INTERNATIONAL ASSOCIATION OF FIREFIGHTERS
Clark County Fire Fighters Union Local No. 1908
6200 W. Charleston Blvd. • Las Vegas, Nevada 89146
Telephone (702) 870-1908 • Fax (702) 870-3014

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Chairman Rory Reid
500 S. Grand Central Parkway
Las Vegas, Nevada 89155

Dear Commissioner Reid

The Union has reviewed the bulk of the documents provided to us by the County Manager. We are happy to report that the financial health of the County is not as bleak as you have been led to believe. Our thorough analysis below, details the state of the general fund, the fund balance, and the investment rating for the County. I anticipate that you too will be substantially relieved to see the County does not have to ask the working men and women of the County to take extreme steps to limit their pay, reduce staffing levels, or otherwise dilute the level of service the dedicated employees of the County provide to the citizens.

Nonetheless, there are many areas where the Union has discovered that the County is spending large amounts of money for non-essential activities. While our analysis is not exhaustive, the Union has uncovered several broad categories that can be eliminated in their entirety. They include subscriptions to all publications, membership dues, conferences and training seminars, and gala/dinner fundraising events. In addition to realizing savings from these categories, there are other opportunities for the Commission to take a hard look at those expenditures, which in good financial times may be a luxury, but are now not necessary. Included in this category are outside consultant contracts, 24hour vehicle assignments, M Plan vehicle allowance, paramedic school lease, and management staff overload. A detailed list of recommendations to realize substantial savings for the County is detailed below.

Section 1 Financial Review

To address the state of the County's finances the Union provides the following analysis. As we understand, businesses and governments have different objectives and operate in different environments. A business enterprise aims to maximize profit and the profit part of its profit and loss statement usually provides a reasonable measure of its success. The primary objective of a local government is to provide services to its constituents within budgetary constraints, and, while it tries to provide those services in a cost effective way, its focus is not on profit. With this in mind, please review the following information.

General Fund Assets and Liabilities:

The following table traces the general fund's asset, liability, and fund balance history over the past three completed and reported fiscal years.

Historical General Fund Assets and Liabilities Trend

Date	Total Assets	Cash and Investments	Total Liabilities	Asset to Liability Ratio	General Fund Balance	Unreserved Fund Balance
6/06	$415,179,640	$229,273,543	$107,256,918	3.87	$307,922,722	$282,831,718
6/07	$464,225,343	$218,710,046	$154,423,195	3.01	$309,802,148	$287,997,260
6/08	$323,841,731	$140,768,582	$99,705,184	3.25	$224,136,547	$203,158,045

Clark County's asset to liability ratio of 3.25 at the end of fiscal 2008 means that the county had general fund assets of $3.25 for each $1.00 in general fund liabilities, which is a positive ratio that increased nearly 8% from FY07 to FY08. In addition, the general fund balance decreased over 27% during the three-year period. Cash at the end of fiscal 2008 was sufficient to cover nearly 63% of the general fund balance. The percentage of cash is important because to be available for appropriation, the fund balance has to be liquid, i.e., available in cash or investments that are easily converted to cash.

General Fund Revenue and Expenses:

Local government financial officers typically make cautious predictions. They tend to conservatively estimate revenue and slightly overestimate expenditures because exact predictions are obviously impossible, and it is better to build in a margin of error than to underestimate revenue and have unexpected expenses. If we compare budgeted versus actual revenue and expenses over several years, we can get some idea of the county's ability to plan its revenue and control its expenditures, and can sometimes establish a pattern of over and underestimates.

The numbers in this table may be different from those used elsewhere in the financial statements and elsewhere in this analysis. The reason is that the table below uses what is called the "budgetary basis" of accounting as opposed to the "GAAP (generally accepted accounting principles) basis" that is used in most financial statements. The two methods differ as to when revenue and expenditures can be recognized. The only reason we use the budgetary basis here is because we are comparing to a prediction made using that method. We have included not only revenue and expenditures but also transfers into and out of the general fund.

General Fund Actual Versus Budgeted Revenue and Expenditures Plus Transfers, Budgetary Basis

	General Fund Revenue and Transfers In			General Fund Expenditures and Transfers Out		
FY	Budget	Actual	Actual as % of Budget	Budget	Actual	Actual as % of Budget
06	$1,037,490,482	$1,175,764,141	113.3%	$1,167,907,069	$1,133,451,057	97.0%
07	$1,167,637,030	$1,282,958,293	109.9%	$1,321,044,817	$1,281,078,867	97.0%
08	$1,329,137,075	$1,340,289,007	100.8%	$1,473,847,869	$1,425,954,608	96.8%

Revenues and transfers in to the general fund were ahead of budget predictions and expenditures and transfers out were lower than budget predictions for all three years. More important than this comparison, however, is whether general fund revenue was sufficient to fund general fund expenditures. In FY06 and FY07, revenues and transfers in to the general fund were ahead of expenditures and transfers out, at least on a budgetary basis. In FY08, expenditures exceeded revenue.

The situation in which revenue does not cover expenditures is often referred to as an operating deficit. An operating deficit is not a good indicator, but whether it is cause for serious concern depends on the amount of the operating deficit, the level of fund balance, and whether it is an isolated case that is unlikely to repeat or part of a trend of insufficient revenue. An operating deficit does not mean that the county or the fund has a negative fund balance; it only means that for that fiscal year, more money went out of the fund than came into the fund. If the general fund or all the funds together have a negative fund balance, which means that liabilities are greater than assets, the county is almost certainly in serious financial difficulty.

General Fund Balance:

One very important indicator of financial health is the level of fund balance. As mentioned earlier, the fund balance can be defined as assets minus liabilities. In the case where the general fund were short of cash and/or equity, we could not assume that transfers could be made from other funds to correct the problem because there are usually restrictions on the use of assets of other funds. Even where the equity is sufficient, not all the fund balance is available for appropriation.

First, there are two possible subdivisions within the fund balance for any fund--the reserved balance and unreserved balance. In theory, the reserved fund balance includes money that must be set aside for a specific purpose due to a legal commitment. It is similar to, but not exactly the same as, a liability. "Reserved for encumbrances", which can include purchase orders and signed contracts for goods or services not yet received, is an example.

The unreserved fund balance is what is left after the reserved funds have been set aside. The unreserved fund balance also has two subdivisions--designated and undesignated. The designated part is intended for a particular use but there is no obligation to use it for that purpose. The Commission or whoever is authorized to make a designation can change or rescind it. An example of a designation would be money set aside to replace some furniture at the County building although no commitment, such as placement of an order, had been made. The undesignated fund balance is again whatever is left, and, except for what is appropriate to keep as a reserve, (reserve in the sense of money put aside for emergency or unspecified future use) is available for appropriation.

Second, counties must keep a certain level of fund balance to maintain a favorable bond rating. A favorable bond rating is desirable because a high rating enables it to borrow money at a lower interest rate. It is also simply good management to maintain a reserve to cover emergencies and unforeseen circumstances.

The appropriate fund balance level is related to the level of expenditures. The table below compares the total general fund balance and the unreserved portion of the fund balance to expenditures:

General Fund Balance as a Percent of Expenditures

FY	Total General Fund Balance	Unreserved Fund Balance	GAAP Basis General Fund Expenditures	Total Fund Balance as % of Expenditures	Unreserved Fund Balance as % of Expenditures
06	$307,922,722	$282,831,718	$1,133,451,057	27.2%	25.0%
07	$309,802,148	$287,997,260	$1,281,078,867	24.2%	22.5%
08	$224,136,547	$203,158,046	$1,425,954,608	15.7%	14.2%

As to whether this fund balance is adequate, *Moody's on Municipals*, published by Moody's Investor Service states:

> *"The level of fund balance is related to the likelihood of drawing upon these accumulations. Generally, a fund balance of 5% of the budget is deemed prudent. A smaller balance may be justified by a long-term trend of annual budget surplus, while a larger balance may be warranted, particularly if budget revenue and expenses are economically sensitive or otherwise not easily forecasted."*

Governmental Funds:

As of 6/30/08, the total fund balance, assets minus liabilities, of all governmental fund types was $2,375,924,170 of which $2,230,430,098, or nearly 94%, could be covered by cash and cash equivalents. Total fund equity represents the amount by which assets exceed liabilities. For the same funds, the county has total assets of $3,446,049,986 and total liabilities of $1,070,125,756.

The ratio of assets to liabilities, therefore, is 3.22; in other words, the county has $3.22 in assets for every $1.00 in liabilities, at least for the governmental fund types.

The table below shows the county's total fund equity for governmental fund types as of 6/30/08:

Fund	Total Fund Equity	% Cash and Equivalents	Asset to Liability Ratio
General	$224,136,547	62.8%	3.25
Las Vegas Metro Police Dept.	$60,973,189	>100%	2.22
Master Transportation Plan	$0	N/A	1.00
Other Governmental Funds	$2,090,814,434	95.9%	3.41

We should note that assets are not necessarily transferable between funds. There are often restrictions on the use of cash and other assets. For example, revenue that comes into the capital projects and special revenue funds is frequently legally restricted to be used for those specified purposes for which the revenue was appropriated. On the other hand, it is not uncommon for statutes to provide for certain amounts of revenue from another fund, the amount often determined by formula, to be transferred into the general fund on a regular basis. Such a transfer is not usually considered revenue by the strict definition, but it serves the same purpose and the county budgets for it as it would a revenue source.

However, even if the legislation prohibits or makes difficult the transfer of money from other funds to the general fund, there is still a purpose in examining the financial health of these operations. We want to determine their potential impact on the general fund, because it is the general fund which not only accounts for the day-to-day operations of the county but is also the fund that is payer of last resort should any other county fund become unable to meet its obligations.

If we look at all governmental fund types together, we can get another perspective on the fund balance.

Fund	Total Fund Balance	Fiscal Expenditures
General	$224,136,547	$1,425,954,608
Las Vegas Metro Police Dept.	$60,973,189	$526,687,570
Master Transportation Plan	$0	$367,007,353
Other Governmental Funds	$2,090,814,434	$1,669,154,623
Total	$2,375,924,170	$3,988,804,154
Total Fund Balance as a Percent of Expenditures	59.6%	

Investment Rating:

According to Moody's Investor Service, Clark County's general obligation bond underlying credit rating as of July 2008 is Aa1. "Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities…..the modifier 1 indicates that the issue ranks in the higher end of its generic rating category." (Moody's Key to Public Finance Ratings)

General:

Keeping in mind that the FY08 information is unaudited, Clark County's general fund balance declined over 27% from FY06 to FY08 with a similar decline from FY07 to FY08. The general fund's asset to liability ratio declined over 16% for the same time period, but increased nearly 8% from FY07 to FY08. With the exception of the Master Transportation Plan which has a $0 fund balance, the county has positive governmental fund balances. All governmental funds have positive asset to liability ratios. The general fund balance as a percentage of general fund expenditures is above the Moody's threshold for all years reviewed although the percentage has declined annually.

Section 2 Cost Saving Measures

Commissioners may be surprised to learn of some blatantly abusive use of County funds. The Union will point these out for your information.

While we have reviewed spending throughout the County, for the purpose of this analysis, we will make specific references, in most instances, to Commission/Administration, Administrative Services, Finance, Human Resources, and the Fire department. After all, top management sets the tone and individual departments follow. The expense categories listed below can be easily eliminated.

1. **Subscriptions** – Currently the County spends approximately $158,900 annually for subscriptions to newspapers, periodicals and other print material. In this modern age, hard copy newspapers are an unnecessary expense. All newspapers are available on line. As an example, there are 28 subscriptions to the Las Vegas Review Journal in the 5 departments we highlighted above, at an annual cost of $6,968. While this is one example of an easy fix, it is not isolated. A review of the documents verifies that the County is paying for numerous multiple subscriptions, and quite frankly to seemingly unnecessary, non-job related publications. Most surprisingly, the County is spending money on frivolous subscriptions such as the $1,500 it currently pays for 5Alarm Music, which is a music download service.

2. **Membership dues** - The County pays for memberships for individuals and departments for numerous organizations. The most surprising is that County departments, such as Administrative Services, Business License, Air Quality, Election, Nuclear Waste, and Treasurer are members of the Las Vegas Chamber of Commerce. Why would the County allow these memberships when the Chamber is clearly against the County? While this may be a small percentage of the budget, a decision to eliminate this category of expenditures sends a message to departments that non-customer driven expenses are no longer allowable. In the fire department, for example, the cost savings annually is $32,757.

3. **Conferences and training seminars** - These items are contained within the overall travel budget for the County. While it is clear that certain travel is required, specifically to secure witnesses, most travel can be curtailed or totally eliminated. The total travel budget for the County is $2,417,083. Of that

amount, $1,266,345 is primarily witness and jury expenses. If the County eliminated travel in the five departments discussed above, the County could save more than $213,000. In addition, it is surprising to learn that the County supports organizations that are in direct opposition to the County's mission. For example, why does the County pay for training from the Southern Nevada Home Builders, and the Chamber of Commerce leadership program? Parenthetically, I was surprised to see, as a component of the travel budget, mileage reimbursement for employees who also receive vehicle allowances, as well as employees who claim their home as their worksite and collect extensive mileage just for their commute. I was also alarmed to see the Fire department pay for registration fees and lodging for non-employees.

4. **Gala/Dinner/ fundraising events** - Under what authority does the County spend taxpayer money to buy dinner tickets to galas, to buy dinner tables for galas, to buy tickets to lunches such as the Latin Chamber of Commerce, the Chamber of Commerce, the Nevada Taxpayers Association, the Nevada Bar Association, the Southern Nevada Homebuilders, American Lung Association of Nevada, KNPR, and the Girl Scouts? Even if these are legally acceptable, the perception that high ranking government officials, who are highly compensated, are attending swanky events, which are generally out of the reach of the regular citizen, sends the wrong message when the County is claiming financial hard times.

5. **Outside Consulting Contracts** - Before ever considering reductions to staff, or any concessions by Unions, the County must look at their outside consulting contracts for substantial savings. The Union suggests there are numerous consulting contracts that are unnecessary. The services provided by these consultants add little, if any, value to the County. The first contract that should be eliminated is with VRJ. This contract has no deliverables, yet the County pays $5,500 month in and month out without an end in sight. Just as importantly, this contract is with Mike Alastuey, a previous assistant County Manager, who, while employed by the County, singlehandedly cost the County $53 million in additional Regional Justice Center expenses. The second contract that should be eliminated is with Fisher and Phillips. This contract is for attorneys to handle labor disputes, and consulting advice for contract negotiations. The County employs a full range of civil attorneys, many of whom are versed in labor negotiations and dispute resolution. Strangely

enough, oftentimes civil attorneys from the District Attorney's office observe interest arbitrations, while this outside firm charges hourly fees of $360 for their services. The County's human resources department not only has an in-house lawyer serving as the County's employee relations manager, but several civil division attorneys are specifically charged with resolving labor disputes. They are not overburdened with work, and could handle all cases that arise. Using internal staff could have saved the County the nearly $60,000 it spent with Fisher and Phillips for the recently completed fact finding between this Union and the County. Third, why in the world does the County contract with an outside lobbyist (Dan Hart) for $102,000 per year, with renewable options for additional years, when at the same time the County employs a full time lobbyist at more than $100,000 plus benefits? Remarkably, the County can extend the contract with Hart for a non-legislative year at the same rate. Other consultant contracts should be reviewed to insure that the County is getting the best return on their investments.

6. **<u>24 hour Vehicle Assignments</u>** - While there is a County committee composed of high level County executives that reviews the need for 24 hour vehicle assignments, I can assure you that these officials are not scrutinizing the need for vehicle assignments, but rather taking the advice of department heads. In the fire department, as an example, there are 7 vehicles assigned to employees who have no need for them. Their job descriptions do not require any response after the work day. These vehicle assignments are simply a perquisite that the Fire Chief hands out to his employees with no regard for the cost to the County. The fact that the Chief and all his Deputies and Assistants have 24 hour vehicle assignments flies in the face of prudent expenditures. The Chiefs can easily rotate their on - call status, and share vehicles, or more efficiently seek mileage reimbursement for the once or twice a year occurrence when they attend a fire after hours. If there are so many unnecessary vehicle assignments in the Fire department, there must be some room for adjustments throughout the County as well.

7. **<u>M Plan Vehicle Allowance</u>** - The County Manager has the authority to offer vehicle allowances to employees on the management compensation plan. It is surprising to learn that a benefit, that was originally intended to substitute a benefit for department heads that previously had the use of unmarked vehicles, has been expanded to include numerous other employees. What is the

justification for the expansion of this benefit? How does the County Manager decide who gets the benefit, and how much money each employee is offered? What are the consequences for selectively offering this benefit? Curtailing this benefit is a good step in reigning in management costs. Current cost is over $235,000 per year.

8. **Paramedic School Lease -** I raised the Union's concerns regarding this lease on 3/17/08, prior to this item appearing on the BCC agenda. I questioned the advisability of taking on an annual lease of $86,964 for the paramedic school space, when paramedic school training always took place at fire station #14, at no cost to the County. It is insulting to the Union that funds are being spent for a lease. In addition to the annual lease, the County spent $108,000 to improve the leased space. I suggest that the Commissioners re-evaluate all leased space to determine the cost effectiveness of all space outside the properties owned by the County.

9. **Management Staff Overload** – This is an area that requires extensive review by the County Manager. Over the last several years the top tier of management in the County has grown, in far greater proportion to the workforce in general. In addition to top management in the County Manager's office, the departments have also expanded their top management structures. In the Fire department alone, there is one senior deputy chief, 5 deputy chiefs and one assistant chief. This structure is unnecessary to accomplish the department's goals.

Although the Union has not addressed changes directly affecting our members, it is important to remind you that the County has already asked the men and women of the fire service to do more with less. In 1996 the County adopted a staffing ratio of 1.22 fire personnel per 1000 population (residents and daily visitors), and re-affirmed this ratio May 2008 with the adoption of the Clark County Fire Protection Element. This ratio has never been attained. Rather, it has decreased to a low of 0.89 per 1000 during this fiscal year. Additionally, the maximum response capacity of 3,000 calls per year for engines and rescues has been exceeded in 67% of the units. These figures clearly demonstrate that the employees are handling workloads that far exceed recommended levels, which unfortunately results in increased response times.

Finally, there are several other areas that the Union believes can be streamlined. Once the County provides us with the documents we requested regarding the decentralization of staff functions, and the contracts that the County Manager and department heads can authorize without the Board of County Commission knowledge or consent, we will send a follow-up letter.

We are available to meet with you to discuss the issues outlined above and further explore ways address financial burdens of the County.

Sincerely,

Ryan Beaman
President IAFF Local 1908