budget Considerations slide. The process has been going on for several months, and removing one-time items is one of the first things that is done to determine what the base budget is. This is followed by recosting the entire personnel budget based on the current employees on staff. With the turnover that occurs throughout the year, typically new staff are slightly less expensive

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than those that leave. Contractual labor agreements are also reviewed, as those documents provide guidance in setting the salaries for the upcoming fiscal year. Revenue estimates are then prepared based on current economic projections, information from outside experts and feedback from the Financial Advisory Committee. Commitments and direction provided during the prior year budget adoption are also included, of which last year there was direction to provide additional Marshals over a three-year period. Because of that direction, this years budget process included adding 13 Marshals, which is the second year of that three-year plan.

Taking all of this into consideration, the year started with a \$1.6 million deficit. The Las Vegas Metropolitan Police Departments original ask was an increase of about \$10.3 million which put the City in the hole. All departments were asked to submit two percent budget decrements, which is a reduction in their current year budgets. All departments have done so. Departments were also asked to submit what they felt they needed in terms of expanded budget requests, and as expected, those budget requests exceeded available resources. As such, it was important to determine the highest priorities based on Council direction. Time was spent reviewing each of the department budgets and all of the decrement and expanded requests. The result is the recommended tentative budget for the next fiscal year that is before the Council.

He noted one of the key findings is for the City to be cautious because looking forward, on average, expenditure growth rates appear to be outpacing the revenue growth rates, which can lead to a structural deficit.

CHIEF FINANCIAL OFFICER AMELING went over the Fiscal Year 2019 Summary Highlights. The C-Tax is the largest revenue source, which is estimated to grow 4.7 percent over the next fiscal year. He reviewed the property tax growth caps, stating the estimated residential growth and commercial growth for the coming year is 3 percent and 4.2 percent, respectively. Taking into account new construction, a 5.5 percent growth in property tax is expected.

He went on to discuss the major Fiscal Year 2019 Revenue Assumptions to include C-Tax, property tax, assessed value, license and franchise, fines and charges for services and other new revenue increases, the tax caps and the \$1.7 million contribution from the Redevelopment Agency.

Charts titled Consolidated Tax History and Property Tax History were shown for the period FY06 through projected FY19. He noted that the C-Tax is one of the most economically-sensitive revenue sources so as the economy comes and goes, so does the consolidated tax collection of the City. He also noted that it took 10 years to get to where the City was prior to the recession in 2006. However, a 4.7 percent growth is expected resulting in \$314 million going into next fiscal year.

The Property Tax History chart showed monies collected and monies abated. Property tax is the second largest revenue source and is also economically sensitive. This peaked in FY09 and declined over the next couple of years by \$46 million or 34.5 percent. Since that point in time, property taxes have grown, and over \$100 million in property tax collection is expected this

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current fiscal year. The abated property tax has grown because the assessed value has outpaced the caps and the formula.

In terms of the FY19 Budget Assumptions, staff looked at various ways to enhance revenue. CHIEF FINANCIAL OFFICER AMELING described this list which included revenue related to the Department of Building and Safety, short-term rentals, charging out the Development Services Center administrative costs, staff time related to Special Events and increased billing of Public Works staff time.

A pie chart was displayed showing the makeup of FY19 General Fund Revenues by category.

With regard to the FY19 Expenditure Assumptions, he reviewed the expenditure growth rates and the primary drivers associated with that. Staff tried to sustain as many programs as possible but also staff up in the priority areas the Council directed staff to focus on. He also reviewed contractual obligations of the collective bargaining contracts, the vacancy rate for all departments and Metros requested increase and fund balance contribution. He pointed out the City would be taking over the crossing guard function from Metro. COUNCILWOMAN TARKANIAN asked if Metro was going to continue to deduct the \$1.7 million for the crossing guard contract each year or if it was just for FY19. CHIEF FINANCIAL OFFICER AMELING responded this was an ongoing program, and staff would continue to monitor it.

Staff proposed to add 56 new or restored positions in the General Fund; however, eight existing vacant positions were repurposed, so there would actually be 48 new positions.

He went on to describe the expanded requests found on the first slide titled FY19 Budget Assumptions which total \$18.6 million. Of particular note, it was determined that about \$2.7 million of the requests were considered to be contractual; things that had to be done.

In looking at how to fund these expanded requests, CHIEF FINANCIAL OFFICER AMELING went over the slide that listed how to try to balance the budget through expenditure contractions and adjustments. Team 2020 will continue to look for opportunities to reorganize and at efficiencies such as possible consolidations and cross-departmental functions (i.e., inspectors) to figure out how to be the most efficient and effective city around.

A slide showing a breakdown of the positions recommended to be added through the General Fund was displayed. CHIEF FINANCIAL OFFICER AMELING reiterated that eight positions are being funded through the elimination of vacant positions. Another slide was presented indicating the positions to be added using Enterprise Funds, Internal Service Funds and Special Revenue Funds.

In looking at how the employee population has changed over time, a graph illustrating the Full Time Employee History for the period FY08 to FY19 was shown, with public safety and non-public safety employees indicated. As a result of the great recession and a drop in revenues, 531

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positions were cut from staffing, going from about 2,900 to about 2,300 positions in a period of four to five years. All public safety positions that were cut have since been restored, plus an additional 97 positions were added since public safety is a high priority area for the City. In the non-public safety area, the City is still down about 317 positions, even with those recommended to be added. The City has figured out how to work smarter and more effectively, as most of the same services are being provided as those before the recession but at a significantly lower staffing level.

CHIEF FINANCIAL OFFICER AMELING reviewed a pie chart depicting the FY19 General Fund expenditures broken out by account category, with Salary and Benefits being the largest section. The next largest segment is Non-Labor followed by Debt Service and then the Other category. Another pie chart was shown of the FY19 General Fund Expenditures broken down by function, of which Public Safety makes up almost two-thirds of all expenditures followed by General Government.

A chart summarizing a three-year look at the General Fund Budget showed a breakdown by revenue, expenditures, excess/shortfall, transfers and fund balance. It also included where the City stands in comparison to the Councils adopted policy of maintaining a 20 percent fund balance to help cover rainy days. At the end of this year, an Ending Fund Balance of 20.3 percent is expected; adding in the fiscal stabilization reserve would bring it to an estimated 22.7 percent at the end of the fiscal year. At the end of FY19, the proposal puts the City at 19.5 percent and at 21.8 percent with the fiscal stabilization. The proposed budget is a \$573.7 million budget both on the revenues and expenditures which is called a balanced budget.

A graph showing the overall General Fund Revenue and Expenditure Trends from FY08 through proposed FY19 was shown. Over the last few fiscal years, there has been a budget surplus. Expenditures were greater than revenues during the recession which is why it is so important to have an Ending Fund Balance.

Every year as part of the budget process, a five-year financial forecast is done. A graph of the General Fund Five-Year Forecast was shown indicating surplus and deficit for FY17 through FY24. He pointed out that FY19 shows zero because it is a proposed balance budget. He discussed costs related to the additional Marshals, Firefighters, a potential Nevada PERS (Public Employees Retirement System) pension rate increase and upcoming labor contract negotiations. The bottom line indicates a structural budget deficit primarily driven by the fact that the average growth rate of revenues over the five-year period is approximately 3.5 percent, and the average growth rate for expenditures over the same time period is closer to four percent. It is staff's duty over the next year to come back with a balanced budget instead of a \$7.5 million deficit. Technically, the recession ended in June 2009, almost nine years ago. The average length between recessions is almost five years so sooner or later, the City will experience another recession, which is why it is important to prepare and maintain reserve levels.

COUNCILMAN COFFIN stated the City was not alone as far as the revenue predictability and asked if the other municipalities were making the same provisions. CHIEF FINANCIAL

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OFFICER AMELING responded every city is unique, so whether the other municipalities will experience a problem balancing their budget depends on where they are focusing their priorities. The City of Las Vegas is actually adding to its staffing levels and focusing additional positions on key priority areas; he was not aware whether the other municipalities were doing the same. With the City of Las Vegas history, he noted it was important to make the recommended changes at this point. Staff talked to the City of Henderson and North Las Vegas, and North Las Vegas continues to have some challenges associated with putting their budget together; Henderson is in a different economic-type position than the City of Las Vegas because it has a different mix of major employers. He reiterated that the City of Las Vegas is unique and that every city has its own challenges.

He confirmed for COUNCILMAN COFFIN that the revenue projections included all new construction, but staff was hopeful that they could beat those projections. He noted revenue growth rates for C-Tax and property tax were fairly healthy; the problem was that the other revenues were not growing very fast at all. COUNCILMAN COFFIN thanked him for the conservative approach with regard to revenue.

CHIEF OPERATIONS AND DEVELOPMENT OFFICER JORGE CERVANTES continued with the presentation going over the various funding sources (along with their restrictions) with regard to the FY19 Capital Improvement Plan. This included a \$3.2 million fund balance transfer from the FY18 operational budget.

He reviewed the significant projects that are a priority to Council and part of the overall Master Plan which included the replacement of Fire Station 3, the Medical District parking garage, the City's contribution towards the Fremont Street Experience canopy reconstruction, the Corridor of Hope Courtyard Phase 2, expansion of a new parking garage at Parcel B in Symphony Park and transportation funding for Third Street Improvements.

He also reviewed the General Fund allocations by major category, which total \$77 million for the funding of 54 new capital projects. He noted that the General Fund is just one of the funding sources used in the Five-Year Capital Program. Other funding sources include regional agencies and enterprise funds, which he named as well. The Five-Year Capital Program total is approximately \$958 million.

Reporting on the Redevelopment Agency (RDA), CHIEF FINANCIAL OFFICER AMELING went over the fiscal trends, noting a 32 percent assessed value increase for FY19. He also reviewed the focus areas for the RDA for the next fiscal year. These include marketing of the Medical District, Symphony Park Development, the Office Tenant Incentive Program, New Market Tax Credits Allocations, the contribution to the City for maintenance in the RDA area, contribution to the Fremont Street Experience canopy renovation project and transfer of Economic and Urban Development positions from the City's General Fund to the RDA.

A slide showing the projected revenues and expenditures for the RDA for FY17, FY18 and FY19 was displayed. CHIEF FINANCIAL OFFICER AMELING pointed out that 18 percent of the

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tax increment collected in the RDA is carved out by State law, with nine percent going to affordable housing projects and nine percent towards education.

A slide summarizing the FY19 Tentative Budget for all funds was shown. This included figures for FY17, FY18 and FY19 in the categories of Total Budget, General Fund, Capital Program, FTE Staffing Level and City Population.

Staff was requesting direction from the Council to help finalize the tentative budget and to file it with the State by the required deadline of April 16, 2018.

CITY MANAGER ADAMS provided a summary of the key budget takeaways. He wished to underscore that the City's revenue growth is not keeping pace with the expenditure growth which defines a structural deficit.

The Council's priority areas have been expanded in public safety, Metro, Marshals for park security, homelessness, mobile integrated healthcare and neighborhood support of graffiti and tree programs. While a tentative balanced budget was presented for filing, he noted that Team 2020 would be rolling out within the next 30 days to address the ongoing structural deficit.

The next steps include filing of the tentative budget by April 16th, a budget hearing on May 21st, filing of the final budget on June 1st and filing of the five-year CIP by August 1st.

COUNCILWOMAN FIORE knows how much hard work went into this, and she thanked staff for addressing all of her budget questions in briefings. She stressed the importance of transparency and implementing the Council's requests. CITY MANAGER ADAMS commented he and CHIEF FINANCIAL OFFICER AMELING are big believers of a rigorous budget process, and they are prepared to make the necessary enhancements and improvements going forward.

COUNCILMAN SEROKA also thanked staff and looks forward to getting more educated on the budget process. He is very pleased with the 2020 initiative which addresses the deficits as they move forward.

COUNCILWOMAN TARKANIAN knows it is difficult to balance everything and thanked staff for all of their hard work. She appreciates the continued emphasis on innovation but most importantly that a lot of attention is being given to the neighborhoods throughout the valley.

COUNCILMAN COFFIN participated in the process and thought staff was doing a good job. A balanced budget was presented, but more money is needed as the demand for services continues to grow; there is not enough money to pay for everything the citizens want. He also mentioned the unintended consequences of the property tax cap. His hope is to be united with all of the other cities and counties to make changes at the State Legislature in 2019.

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MAYOR GOODMAN thanked CITY MANAGER ADAMS and CHIEF FINANCIAL OFFICER AMELING along with their teams. The Council's involvement in the budget process seems to have changed, and she applauded the opportunity to have an open dialogue. She thought it was a remarkable experience, and realizes the difficulty involved. She acknowledged COUNCILMAN COFFINS' comments with regard to the demands placed on the City. People only understand what they want to understand and do not understand why the City is not addressing their one issue. In reality, the City has a lot to undertake. She was very proud and pleased with how well staff listened to the offerings of the City Council. Despite it being done with vigor and excitement, the reality is that everyone is in this together. The Mayor again commended everyone that was a part of the budget process. She commented the City of Las Vegas is stable, and she is really excited about the aggressiveness of this exercise and the end result.