

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of North Las Vegas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2009, by \$1,352,556 (*net assets*). Governmental activities represent \$1,058,446 and business-type activities represent \$294,110 of the total net assets.
- The City's total net assets increased by \$111,117.
- The City's capital assets, net of related debt, totaled \$1,129,987. Governmental activities contributed \$931,369 and business-type activities contributed \$198,618. The purchase of land and buildings, the construction of infrastructure improvements and construction in progress make up the majority of the \$444,013 increase for fiscal year 2009.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$254,361, a decrease of \$46,991 in comparison with the prior year. All of this amount is available for spending at the government's discretion. Of the \$254,361, \$39,361 is available for spending in the general fund, \$54,591 is available for spending in the special revenue funds and \$155,725 is available for spending in the capital projects funds.
- The general fund's ending fund balance is \$39,361 at June 30, 2009, which represents 20.3% of total general fund expenditures. It is the City's goal to maintain an ending fund balance in the general fund of not less than 18% of total expenditures.
- The general fund's primary revenue sources are: consolidated taxes which totaled \$39,643; licenses and permits which totaled \$28,735; and ad valorem taxes which totaled \$25,139. The City's licenses and permits includes franchise fees, which totaled \$17,084, licenses, which totaled \$8,620 and building permits, which totaled \$3,031. The combination of these three primary revenue sources represents 63.4% of the general fund's total revenues for the year ended June 30, 2009.
- The City's changes in long-term debt had a net decrease of \$13,118. The City's debt decreased by \$15,016 due to bond principal re-payments and amortizations made throughout the fiscal year, while the City's liability for compensated absences increased by \$1,898.
- For the year ended June 30, 2009, the City's total expenditures/expenses amounted to \$383,969. The primary expenditure functions for the governmental activities were public safety at \$160,483, general government at \$79,791 and public works at \$27,000. The expenses for the City's business-type activities totaled \$65,640, with wastewater activity expenses totaling \$29,182, water activity expenses totaling \$34,652 and the municipal golf courses activity expenses totaling \$1,806.

Management's Discussion and Analysis (continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The **government-wide financial statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (*e.g.*, uncollected taxes and earned but unused vacation and sick leave benefits).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include a municipal court, public safety (police and fire), highways and streets, planning and zoning, parks and recreational facilities, libraries, community development and general government. The business-type activities include a water delivery system, a wastewater collection operation and municipal golf courses.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate redevelopment agency and a legally separate library district for which the City is financially accountable. Financial information for these *component units* is blended with the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26-28 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

The **governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources*

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available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.

The City maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the public safety tax fund, the capital projects street improvements, capital projects civic center facilities fund and the capital projects various new municipal buildings facilities fund, all of which are considered to be major funds. Data from the remaining 16 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining schedules* and individual fund schedules, which can be found on pages 78-120 of this report.

The City adopts annual appropriations budgets for its general and public safety tax funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the adopted budgets.

The governmental fund financial statements can be found beginning on pages 30-38 of this report.

The City maintains two different types of *proprietary funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water distribution system, wastewater collection operation and three golf courses. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and for its self-insurance program, which is also where the City accounts for post-employment benefits other than pensions (OPEB). Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The City maintains five individual proprietary funds. The proprietary fund financial statements provide separate information for the water distribution system and the wastewater collection operation, both of which are considered to be major funds of the City. The City also presents a nonmajor proprietary fund for the operations of its three golf courses. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining schedules* and individual fund schedules, which can be found on pages 123-127 of this report. Financial data for the golf courses are combined into a single aggregated presentation, which can be found on page 133 of this report. The proprietary fund financial statements can be found on pages 39-43 of this report.

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The *fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own operations and programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on pages 44 and 135-136 of this report.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-72 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. A schedule of funding progress for the City's post-employment benefit plans is presented as *required supplementary information* and information concerning the City's business license fees is presented as *other supplementary information*. The required and other supplementary information can be found on pages 74-75 and 166 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,352,556 at the close of the most recent fiscal year.

The largest portion of the City's net assets (83.5%) reflects its investment in capital assets (*e.g.*, land, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (.9%) represents resources that are subject to external restrictions on how they may be used, while 15.6% of the City's net assets are unrestricted.

Management's Discussion and Analysis (continued)

City of North Las Vegas Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Current and other assets	\$ 319,895	\$ 368,501	\$ 230,160	\$ 257,138	\$ 550,055	\$ 625,639
Capital assets	997,393	864,988	273,620	220,481	1,271,014	1,085,470
Total assets	\$ 1,317,288	\$ 1,233,489	\$ 503,780	\$ 477,619	\$ 1,821,069	\$ 1,711,108
Long-term liabilities outstanding	\$ 213,803	\$ 219,237	\$ 172,153	\$ 178,164	\$ 385,956	\$ 397,401
Other liabilities	45,040	52,091	37,517	20,177	82,557	72,268
Total liabilities	258,843	271,328	209,670	198,341	468,513	469,669
Net assets:						
Invested in capital assets, net of related debt	931,368	647,952	198,619	38,022	1,129,987	685,975
Restricted	4,684	175,099	7,742	159,367	12,426	334,467
Unrestricted	122,393	139,110	87,749	81,889	210,142	220,997
Total net assets	1,058,445	962,162	294,110	279,279	1,352,556	1,241,438
Total liabilities and net assets	\$ 1,317,288	\$ 1,233,489	\$ 503,780	\$ 477,619	\$ 1,821,069	\$ 1,711,108

Most of the City's restricted assets are the result of unexpended debt proceeds associated with the ongoing construction of a wastewater reclamation facility system (\$102,051), the construction of a new civic center facility, community police facility and multi-generational center (\$132,998), along with the completion of a few other projects during the fiscal year.

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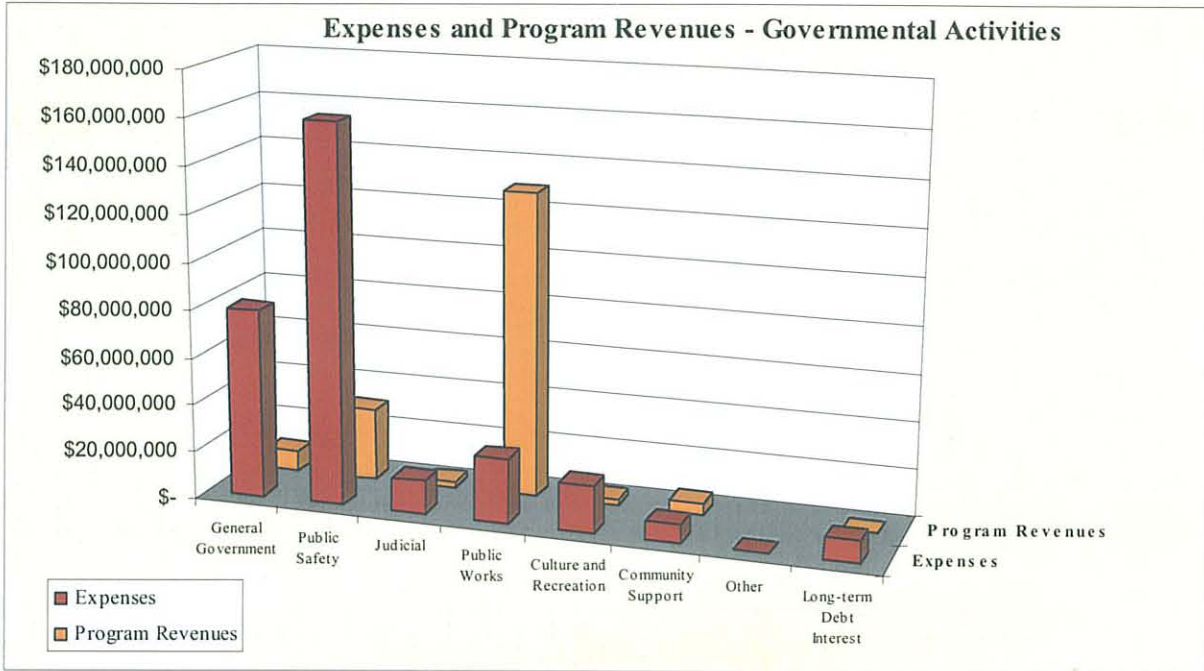
Governmental activities. Governmental activities increased the City's net assets by \$96,285, thereby accounting for 86.7% of the total growth in the net assets.

City of North Las Vegas' Changes in Net Assets (in thousands)

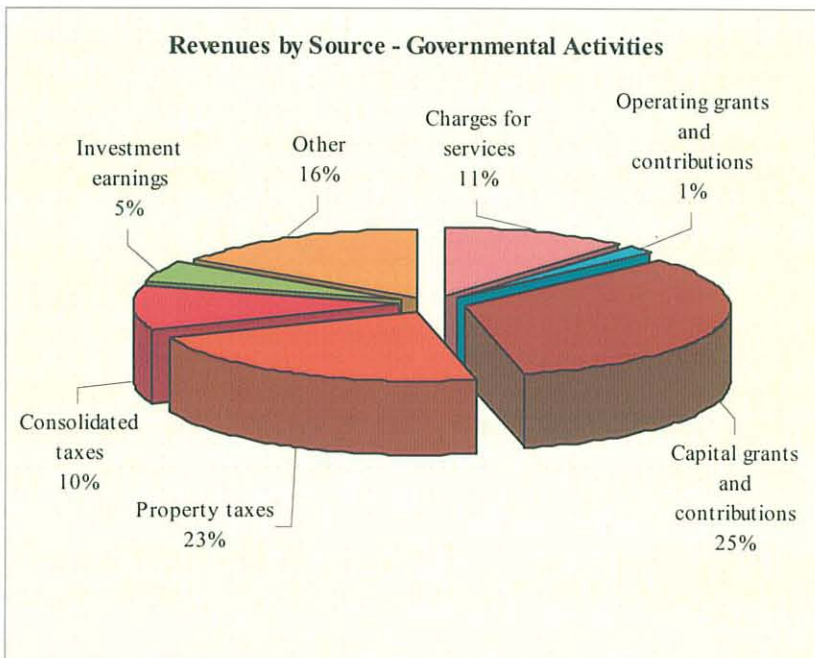
	Governmental Activities		Business-type Activities		Total	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Revenues						
Program revenues:						
Charges for services	\$ 43,720	\$ 45,264	\$ 83,159	\$ 92,425	\$ 126,879	\$ 137,690
Operating grants and contributions	6,591	5,424			6,591	5,424
Capital grants and contributions	127,600	98,079	19,002	8,505	146,603	106,584
General Revenues:						
Property taxes	87,102	82,251			87,102	82,251
Other taxes	769	1,866			769	1,866
Other	117,917	156,745	9,225	10,016	127,142	166,761
Total revenues	<u>383,699</u>	<u>389,629</u>	<u>111,387</u>	<u>110,946</u>	<u>495,085</u>	<u>500,574</u>
Expenses:						
General government	79,791	77,831			79,791	77,831
Public safety	160,483	149,837			160,483	149,837
Judicial	14,154	13,226			14,154	13,226
Public works	27,000	30,407			27,000	30,407
Culture and recreation	19,586	17,041			19,586	17,041
Community support	7,898	5,527			7,898	5,527
Utilities		46			-	46
Long-term debt interest	9,417	9,752			9,417	9,752
Wastewater			29,182	27,885	29,182	27,885
Water			34,652	38,492	34,652	38,492
Municipal golf courses			1,806	1,865	1,806	1,865
Total expenses	<u>318,329</u>	<u>303,667</u>	<u>65,640</u>	<u>68,242</u>	<u>383,968</u>	<u>371,909</u>
Increase in net assets before transfers	65,370	85,962	45,746	42,704	111,117	128,666
Transfers, net	30,915	31,966	(30,915)	(31,966)		
Increase in net assets	96,285	117,928	14,831	10,737	111,117	128,666
Net assets, July 1	962,161	839,784	279,279	268,541	1,241,439	1,108,325
Prior period adjustment		4,448				4,448
Net assets, June 30	<u>\$ 1,058,446</u>	<u>\$ 962,162</u>	<u>\$ 294,110</u>	<u>\$ 279,279</u>	<u>\$ 1,352,556</u>	<u>\$ 1,241,438</u>

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The following graph provides expense and program revenue information with regard to the various functions of the City's governmental activities.

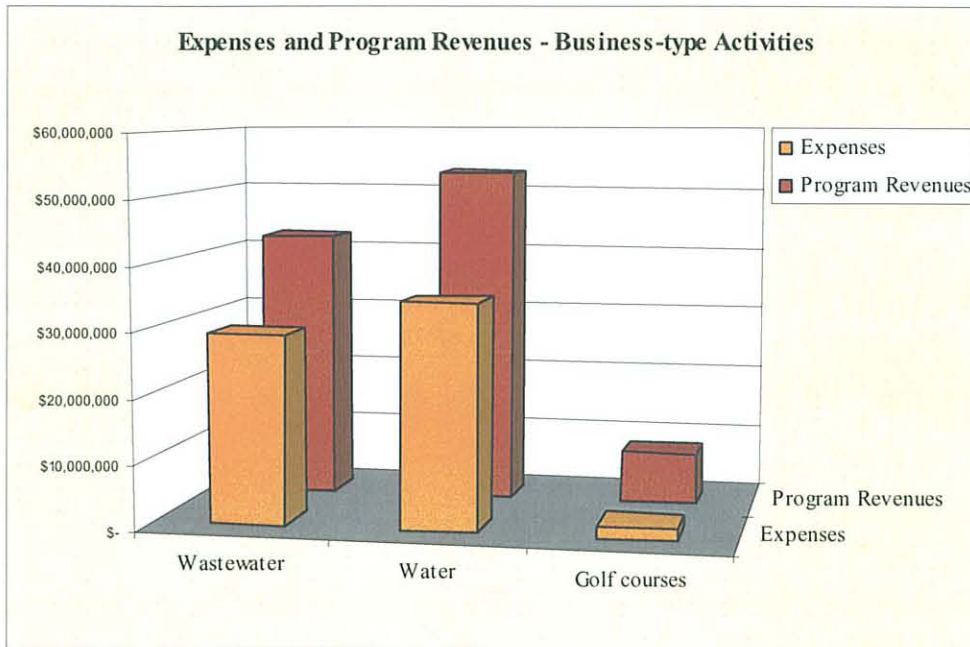


The following graph provides revenues by source information with regard to the City's governmental activities.

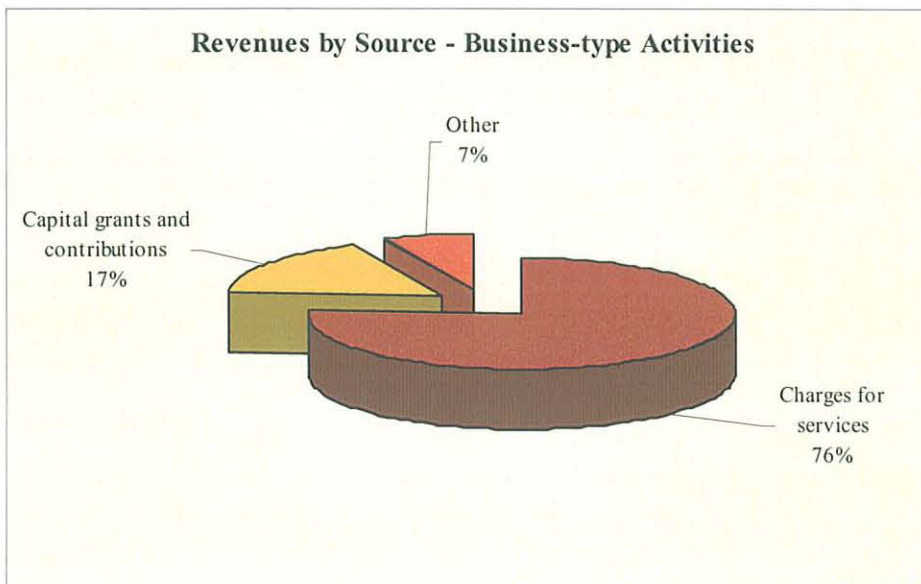


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Business-type activities. Business-type activities increased the City's net assets by \$14,831 accounting for 12.8% of the total growth in the City's net assets. The following graph provides expense and program revenue information with regard to the various functions of the City's business-type activities.



The following graph provides revenues by source information with regard to the City's business-type activities.



Management's Discussion and Analysis (continued)

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$254,361, a decrease of \$46,991 in comparison with the prior year. All of the combined ending fund balance constitutes *unreserved, undesignated fund balance*, which is available for spending at the City's discretion.

The **general fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$39,361. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. As such, fund balance represents 20.3% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$6,734 during the current fiscal year. Overall revenues decreased by 11.5% (\$16,939), while the transfers in increased by 10.2%, (5,042) compared to the prior year. The increase in the transfers in was mostly attributable to the transfer of \$17 million back to the general fund that was transferred to the capital projects general government improvements fund in prior years. Additionally, revenues directly related to the growth in population and the corresponding growth in assessed valuation, such as property tax revenues, increased by over 5.5% during the fiscal year. The City's growth in population continues, albeit considerably slower, at approximately 300 new residents each month, compared to 1,200 per month in FY 2006-07. (Since 1990, the City's population has grown over 320%.)

Conversely, building permit revenues fell \$4,625, or 153%. This is attributable to the significant slowdown in construction activity, specifically with regard to housing construction. The City's consolidated tax distribution, the largest single revenue source in the general fund, fell \$10,557, or 26.6%. The consolidated tax distribution is collected by the State of Nevada and allocated to local governments based on statutory formulas, with sales and use taxes being the largest component. The decrease in the consolidated tax distribution is mostly attributable to the slowdown in visitor volume and local consumer spending, as our local economy is largely a discretionary spending-based economy.

Overall expenditures for the general fund increased by 3.8%, which is mostly attributable to increases in salaries and related benefits expenditures. Salaries and related benefits accounts for approximately 80% of the general fund's expenditures.

The **public safety tax fund** has a total ending fund balance of \$13,414, all of which is for the expenditures of additional public safety support with respect to police and detention activities, pursuant to voter-approved tax overrides. Tax revenues for this fund increased by 5.5%, while expenditures increased by 12.8%. The increase in these taxes is consistent with the City's growth

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in population and the corresponding growth in assessed valuation as noted above. The increase in expenditures is due to the increase in the City's staffing pattern, especially with regard to public safety positions, and increased salaries and corresponding benefits costs. It has been the City Council's direction that public safety positions are exempt from any hiring "chill."

The **capital projects street improvements fund** has a total ending fund balance of \$7,245, all of which is for the completion of street improvements projects associated with the design, acquisition, construction and improvements of and to various streets and roadways within the City limits.

The **capital projects civic center facilities fund** has a total ending fund balance of \$85,618, all of which is for the completion of construction, equipping and furnishing of a 211,000 square-foot nine-story new civic center facility.

The **capital projects various new municipal buildings facilities fund** has a total ending fund balance of \$46,059, all of which is for the completion of acquisition, construction, equipping and furnishing of various new facilities, including a 31,913 square-foot downtown central police precinct facility, a 15,000 square-foot fire station and a 36,000 square-foot multi-generational center with a park.

Proprietary funds. The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

Operating revenues of the City's business-type activities decreased by 10.5% (\$86 million in 2009 compared to \$95 million in 2008) and operating expenses decreased by 3.7%. Further information regarding these changes in revenues and expenses are as follows:

The **water enterprise fund** had an increase in net assets of \$1,199. Despite rate increases in FY 2006-07 and FY 2007-08, charges for water services fell 12.9%, or by \$5,879 during this fiscal year. This is due to the significant decline in the local housing market, thus the drop in demand for water services. For example, the excess supply of housing units has increased by 60% and foreclosure filings were reported for one in every 24 housing units in the City. Additionally, the City's water rate structure is configured so that the cost to consumers between the different tier levels promotes conservation. Because the Colorado River Basin has experienced drought conditions over the past several years, water resource management and conservation is strongly encouraged throughout southern Nevada.

Operating expenses of the water enterprise fund fell 9% to \$33,074 compared to the prior fiscal year. Although expenses for salaries and related benefits and depreciation increased, there was a decrease in overall expenses. The decrease in expenses is mostly due to a decrease in the purchase of water from the City's purveyor, Southern Nevada Water Authority. This is consistent with the decrease in charges for water services as noted above.

Additionally, developer capital contributions increased by \$1,898 during fiscal year 2008-09, compared to the prior year. This is because many of the larger developments that were under construction in prior years were completed during this fiscal year.

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The **wastewater enterprise fund** had an increase in net assets of \$6,864. Wastewater service fees declined by \$2,735, or 7.6% for the fiscal year compared to the prior year. Since the City's wastewater fee structure is based on actual water consumption, the decline in demand for water services and any conservation measures in place for water consumption, whereby citizens are encouraged to use less, ultimately results in less wastewater to treat.

Nonoperating revenues primarily consisting of investment earnings declined by 19.7%, or \$1,389; this is mostly attributable to the declining invested bond proceeds balance used in the construction of the wastewater reclamation facility. The largest change in revenues for this fund was the change in developer capital contributions that increased by 45.5%, or \$1,967, compared to fiscal year 2007-08. As also noted above, this is due to the larger developments that were under construction in prior years and completed during this fiscal year.

Operating expenses of the wastewater enterprise fund rose 7.6% to \$1,606. Of the \$1,606 increase in expenses, approximately \$355 is due to increases in salaries and the corresponding benefits and another \$361 is due to an increase in depreciation expense. The increase in depreciation expense is attributable to the above mentioned 45.5% increase in capital contributions from developers. Services and supplies also increased by \$371 during the fiscal year.

The City's **municipal golf courses fund** had an increase in net assets of \$6,410 compared to the prior fiscal year. In February, the City received the contribution of the Aliante Golf Club, which was consistent with the January 2002 Aliante Master Development Agreement. The Aliante Golf Club course is an 18-hole 72-par championship course. The above increase in net assets is mostly attributable to the \$6,633 capital contribution of this golf course. Other revenues for the municipal golf courses fund have steadily been declining over the past few years due to the competition of newer nearby golf courses. During the current year, the general fund made a transfer in of \$158 to subsidize the City's nine-hole par-3 user-friendly golf course.

Operating expenses of the golf courses fund declined by 3.1% to \$1,806. The decrease is primarily due to a reduction in staffing.

General Fund Budget

During the fiscal year, there was a \$13,164 decrease in appropriations between the original and final amended budget due to City Council adopted reductions in response to the economic environment and the corresponding declining revenues; the original revenues budget was reduced from \$167,090 to \$153,728.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$1,129,987 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 39.3%.

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Major capital asset activity during the current fiscal year included the following:

- \$64,168 in infrastructure capital assets constructed by developers and contributed to the City.
- \$5,414 expended from the library construction fund for the construction of a 16,400 square-foot single-story branch library facility to be located on a 4.2-acre parcel with a 2-acre park.
- \$5,206 from the capital projects civic center facilities fund for the initial construction of a 211,000 square-foot nine-story new city hall facility.
- \$12,791 expended from the capital projects parks and recreation fund for capital improvements to various parks and recreation buildings and facilities within the City limits, including a 132-acre regional park.
- \$49,711 expended from the capital projects street improvements fund for a variety of street construction projects in new residential developments, including widening and expansion projects for existing streets and roads, including the North 5th Street Corridor Project, which will provide for a high-volume north-south super arterial roadway.
- \$30,953 from the capital projects public safety fund for the design and construction of traffic signals throughout the City limits to assist in the orderly movement of vehicular traffic and enhance public safety, as well as a number of construction improvements consisting of flood control facilities, including pipes, culverts, channels, energy dissipators, channel structures, channel access, storm drain inlets and laterals and other appurtenances as required.
- \$10,131 from the capital projects various new municipal building facilities for the design of a 31,913 square-foot downtown central police precinct facility and the construction of a 36,000 square-foot multi-generational center and park on a 40-acre site.
- \$2,910 expended from the capital projects general government improvements fund for the migration/upgrading of the City's financial, human resource and payroll applications from Oracle 11.03 to Oracle 11i.
- \$42,935 expended from the wastewater capital projects fund for the construction of a 25-million gallon per day (mgd) wastewater reclamation facilities system.

Additional information on the City's capital assets can be found in Note VI on pages 57-58 and on pages 138-141 of this report.

Long-term bonded debt. At the end of the current fiscal year, the outstanding bonded debt of the City was \$372,358. Of this amount, \$356,425 comprises debt backed by the full faith and credit of the government and \$15,933 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

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The City's total bonded debt outstanding decreased by \$14,724, or 4% during the current fiscal year. The full decrease in debt was due to bond repayments throughout the fiscal year; the City issued no new debt during this fiscal year.

The City maintains an "A+" rating from Standard & Poor's, an "A1" rating from Moody's Investors Service and an "AA" from Fitch Ratings for general obligation debt (which was downgraded to "AA-" subsequent to June 30, 2009). Pursuant to Nevada Revised Statutes, the State limits the amount of general obligation debt a government entity may issue to 20% of its total assessed valuation. The current statutory debt limitation for the City is \$1,857,572, which is significantly in excess of the City's actual outstanding general obligation debt of \$372,358.

Additional information on the City's long-term debt can be found in Note IX on pages 60-66 of this report.

Economic Factors and Next Year's Budgets

- The tourism industry, which is based on legalized gambling and related forms of entertainment, continues to be the largest component of southern Nevada's economic base and a catalyst for construction and growth in many other sectors. For the Las Vegas area, commercial development has been driven by the demand of travel and tourism. Over the past several years, construction employment led the local economy as large commercial projects created tens of thousands of jobs that drew workers from other parts of the Country, increasing the local population and thus driving housing development. Previously, the local economy generally outperformed the State and national economies with construction employment leading the local economy.

However, despite the long period of economic expansion and growth of southern Nevada's economic base, it hasn't been immune to the recession occurring throughout the U.S. economy. Although there are a few very large commercial construction projects underway in the Las Vegas area, most construction has significantly declined. Home foreclosure filings were reported for one in every 24 housing units in the City. Additionally, assessed valuations dropped 27.1% for fiscal year 2009-10. As such, the City expects a corresponding reduction in the collection of property tax revenues going forward.

- Although more jobs have been created in Clark County in the last 9 years than have been lost, the unemployment rate nearly doubled to 12.3% in June 2009 compared to 6.3% in June 2008, with construction leading with the largest amount of job losses.

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$39,361. Due to the decline in fund balance, as well as declining revenues, the City has been implementing a number of cost-saving actions in order to continue its prudent fiscal management and avoid the need to raise taxes or service charges over the next few years. Such actions have included approximately \$6.5 million in budget reductions in FY 2007-08, the elimination of most vacant positions; implementation of a hiring "chill" over the past two years; budget reductions totaling \$6 million in fiscal year 2008-09; and \$19.8 million thus far in fiscal year 2009-10. Another \$14.8 million in reductions is being proposed for FY 2009-10 and \$43.5 million for FY 2010-11. Since significant portions of the general fund revenue sources are elastic in nature, it is the City's policy to continue to maintain at least an 18% ratio of fund balance to expenditures. By

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doing so, this provides the City with available resources to meet approximately two months of operating expenditures. It's anticipated that the noted budget reductions will preserve the City's 18% ratio of fund balance to expenditures.

The City's adopted operating budget for FY 2009-10 was \$459,380, but as noted above, has already been reduced. Likewise the adopted capital improvement plan for FY 2009-10 is \$357,549; however, a number capital projects have been deferred until such time as the economy improves.

Property tax revenues account for approximately 17% of general fund revenues. During fiscal year 2005, the State of Nevada enacted legislation that provided for a partial abatement of property taxes going forward. The level of abatement is based on the type and use of the property, but generally, if the property is a primary residence, then the abatement is the amount of taxes that exceeded the prior year's tax bill plus 3%. In addition, in fiscal year 2006, the City reduced its property tax rate from \$1.1887 to \$1.1637 per \$100 of assessed valuation. Together, these factors are expected to slow the annual growth in property tax revenue; although, it's unclear about the long-term financial implications that the property tax abatement will have on the City.

Workers' Compensation Issue

Pursuant to Nevada Revised Statutes, diseases of the lungs and heart are considered occupational diseases for firefighters and police officers. Specifically, the statutes provide that a disease of the lung and/or heart is conclusively presumed to have arisen out of and in the course of employment and as such, are compensable with regard to workers' compensation benefits. Further, the statutes permit claims to be reopened at any time during the life of the claimant for further examination and treatment should circumstances change which would warrant an increase or rearrangement of compensation.

At issue is the cost of workers' compensation benefits and settlement costs that the City will presumably incur beginning over the next ten years as the age of the City's police and fire safety workforce increases. It could be further assumed that a significant portion of the police and fire safety workforce will develop some form of lung and/or heart disease as part of the natural process of aging, yet the City would be financially accountable for all the disability benefits as it would be conclusively determined that the disease arose out of and/or in connection with employment with the City. As a result, the cost to the City for disability and death benefits to claimants under these statutes could very well cause a significant financial hardship over a short period of time.

Other Post-Employment Benefits (OPEB)

The City was required on July 1, 2007, to implement GASB (Governmental Accounting Standards Board) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. The purpose of GASB Statement No. 45 is to require the accrual of liabilities and expenses of other post-employment benefits, such as healthcare, generally over the working career of plan members, rather than on a pay-as-you-go basis, which was the City's past practice. As such, the City had an actuarial study performed during fiscal year 2007-08; as of June 30, 2009, the City's net OPEB obligation was \$3,307.

Management's Discussion and Analysis (continued)

Requests for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of North Las Vegas, 2200 Civic Center Drive, North Las Vegas, Nevada, 89030.