

SPECIAL BUDGET AD HOC COMMITTEE

Report to the Henderson City Council
February 18, 2014

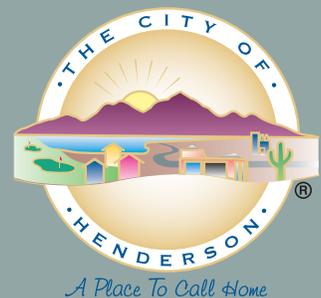


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EXECUTIVE SUMMARY

Background

The City of Henderson is one of Nevada's premier communities and has earned a national reputation for its high quality of life, expansive trails and recreation facilities, business-friendly practices and safe environment. However, over the last six years the worst economic downturn since the Great Depression significantly reduced the city's resources. The two major sources of revenue for the city's General Fund, consolidated tax and property tax, plummeted and are currently at levels near Fiscal Year (FY) 2005. The city addressed the economic downturn quickly, with the first reductions being implemented in 2008. Strategies employed by the city included a series of cost reductions and revenue enhancements.

Strategies implemented by the city over the last five years resulted in:

- More than \$127 million in citywide cuts
- A reduction in non-public safety staff by 16 percent
- Reduced non-represented compensation by 6 to 11 percent
- The elimination of cost of living adjustments for employees for FY2010-FY2014
- Concessions from all employees equal to 2 percent pay for FY2013 and FY2014

During this time, the city has still maintained one of the lowest employee-to-citizen ratios and the lowest property tax rate of the major cities in Nevada. The City Council and city leadership worked hard to insulate residents from the pinch of the budget reductions that were made. Today, however, the city still finds itself in a place where additional hard decisions must be made. Though the historical needs of the community are currently being met, the city has been unable to respond to the growing needs and infrastructure reinvestment necessary to maintain the quality of life residents enjoy today. The annual structural deficit currently consists of \$17 million in infrastructure needs, as well as a \$2 million operating shortfall. With options becoming more limited, the City Council commissioned a community-based group named the Special Budget Ad Hoc Committee (SBAHC) to review the city budget and operations in order to come up with additional recommendations to fill these budgetary gaps. The SBAHC was tasked with providing short- and long-term recommendations to address these deficits and to help ensure the City of Henderson maintains its status as a premier community with first-rate amenities for its citizens, as well as the infrastructure necessary to meet the needs of existing and future businesses.

The SBAHC met a total of nine times between September and December 2013. The list of recommendations that the committee formulated may be found on the following pages.

RECOMMENDATIONS

The recommendations that were unanimously approved are:

Rate Increases

- Increase parks and recreation department pricing and rentals up to \$523,000, generating revenues through increased preschool pricing, participant identification cards, sports pricing, aquatic pricing, and streamlined Safekey rates.
- Implement a Parks and Recreation Department comprehensive pricing study with potential of up to \$2 million in additional revenue, incorporating the following components in the study:
 - Market rate comparison
 - Cost of service
 - Premium philosophy, meaning Henderson offers premier amenities and rates should reflect the quality of its facilities and services
 - Allow for subsidized discounts for the at-risk population
 - Full cost recovery for private use
 - Maintain current access for public
 - Surcharge for operations and maintenance for non-private use

Service Cuts

- | | |
|---|-----------|
| • Eliminate all Parks and Recreation Department punch passes | \$115,000 |
| • Eliminate Parks and Recreation Department bread pickup | \$17,000 |
| • Eliminate Parks and Recreation Department senior transportation program | \$236,000 |

Explore Service Delivery Alternatives

- Combine new police and fire facilities
- Regionalize emergency services where appropriate
- Explore public/private partnerships
- Make the Parks and Recreation Department Meals On Wheels and senior nutrition program means-tested and cut city contribution of \$350,000, if matching is not necessary
- When looking at non-core city services, use a cost-neutral budgeting philosophy for programs such as Meals On Wheels and senior nutrition
- Close or limit recreation center hours on low-use days
- Explore the feasibility of delaying the build-out of the next five new parks; implement a pilot project that uses external resources to maintain the next five new parks
- Look at areas to blend in-house staff and outside contractors; explore additional contract service opportunities throughout the city

Property Tax

- Fully address the city's infrastructure and capital deficit and deferred maintenance needs that increases the property tax rate in the short-term and long-term
- Encourage the City Council to use its statutory authority to immediately increase the property tax rate to the allowable limit per the state Department of Taxation
- Include the use of a ballot question as early as the 2015 municipal election up to a maximum of 20 cents but not to exceed a total city rate of 91 cents

RECOMMENDATIONS

Additional Recommendations

- Explore legislative proposals that address depreciation of assessed value, property tax structure, and Residential Construction Tax
- Create an inventory of all property owned by the city and its use for the purpose of determining if there are excess properties that could be sold

It must be noted that the SBAHC arrived at the recommendation to cut services for bread pickup and the elimination of the senior transportation program, but only after much debate and ultimately ensuring that these services can and should be handled by other agencies such as other nonprofits in the community and the Regional Transportation Commission of Southern Nevada (RTC). Essentially, these were suggested as cuts because they are not considered core city services.

SBAHC MEMBERSHIP

The City Council appointed 21 individuals, representing diverse stakeholder groups with a vested interest in the City of Henderson, as follows:

Tim Brooks, Chair	Water Street District Business Association
Tom Piechota, Vice- Chair	Citizen Representative
John Alderfer	Commercial Real Estate Investment Trust
Klif Andrews	Pardee Homes
Rocky Finseth	Carrara Nevada
Ronald Leavitt	Citizen Representative
Jim Long	Sun City Anthem
Anthony Marnell	M Resort, LLC
Lisa de Marigny	Green Valley Ranch Homeowners Association
Scott Muelrath	Henderson Chamber of Commerce
Ken Merkey	Citizen Representatives
Mark Paris	The LandWell Company
Bart Patterson	Nevada State College
John Ramous	National Association of Industrial and Office Properties
Dr. Harry Rosenberg	Roseman University
Pat Shalmy	Citizen Representative
Dan Shaw	Development Community
Sean Stewart	Associated General Contractors–Las Vegas Chapter
Danny Thompson	AFL-CIO
Nick Vaskov	Desert Research Institute
Carole Vilardo	Nevada Taxpayers Association

PROCESS

To coordinate and manage committee meetings, the city retained Thom Reilly as an independent, neutral facilitator. Mr. Reilly was responsible for soliciting dialogue and interaction among committee members, ensuring all perspectives were heard and considered, and suggesting appropriate process tools to assist committee members in problem solving and other aspects of their deliberations.

To encourage public involvement, SBAHC meetings were publically noticed in accordance with the state's Open Meeting Law. Presentations and minutes of each meeting are posted on the city's website.

DISCUSSION

Since its official incorporation as a city in 1953, the City of Henderson has grown into one of the most dynamic communities in Nevada and the nation. Known for a low cost of living; master-planned communities; progressive business development; outstanding parks, trails and recreation amenities; and as one of the safest communities in the country, Henderson has become the community of choice in Southern Nevada. Underlying this is an extensive network and infrastructure of city streets, roads and other utilities and services that are relied upon by the business community, residents and visitors. After the economic collapse began in 2008, city leaders were forced to defer much of the maintenance of this critical infrastructure. This was coupled with major cuts in the city's budget as well as major concessions from city employees in response to declining revenues. Through it all, city services have been maintained at peak levels – even through today – so residents and businesses could manage through the economic downturn without a disruption in services they receive from their city government.

The city strategically cut more than \$127 million from the budget citywide over the last five-year period. This included the reduction of over 230 positions in city staff, salary and benefit reductions, capital construction and maintenance deferrals, operating cuts and fleet reductions (see Appendix A for complete list). The City Council intended for these budget cuts to be as minimally impactful as possible to Henderson residents.

Even after these cuts, there remains a \$17 million annual infrastructure deficit and a \$2 million operating shortfall. Today, however, the city is at the point where it can no longer sustain a model of deferring maintenance; at risk is the underlying fabric of our city-wide economy. If infrastructure fails or amenities degrade, the quality of life that residents currently enjoy will diminish. Without a strong infrastructure and city workforce to provide key services, Henderson businesses will be unable to expand and the city will be unable to attract new and large-scale enterprises that can provide much needed jobs for our community and provide the economic boost our residents demand.

The City Council, well aware of these facts, commissioned a community-based group named the Special Budget Ad Hoc Committee (SBAHC) to review the City budget and the operations in order to come up with some additional recommendations to fill the budgetary gap. The SBAHC was charged with providing both short- and long-term recommendations to address these deficits and help ensure that the City of Henderson maintains its status as a premier community with first-rate amenities for our citizens as well as the infrastructure necessary to meet the needs of our existing and future businesses.



The SBAHC met a total of nine times to learn about the city's infrastructure needs, including hosting presentations from key departments to help them understand the actions the City Council has taken over the last few years to steer the city through the Great Recession. Committee members learned of the difficulties in meeting the needs of the community while grappling with a slowly recovering sales tax base and the effects of the legislative tax cap on property tax revenue.

First Meeting | September 4, 2013

The SBAHC received a presentation from City Manager Jacob Snow on the purpose of the committee and what lay ahead over the next four months.

Mr. Snow provided an overview of the city and its history. The City of Henderson celebrates the 60th anniversary of its incorporation this year. In 1953, the City of Henderson was just 13 square miles and had a population of 7,400 residents. Today, the city covers 105 square miles with a population of roughly 270,000 residents.

Henderson is nationally recognized as a premier community with a high satisfaction rate among residents. Our most recent community survey shows a 96 percent satisfaction rate in the quality of life that we provide, a 97 percent satisfaction rate in city services, and a very strong sense of community.

Henderson is proud to be the largest full-service city in the state, providing all of the essential public services, including police, fire and water.

The Henderson Police Department is nationally accredited and Henderson has been named the second safest city in America by Forbes. Our fire department is also nationally accredited. The Henderson Fire Department excels at many things, but one thing that is especially worth noting is our high success rate for survivability of cardiac arrest events. Our survivability rate is more than double the national average.

In instances of cardiac arrest due to ventricular fibrillation, the Henderson Fire Department achieved a 50 percent survival rate, and 29 percent of patients go home neurologically intact. Nationally, the survival rate for this type of cardiac arrest is about 21 percent. The Fire Department credits this success to consistent training, use of best practices, and their team-based approach to cardiac arrest.

When one looks at the city's general fund, more than half of the expenses are tied to police and fire. That means half of what you pay for is to ensure that when you dial 911, someone is there to respond. The other big expenses are tied to parks, recreation and cultural programs.

City managed well throughout the recession. We've cut \$127 million from our budget, eliminated positions and weathered the financial crisis. But those cuts have taken a toll. Long term, the city needs to look at ways to manage the long-term capital needs to invest in our roads, emergency services, and parks and rec facilities. The Council will be responsible for making any decisions, but input from the community is important. We need the SBAHC's input to ensure that we're financially stable and investing in the areas that make Henderson premier.

Jeremy Aguero, principal of Applied Analysis, provided a presentation on the challenges facing local governments. In summation, cities face four main issues:

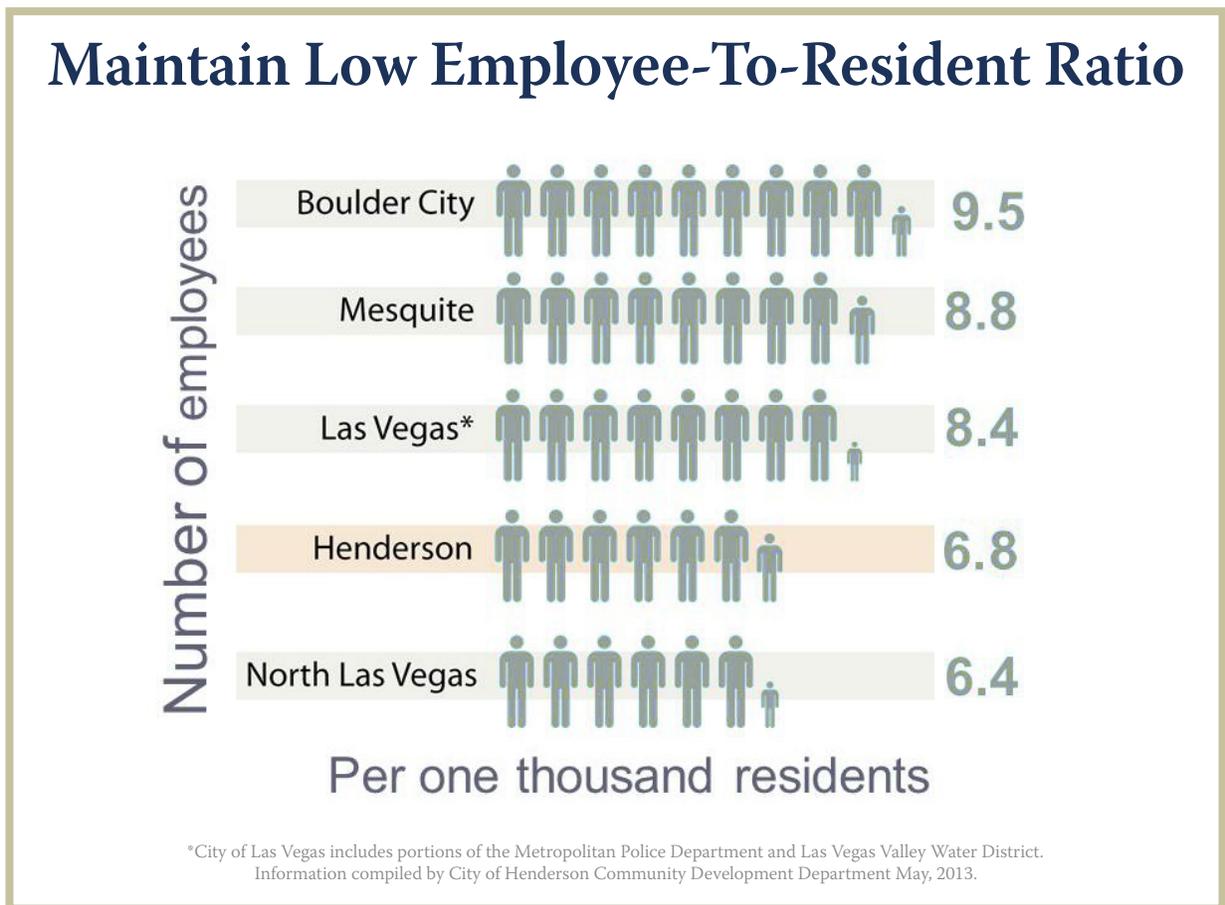
1. The economy has improved, but is far from good.
2. Structural fiscal challenges remain for local governments.
3. Although cities have streamlined operations, costs are likely to outstrip revenues.
4. Local governments must find strategies to fix their own problems. The state and federal governments are unlikely to help.

Second Meeting | September 18, 2013

Finance Department

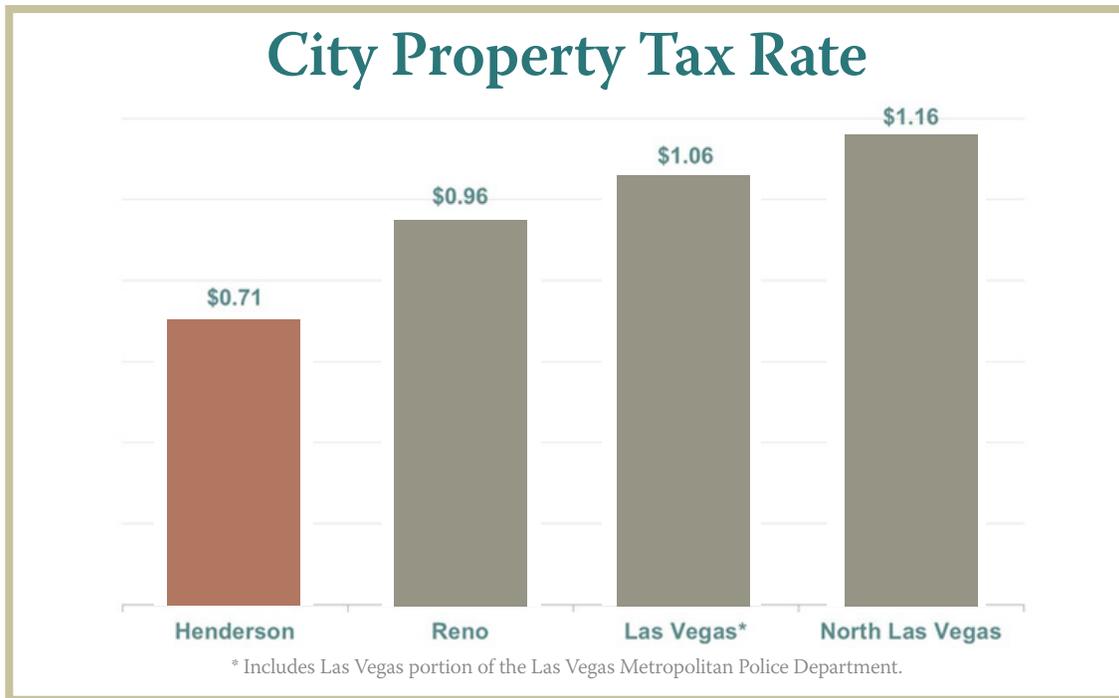
Chief Financial Officer Richard Derrick provided an overview of the city budget. As the second-largest city in the state at 271,000 residents, Henderson is the largest full-service city and maintains a strong sense of community with a 95 percent resident satisfaction rate on the latest survey. The city has maintained strong financial management policies, kept financial reserves, and preserved strong relations with employee groups. The city also began to address the economic downturn earlier than many other jurisdictions with the first budget cuts being made in October 2008.

The city maintains one of the lowest employee-to-citizen ratios in the state. This highlights the value that citizens receive through efficient management of the city's resources:



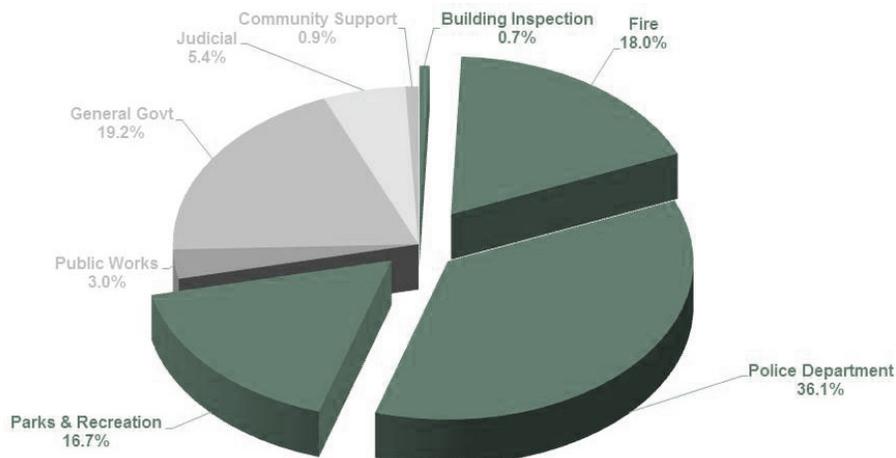
Second Meeting | September 18, 2013

The city has the lowest property tax rate of the major cities in the state at 71 cents per \$100 of assessed valuation. It is 35 cents lower than Las Vegas and 45 cents lower than North Las Vegas. This highlights the value property owners have received over the last 23 years that this rate has been in effect:



The General Fund budget for FY 2014 is \$219.1 million. More than half of this budget is dedicated to public safety (police, fire and emergency medical services) while another 17 percent provides parks and recreation services. In total, over 70 percent of the city's General Fund budget is committed to these core community services.

Budget Expenditures By Function: Parks and Recreation & Public Safety



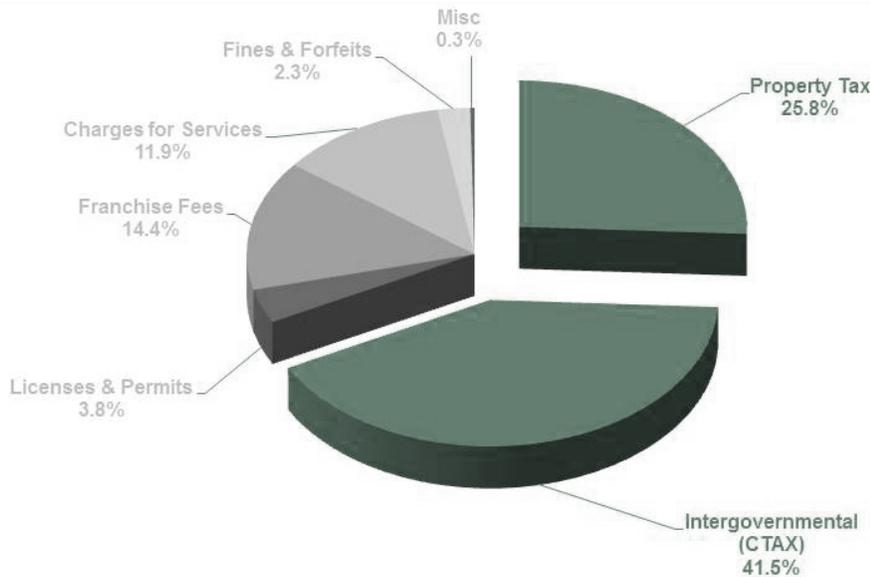
More than 70% of the General Fund Budget

* Adopted Final Budget, Excludes Transfers Out

Second Meeting | September 18, 2013

Nearly 70 percent of General Fund revenue is tax based; the other 30 percent is generated from other fee-based sources.

General Fund Revenues FY 2014 Budget*

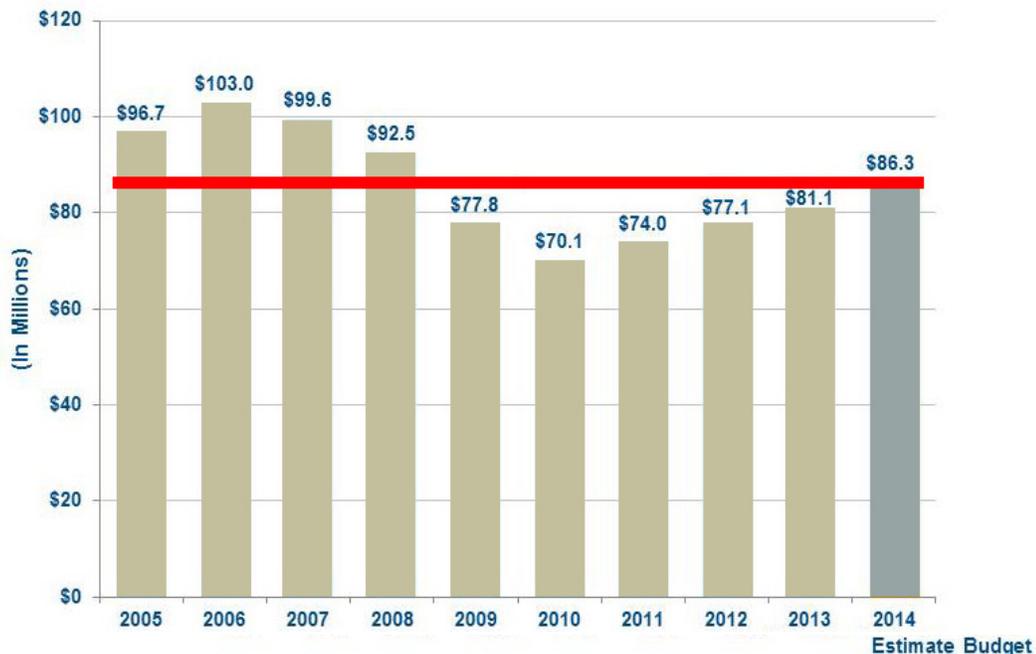


Nearly 70% of the General Fund Revenue is Tax Based

* Excludes other sources

The two main sources of revenue for the General Fund are the consolidated tax and property tax. Both sources have dramatically declined from their peak just prior to the economic downturn. Consolidated tax, which is made up primarily of sales tax, is slowly recovering, but growth is expected to be moderate at best. It will take many years to recover because of the need to climb from such a depressed level.

Consolidated Tax (in millions)



FY 2014 is 16% below the peak of FY 2006

Second Meeting | September 18, 2013

With the decrease in property values, property tax revenue to the city plummeted. Between 2009 and 2014, annual property tax revenue dropped by more than \$27 million. Cumulatively over this period the city lost more than \$100 million in revenue. Although housing values have begun to increase, the property tax caps enacted by the state legislature in 2005 impair the ability of the city to recover to pre-recession levels. These caps limit the amount that a property tax bill can grow from one year to the next. The limits are 3 percent for residential and up to 8 percent for commercial. Regardless of the amount that a property grows in value each year, the tax bill can only grow by these caps.

Henderson Property Tax Revenue (all funds)



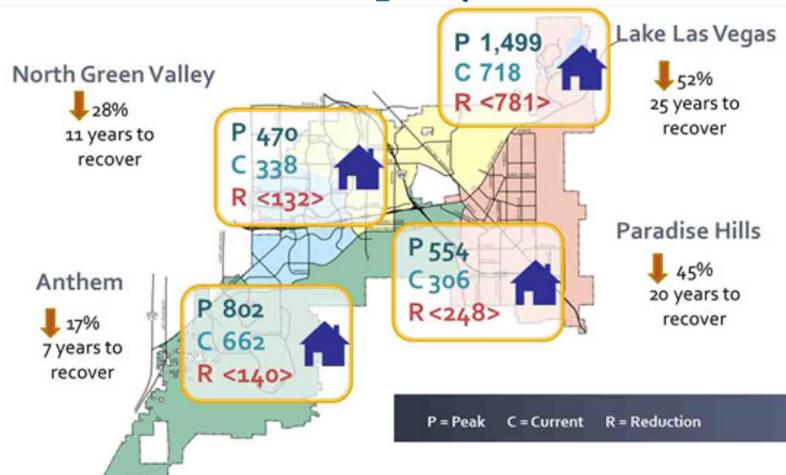
FY 2014 is 32% below the peak of FY 2009 and below the levels of FY 2006

For Henderson residents and businesses, approximately one-fourth of their property tax bill actually goes to the City of Henderson. The rest goes to support the state, Clark County, the Clark County School District, and other special districts.

Second Meeting | September 18, 2013

With current property tax caps in place, the city is very limited in the amount that property tax revenue can grow each year. Below is an example of actual houses in the community. It illustrates the amount of property tax these houses generated at the peak of the economy, what they generate today, and how long it will take with the property tax caps in place to grow back to the amount of revenue that the city once received in support of city services.

Henderson Property Tax Revenue



As illustrated, in some cases it will take 20-25 years of growth to recuperate for the loss in revenue. Meanwhile, the cost of doing business continues to increase. In reaction to the drastic decline in revenues to the city, many budget cuts and cost containment strategies were implemented. Since 2008, the city has:

- Made more than \$127 million in citywide cuts
- Reduced non-public safety staff by 16 percent
- Reduced non-represented compensation by 6 to 11 percent
- Eliminated cost of living adjustments for employees for FY2010-FY2014
- Received concessions from all employees equal to 2 percent of pay for FY2013 and FY2014

A detailed list of these strategies can be found in Appendix A.

Even with the numerous measures that have been implemented to date, more must be done to ensure fiscal sustainability into the future. Additional options available to the city are limited. Revenues can be generated through increasing business license fees, parks and recreations fees, or the city property tax rate.

The most critical challenge is to find a way to fund \$17 million into infrastructure reinvestment annually. City management identified the need to reinvest in its infrastructure as the top priority over the next decade. Failure to maintain an appropriate level of investment will increase costs in the future.

What Can We Change Now?

Possible	Not Possible
<p>INCREASE</p> <ul style="list-style-type: none"> Business License Fees Park and Recreation Fees Property Tax Rate <p>CUT SERVICES</p>	<p>INCREASE OR IMPOSE</p> <ul style="list-style-type: none"> Sales Modified Business Tax Corporate Income Tax Personal Income Tax Gross Gaming Fees Mining Tax Governmental Services Fees Car Rental Taxes Insurance Premium Taxes Motor Vehicle Fuel Taxes Franchise Fees Room Taxes Live Entertainment Taxes

Third Meeting | October 2, 2013

Human Resources Department

Human Resources Director Fred Horvath provided an overview on labor relation strategies. The purpose of discussing the city's labor strategies with the SBAHC was to ensure members understood that city management has made great strides in negotiations that benefit the taxpayer, and that these negotiations will continue. The discussion provided more detail on the cuts and concessions discussed in the second meeting. Of note, employee group concessions for FY2010 through FY2014 will total \$49 million in savings. The Voluntary Employee Severance Plan has seen over 400 employees leave the organization with 268 of those positions remaining vacant.

City management has crafted a strategy to fundamentally change employee compensation plans. A marketing analysis is being completed for the city's non-represented employees. For this group, the city will be moving to a pay for performance compensation model. Previous automatic 5 percent step increases in base pay on an employee's anniversary date ended in July 2012. Based on an employee's performance, a lump-sum payment or base salary adjustment may occur. The city is also moving away from the traditional public sector model of vacation and sick leave to a more sustainable paid time off model that will save the city on payouts once an employee retires.

Employee group concessions
for FY10 through the end of FY14
(June 30, 2014)

\$49 million

Salary and benefits savings of \$63.6 million through the September 15, 2013 payroll cycle.

- Severance expense at \$22 million to-date
- 189.4% return on investment to date

Bi-weekly payroll savings of \$930,000

- \$742,000 at this time last year
- Up 25.22% year-over-year

This is an annual savings rate of \$24.2 million

- \$19.3 million at this time last year

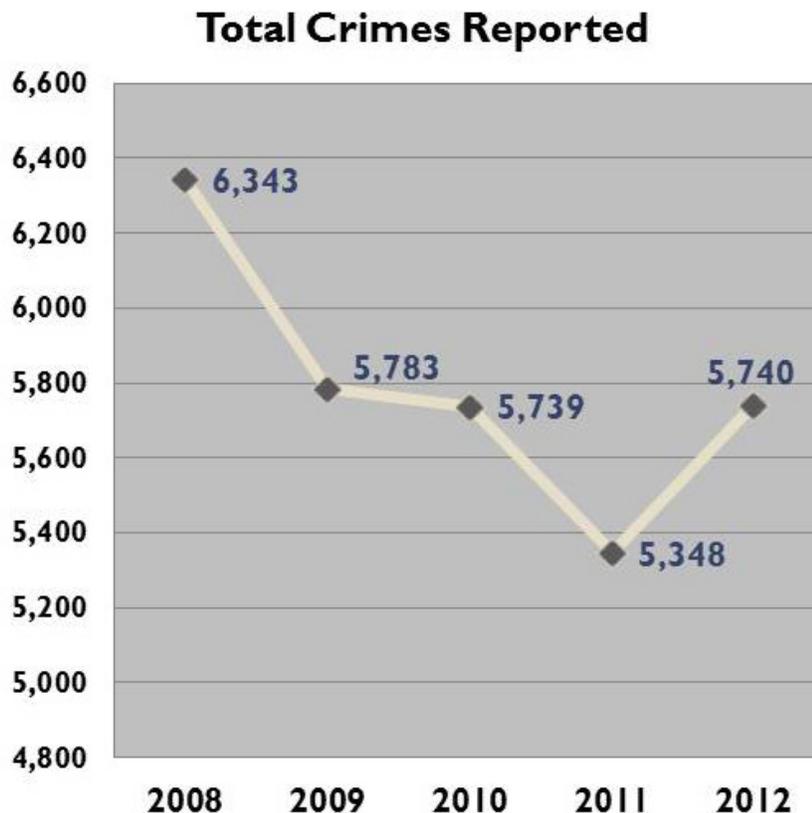
Fourth Meeting | October 16, 2013

Police Department and Fire Department

Discussion at this meeting focused on the Police and Fire Departments. Police Chief Patrick Moers provided the SBAHC with an overview of the Police Department since it comprises the largest portion of the city's General Fund budget. At the time of this meeting, the Clark County Commission was contemplating an increase in the county sales tax rate by 0.15 percent. Should it be enacted, the city's Police Department will benefit with the new revenue stream supporting approximately 38 new police officers (assuming the full 0.15 percent is enacted). The Henderson Police Department has a total of 327 sworn officers, achieving an officer-to-citizen ratio of 1.2 per thousand residents. This is significantly lower than the city's earliest goal of 1.7. According to the Federal Bureau of Investigation (FBI), the national standard is 2.5.

Despite potential new sales tax revenue, the Police Department still faces some serious challenges as more significant and traditional revenues streams have dried up. The city's Crime Forensics Laboratory (crime lab) is in woeful need of upgrades, creating the risk of damaging the conviction rate, slowing the wheels of justice due to backlogs or simply sending the message that you won't get caught in Henderson. The department has also had to cannibalize its task forces and specialized units in order to backfill patrol positions. Although patrol officers are the most essential part of policing communities, closing specialized units has impaired the ability to be proactive and catch criminals before crimes escalate.

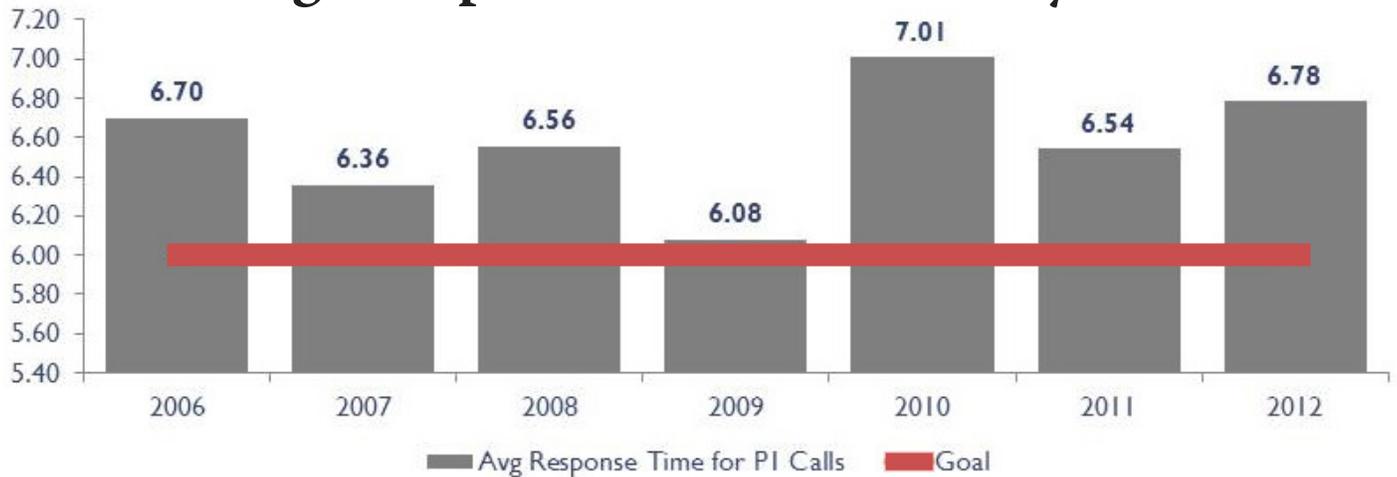
As the department has had to freeze positions and shuffle positions, Henderson's population has actually increased slightly and crime has started to inch back up. Average response times for Priority 1 calls have risen to 6.78 minutes; the goal is 6 minutes. Every second counts when it comes to life-threatening scenarios.



Fourth Meeting | October 16, 2013

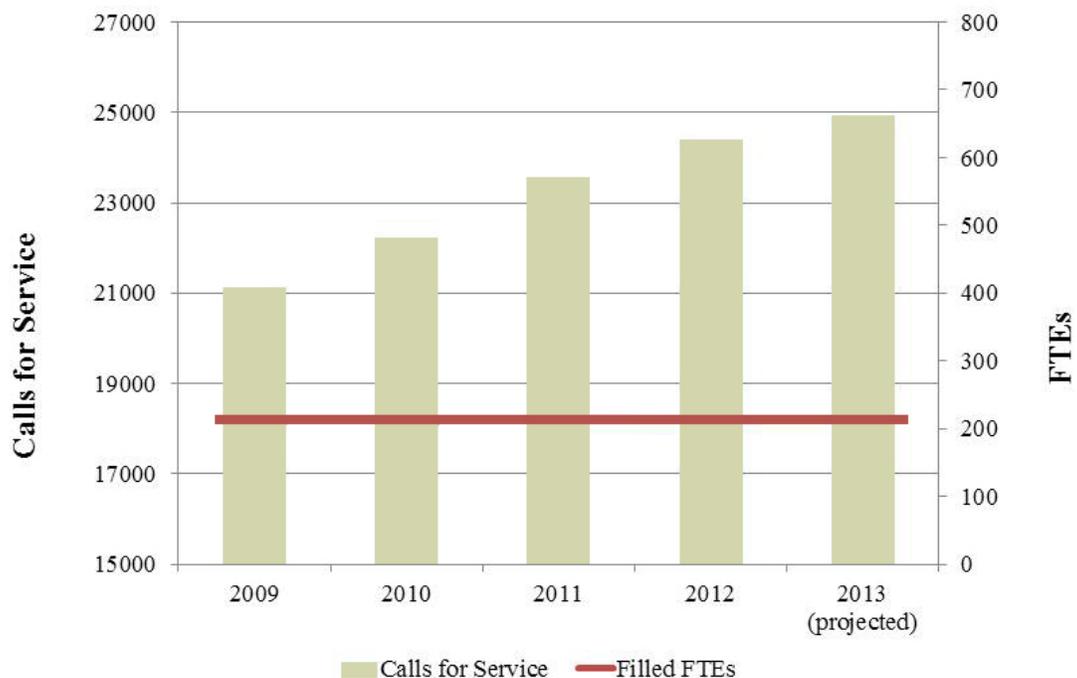
The Police Department has a contingency plan that risks the loss of services such as school crossing guards, the drug education program D.R.E.A.M.S. and neighborhood watch support. Without more revenue to support more officers, these and other programs and services could be at risk.

Average Response Time for Priority 1 Calls



Fire Chief Steven Goble provided the SBAHC with an overview of the Fire Department since it, along with the Police Department, are allocated more than half of the city's General Fund budget. Despite the slowdown in population growth and the economic downturn, service calls have steadily increased by 18 percent, but staffing has remained flat and each firefighter and paramedic is doing more with zero growth in personnel.

Service Demand vs. Staffing

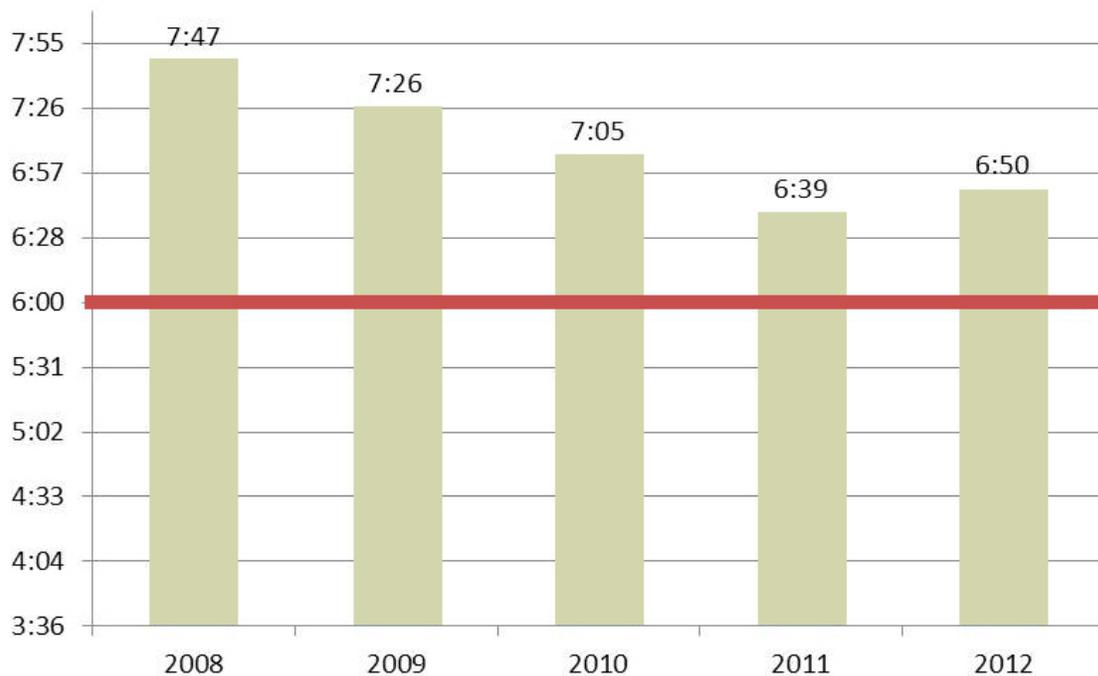


Fourth Meeting | October 16, 2013

With the increase in service demands, no additional personnel have been added since 2007 and no new fire stations have opened (the last station was added in 2002). Each of the department's nine fire stations are responsible for an average of nearly 12 square miles, double the area of Irving, Texas, which is one of the benchmark cities for comparisons to Henderson.

Through increased efficiencies, the Fire Department has successfully decreased the average response time to 6.50 minutes from a high several years ago of 7.47 minutes. But these times are inching back up as the population increases with a healing economy. These response times will be exacerbated as the city's development occurs in the more rural areas of west Henderson-- there is no fire station or police station in that area. Members of the SBAHC suggested looking at combining the two into one new station to save costs.

Average Response Time



Fifth Meeting | October 30, 2013

Public Works Department

Public Works Director Bob Murnane provided an overview of the city's infrastructure challenges. The department manages the largest city footprint—its infrastructure asset portfolio equates to nearly \$2 billion in valuation and spans over 105 square miles – with a workforce of 180 full-time employees who plan, design, construct, maintain and support that infrastructure. After the economic decline began, many funding sources traditionally used for infrastructure such as Gas Tax, Regional Transportation Commission (RTC) and Clark County Regional Flood Control District (CCRFCD) funds, contributions to capital refresh funds, and General Fund operating budgets were drastically cut. As a result, the department was forced to make reductions in capital improvements, road maintenance, traffic control maintenance, facility maintenance and fleet maintenance.



The department maintains 822 miles of pavement and these roadways are currently valued at \$875 million. In order to properly maintain the roadways, the city must invest \$69.4 million over the next ten years. Unfortunately, this is above and beyond all available funding sources, including non-recurring Gas Tax Indexing Funds that will contribute \$41 million over the next three years. The current budget needed to achieve proper maintenance is short \$3.4 million per year.

Traffic control maintenance is required on over 150,000 traffic signs, 30,000 street lights, 160 signalized intersections, and pavement markings throughout the entire transportation network. These are valued in total

at over \$135 million. Maintenance needs total \$25.1 million over the next ten years, but the current shortfall in the budget is \$675,000 per year.

The city has over 1.8 million square feet of building space and its facilities equate to \$365 million in valuation and require \$80.4 million in maintenance needs over the next ten years. The current shortfall in the budget is \$1.2 million per year.



The department maintains nearly 1,400 city vehicles, including police cruisers, fire trucks, ambulances, heavy equipment and other vehicles. The total fleet is valued at \$48 million. Replacement needs will total \$99.7 million over the next ten years. Another \$4.1 million per year in



Fifth Meeting | October 30, 2013

the repair budget will also be needed since life spans on these vehicles have been extended as far as possible. The current shortfall in the budget is \$5.9 million per year.

Summary of the annual deficits:

The graph below depicts not only the shortfalls in the Public Works Department's managed assets, but also includes the anticipated shortfalls in parks, trails and information technology infrastructure funding. Essentially, the city is not adequately funded to maintain its current infrastructure portfolio. Resource management and increased efficiencies have not satisfied ongoing maintenance needs and do nothing to address future maintenance needs associated with growth or an



Summary of Annual Deficits

ASSET CLASS	ANNUAL DEFICIT
Roadways	\$3,400,000
Traffic Control	\$675,000
Stormwater	\$1,300,000
Fleet	\$5,900,000
Facilities*	\$2,100,000
Parks and Trails	\$665,000
Information Technology	\$3,065,000
TOTAL ANNUAL DEFICIT	\$17,105,000

*Includes select new capital proposals in addition to annual maintenance shortfalls.

aging infrastructure. The resulting maintenance deferrals are growing in all asset classes and are compounding the longer they are deferred.

Additionally, the economic downturn has forced the city to defer the construction of many capital projects. Several of the highest priority projects, including a new crime lab, build-out of Esselmont and Boulder Creek parks, and a much-needed community police center in the west Henderson area, do not have sufficient funding to be completed.

The combined maintenance and capital deferrals total the \$17 million annual infrastructure deficit that the SBAHC is helping to address.

Sixth Meeting | November 6, 2013

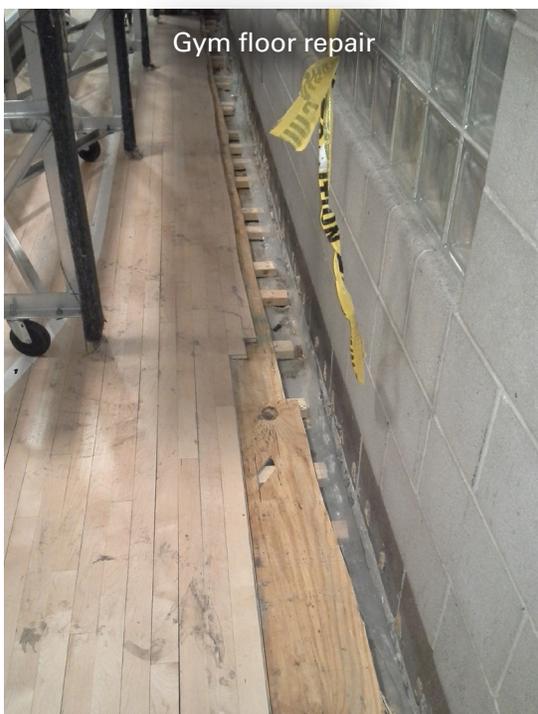
Parks and Recreation Department

Parks and Recreation Director Mary Ellen Donner gave an overview of the department's wide range of programs and services. Its inventory includes 57 parks, 108 miles of trails, seven recreation centers, a bird viewing preserve, nine outdoor pools and four indoor pools.

The department has largely succeeded in satisfying Henderson residents as evidenced by a 2010 community survey where 95 percent of respondents were either satisfied or very satisfied with the quality of parks and recreation programs and services.

The department offers the following core service areas (details relating to these core services can be found in Appendix B):

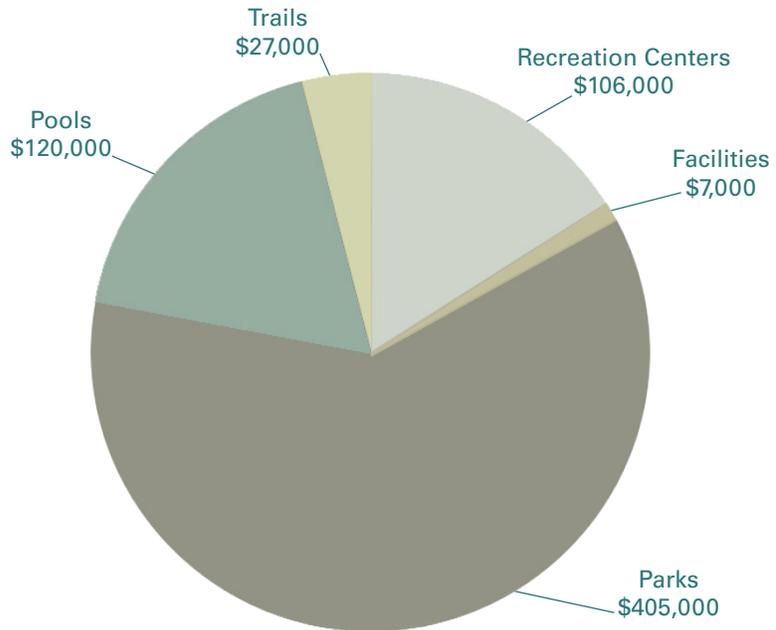
- Parks and Facilities Management provides asset management of parks, landscaped recreation and municipal facilities, and open space areas with overall management and maintenance of over 1,202 acres of park land, open space, trails, and civic grounds.
- Recreation Opportunities and Services provide residents with value-driven recreation, aquatic, athletic, and special interest programs. General recreation programs such as paid programs, fitness, drop-in classes, sports, aquatics, and special events are offered through the department's recreation centers, pools and special sports facilities.
- Community Services provides programs that contribute to the overall development of individuals by enhancing their physical, mental and social well-being. This core service includes a variety of recreation programs focused on addressing the special needs of many residents.
- Planning for parks, trails and open spaces ensures quality development.
- Strategic support includes resource development and administrative support functions.



Sixth Meeting | November 6, 2013

These services are delivered by 200 full-time and between 500 and 1,500 part-time seasonal employees depending on the season (summer part-time numbers increase dramatically with the hiring of lifeguards and summer camp staff).

Asset Management Shortfall \$665,000



The city's General Fund provides the bulk of the funding, \$36.6 million, for the day-to-day expenses of the department's services. A component of the General Fund support is the parks and recreation tax override. This tax source once generated nearly \$15 million in revenue for the support of parks and recreation services but has dwindled to less than \$10 million. This override was identified to provide for the operation and maintenance of existing and future parks. Back in 1997, no one anticipated the economic downturn leading to the dramatic drop in assessed property values that has resulted in a tax override fund balance that can no longer support the maintenance and operation of parks, trails and facilities. Other revenue sources that support department operations amount to approximately \$2.9 million annually.

In response to revenue shortfalls, between 2008 and 2013 the department found efficiencies in operations and froze, deferred or eliminated positions for a total savings of \$4.6 million. Henderson residents have made

Sixth Meeting | November 6, 2013

it clear that access to premier amenities and parks is of top priority and these cuts and service changes have been as seamless as possible to the parks and recreation user. The future was planned for and funding secured but the economic downturn has stressed the ability to maintain services and assets. As a result, repair and maintenance activities across the department have been deferred.

A total annual asset management shortfall of \$665,000 has been identified, including deferral of park maintenance equipment replacements; parking lot and trail asphalt repair or replacement; corroded light pole replacements in parks; resealing or replacing pool decks; replacement of pool equipment such as chemical control systems, pumps and filters; repair and replacement of park irrigation systems; replacement of wooden flooring for indoor courts and gymnasiums; replacement of pool slides and diving boards; and playground repair and resurfacing. This identified annual shortfall also includes a capital reinvestment component that has been abandoned completely since the downturn. The reinvestment component is intended to fund complete renovations of parks as they near the end of their useful lives.

The department also has five new park projects under way that are either grant funded from the Southern Nevada Public Land Management Act (SNPLMA) or paid for by developers. These parks are part of the Parks and Recreation Master Plan, which mandates a park within one mile of every Henderson resident. SNPLMA capital dollars would have been awarded to other jurisdictions in Southern Nevada had the city not initially applied for the grants, and deferral now would result in the loss of the funds entirely. The anticipated maintenance costs related to the first two parks in the queue were planned and are funded by the conversion of unfilled positions. The anticipated maintenance costs related to the remaining three parks, however, will add to the identified unfunded maintenance liability.

Department staff offered the SBAHC potential strategies to increase revenues, decrease hours of operation based on usage and to make further cuts to non-core services. The SBAHC appeared supportive of all the suggestions and offered other suggestions as well.

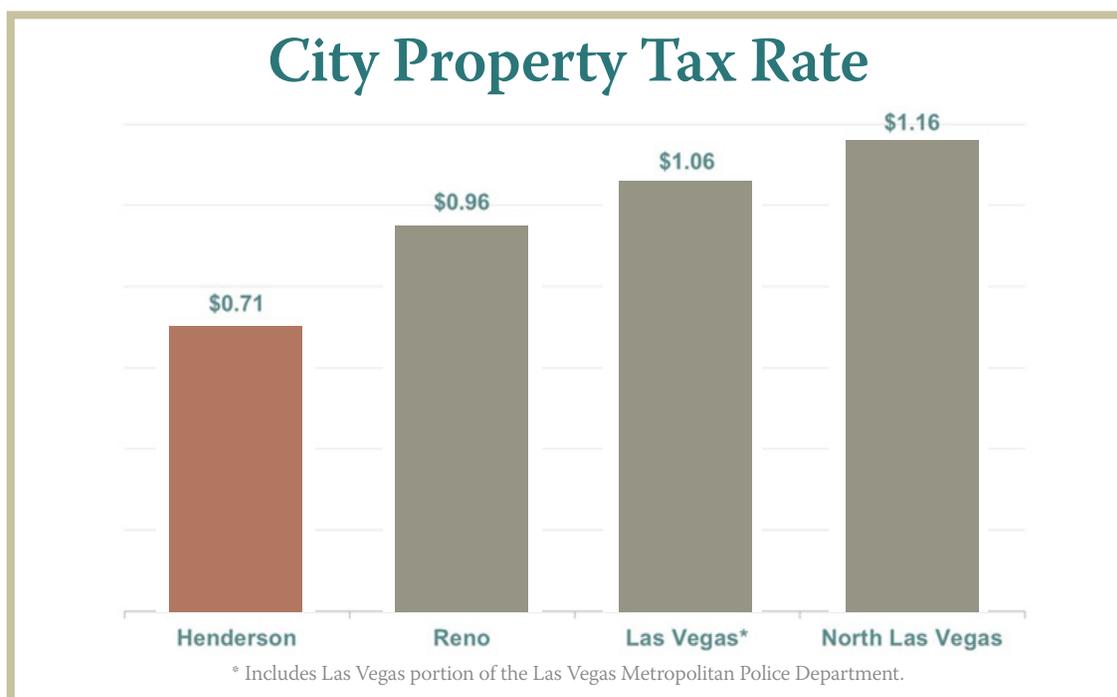
Seventh Meeting | November 20, 2013

Finance Department

Chief Financial Officer Richard Derrick recapped the city's fiscal situation and laid out various strategies to help SBAHC members begin thinking of recommendations. The city has very limited areas in which to raise prices/rates. In the area of business license fees, for instance, the math shows that fees are already at the limit per Nevada Revised Statutes. However, based on the previous presentation, Parks and Recreation department prices could be increased when coupled with a pricing philosophy that differentiates public services (such as swimming lessons for children), merit services (such as youth soccer programs) and private services (such as private guitar lessons). These services charge nearly zero, have partial recovery of costs, and full cost recovery, respectively. The SBAHC opted to allow for raising rates for some services. SBAHC members supported this concept but directed that pricing models would change only after a comprehensive rate study was completed. Members also noted that, in general, program prices were too low when compared to those charged by other Valley jurisdictions for comparable programs and services. Members strongly supported raising these prices to be somewhat equal to other jurisdictions' pricing since it was believed that the city provided a superior product and should be priced accordingly.

Property tax was also explored. The city's property tax revenue stream has been severely impacted by the economic downturn. The SBAHC suggested that the city explore a legislative remedy to the effects of the tax abatement and how this is seriously impairing the city's ability to recover lost revenues due to the significant declines in assessed valuation. Again, by comparison, the City of Henderson has the lowest property tax of any major city in Nevada.

For the past 23 years, the City Council has maintained its property tax rate. Economic realities have caused this revenue stream to be severely curtailed the last several years. The city is now at a point where it must increase other revenue streams as the community begins to expand and Nevada tourism rebuilds. To this end, Finance Department staff has reviewed alternatives and it appears the City Council may have the capability of raising property tax rates in FY2015. The problem with this scenario is that any increase in the rate imposed by the City Council will be subject to property tax caps. It is likely that raising the rate this way will not provide the city any revenue in the short term. Despite this fact, SBAHC members strongly suggested that the City Council exercise its own abilities to begin to bridge the infrastructure needs gap.



Eighth Meeting | December 4, 2013

Finance Department

This was the final meeting with formal presentations from city staff. Chief Financial Officer Richard Derrick gave an overview of recommendations from city staff and those that were suggested earlier by SBAHC members. Thom Reilly then facilitated the committee's discussion on the recommendations from city staff and additional recommendations from the panel.

Ninth and Final Meeting | December 18, 2013

Thom Reilly, SBAHC facilitator, led the discussion on the working list of recommendations.

The recommendations that were unanimously approved are:

Rate Increases

- Increase parks and recreation department pricing and rentals up to \$523,000, generating revenues through increased preschool pricing, participant identification cards, sports pricing, aquatic pricing, and streamlined Safekey rates.
- Implement a Parks and Recreation Department comprehensive pricing study with potential of up to \$2 million in additional revenue, incorporating the following components in the study:
 - Market rate comparison
 - Cost of service
 - Premium philosophy, meaning Henderson offers premier amenities and rates should reflect the quality of its facilities and services
 - Allow for subsidized discounts for the at-risk population
 - Full cost recovery for private use
 - Maintain current access for public
 - Surcharge for operations and maintenance for non-private use

Service Cuts

- | | |
|---|-----------|
| • Eliminate all Parks and Recreation Department punch passes | \$115,000 |
| • Eliminate Parks and Recreation Department bread pickup | \$17,000 |
| • Eliminate Parks and Recreation Department senior transportation program | \$236,000 |

Explore Service Delivery Alternatives

- Combine new police and fire facilities
- Regionalize emergency services where appropriate
- Explore public/private partnerships
- Make the Parks and Recreation Department Meals On Wheels and senior nutrition program means-tested and cut city contribution of \$350,000, if matching is not necessary
- When looking at non-core city services, use a cost-neutral budgeting philosophy for programs such as Meals On Wheels and senior nutrition
- Close or limit recreation center hours on low-use days
- Explore the feasibility of delaying the build-out of the next five new parks; implement a pilot project that uses external resources to maintain the next five new parks
- Look at areas to blend in-house staff and outside contractors; explore additional contract service opportunities throughout the city

Ninth and Final Meeting | December 18, 2013

Property Tax

- Fully address the city's infrastructure and capital deficit and deferred maintenance needs that increases the property tax rate in the short-term and long-term
- Encourage the City Council to use its statutory authority to immediately increase the property tax rate to the allowable limit per the state Department of Taxation
- Include the use of a ballot question as early as the 2015 municipal election up to a maximum of 20 cents but not to exceed a total city rate of 91 cents

Additional Recommendations

- Explore legislative proposals that address depreciation of assessed value, property tax structure, and Residential Construction Tax
- Create an inventory of all property owned by the city and its use for the purpose of determining if there are excess properties that could be sold

It must be noted that the SBAHC arrived at the recommendation to cut services for bread pickup and the elimination of the senior transportation program, but only after much debate and ultimately ensuring that these services can and should be handled by other agencies such as other nonprofits in the community and the Regional Transportation Commission of Southern Nevada (RTC). Essentially, these were suggested as cuts because they are not considered core city services.

CONCLUSION

Over the course of its nine meetings, the SBAHC learned about the city’s efforts to reign in costs while continuing to provide outstanding services during the economic downturn. The city’s efforts to trim costs began in 2008 as the economy first declined with the city issuing a hiring freeze in 2008. To date, the city has made \$127 million in cuts since the start of the downturn in 2008. Despite these budget cuts, the city continues to struggle with a \$19 million annual budget gap that consists of a \$2 million operating deficit and \$17 million in annual structural infrastructure needs.

The committee weighed a number of options to help the city grapple with these deficits. Among them: additional service cuts, fee increases and revenue enhancements. In the end, after four months of meetings, the SBAHC crafted a series of recommendations that together bridge the city’s \$19 million annual budget gap. The recommendations include exploring service delivery alternatives to further reduce costs, eliminating some programs and services, increasing user fees for recreation programs, and asking the Council and voters to increase property tax for the first time in 23 years.

Recommendations

	Short Term		Long Term
Parks & Recreation Fee Increases	\$523,000	Park & Recreation Fee Study	Up to \$2,000,000
Cuts To Services	\$368,000		
		Property Tax Increases (Up to 20 cents)	Up to \$16,500,000
Total	\$891,000		Up to \$18,500,000

*Subject to Tax Caps- could be significantly less

The Committee weighed several options for a property tax increase and unanimously recommended that the city consider raising property taxes up to 20 cents per \$100 in assessed valuation. Such an increase would allow the city to generate up to \$16.5 million and constitutes the largest step toward filling the \$2 million operating shortfall and \$17 million structural infrastructure need. The SBAHC arrived at a maximum of a 20-cent property tax increase after reviewing a financial breakdown of what varied degrees of increase would generate. Understanding that the other options the committee was recommending would be somewhat limited in achieving the City Council’s charge of finding a way to fill the city’s entire \$19 million annual gap, it became clear that 20 cents would indeed satisfy this large remaining gap.

CONCLUSION

Property Tax Rate Increases

Rate Increase	Potential \$ Generated	Additional Cost to \$175,000 home per year
0.01	\$825,000	\$6.13
0.05	\$4,125,000	\$30.63
0.10	\$8,250,000	\$61.25
0.15	\$12,375,000	\$91.88
0.20	\$16,500,000	\$122.50
0.25	\$20,625,000	\$153.13

Current City of Henderson portion of tax bill is \$435.37

After the SBAHC's final recommendations were all unanimously approved, the committee directed that these recommendations be formalized in a final committee report that SBAHC Chairman Tim Brooks and facilitator Thom Reilly are to complete and present to the City Council.

Therefore, honorable members of the Henderson City Council:

This concludes the committee report of the Special Budget Ad Hoc Committee. On behalf of our members we present this report for your consideration.

Tim Brooks
Chairman
Special Budget Ad Hoc Committee

Thom Reilly
Facilitator
Special Budget Ad Hoc Committee

Appendix A | City Budget Cuts

Personnel-related costs

- Hiring freeze (October 2008)
- Overtime restrictions (October 2008)
- Travel and training restrictions (October 2008)
- Offered the Voluntary Employee Severance Plan (January 2009)
- Holiday and holiday pay restrictions/eliminations (FY 2009)
- Tuition reimbursement limitations (January 2009)
- Compensatory time in lieu of overtime (January 2009)
- Voluntary furlough program (March 2009)
- Elimination of deferred compensation match (July 2009)
- Elimination of vacant positions (July 2009)
- Elimination of vehicle allowances (July 2009)
- Elimination of cost-of-living allowances (COLA) for non-represented, police and Teamsters (July 2009) and a reduction of COLAs for fire unions (July 2009)
- Offered the Voluntary Employee Severance Program (May 2010)
- Negotiated zero COLAs for FY2010, FY 2011 and FY 2012 for all groups (various)
- Concessions from all employees equivalent to 2 percent pay for FY2013 and FY 2014 (various)
- Negotiated zero COLAs for all employees for FY2013 and FY 2014 (various)

Operating costs

- Base budget cuts of 3.5 percent from all department operating budgets (November 2008)
- Reduction of internal service charges (FY 2009)
- Cell phone policy revisions and restrictions (June 2009)
- Implemented Category 1 of contingency plan cuts (July 2009)
- Consolidated citywide Xerox contracts (September 2009)
- Implemented a true 4-day work week, closing City Hall on Fridays (September 2009)
- Implemented Category 2 of contingency plan cuts (February 2010)
- Reduced Development Services Center staffing and operating budget (March 2011)
- Implemented additional contingency cuts (March 2013)

Capital costs

- Postponed capital improvement projects including Henderson Convention Center remodel and fleet maintenance facility (October 2008)
- Extension of life of city vehicles (FY 2009)
- Reduction of city vehicle inventory (FY 2009)

Summary

- More than \$127 million in citywide cuts
- Reduced non-public safety staff by 16 percent
- Reduced non-represented compensation by 6 to 11 percent
- Eliminated COLAs for employees for FY2010-FY2014
- Concessions from all employees equal to 2 percent of pay for FY2013 and FY2014

Appendix B | Parks and Recreation

Park & Trail Inventory

- 37 neighborhood parks
- 8 community parks
- 4 regional parks
- 4 sports complexes
- 5 school parks
- 1,202 maintained acres
- 108 miles of trails
- 111 athletic fields maintained
- 57 tennis courts
- 36 basketball courts
- 134 acres of streetscape/median

Urban Forestry

- 25,082 trees inventoried

Recreation Centers

- 2 million visit our seven recreation centers
- 4,657 punch passes sold annually
- 23,719 Healthy Henderson memberships sold annually

Youth Enrichment

- 7,110 children in summer/out-of-school camps
- 4,908 children enrolled in Safekey/Teen Scene at 32 sites

Therapeutic Recreation & Inclusion Services

- 181 participants receive assistance daily

Senior Services

- 217,953 meals served annually at Heritage Park Senior Facility and Downtown Senior Center
- 11,245 social service contacts made annually
- 4,446 bus trips made annually between patrons' homes and Heritage Park Senior Facility

Aquatics

- 103,683 patrons use our pools annually
- 11,430 customers participate in Learn-To-Swim classes annually

Appendix B | Parks and Recreation

Outdoor Recreation

- 36,000 hikers, walkers and/cyclists use trails annually

Sports

- 743 adult/senior teams participate annually
- 4,000 youth participants annually
- 9,437 adult participants annually
- 2,368 senior participants annually

Tech Services

- 212 online registrations processed daily
- 710 customer transactions conducted daily

SPECIAL BUDGET AD HOC COMMITTEE

