May 2012

A High Stakes Gamble in North Las Vegas

BY ROBERT E. LANG, Ph.D.

Abstract

The City of North Las Vegas, operating in the shadow of the Las Vegas Strip, one of the world's most iconic urban settings, faces a series of financial and political challenges that threaten its ability to perform basic municipal services. This paper explores how North Las Vegas reached the edge of insolvency, the implications for North Las Vegas and the surrounding municipalities of Las Vegas, Henderson, and unincorporated Clark County, and the path forward in the face of unprecedented economic and political turmoil.

The Set Up: How Did North Las Vegas Reach the Edge of Insolvency?

In my recent book *Boomburbs: The Rise of America's Accidental Cities*, I refer to North Las Vegas as having a "Rodney Dangerfield complex," noting that the city receives little or no respect as a growing urban center, both locally and across the nation.[1] The remark refers to the way former North Las Vegas mayor Michael Montandon was treated by then mayor of Salt Lake City Rocky Anderson at a meeting of the National League of Cities. Montandon approached Anderson to share his experiences in managing a big city. The Salt Lake City mayor was incredulous at any comparison with North Las Vegas. Anderson implied that he ran a real city and that North Las Vegas was a suburb. Yet, as I noted in *Boomburbs*, North Las Vegas exceeds Salt Lake City in population—and it also contains more minorities and foreign born residents and sustains greater concentrated poverty. Although seen by some distant observers as a "suburb," North Las Vegas maintains a scale and demographic composition that makes it essentially urban in character. However, notwithstanding its urban elements, North Las Vegas lacks a big city downtown—a typical condition in most *Boomburbs* including Henderson, Nevada.

North Las Vegas may have urban challenges, but it lacks most urban assets—such as a large commercial sector—to help mitigate its fiscal problems. This mismatch between needs and resources produces a segregated city with low fiscal capacity. In 2002, Myron Orfield published *Metropolitics* for the Brookings Institution Press, a work that examined the fiscal capacity for all jurisdictions in the top 25 U.S. metropolitan areas.[2] While the Las Vegas metropolitan area was not part of the study, the report's findings are highly relevant. Orfield identified a significant disparity between jurisdictions in their tax capacity per capita and the share of dependent residents. Based on its demographics and modest business development, North Las Vegas matches the profile for an "at risk, segregated" jurisdiction. According to Orfield, such places have the lowest "fiscal capacity" and are at risk for failure and decline.[3]

Former Mayor Montandon specifically addressed North Las Vegas' precarious fiscal situation in response to observations that North Las Vegas, once the fastest growing U.S. city above 100,000 residents, also experienced notable decline in the areas east of Interstate 15. Montandon noted that North Las Vegas was in a race to build out the new sections of the city with mostly upscale master planned communities in an effort to offset the burden of poverty in the older parts of town. He was also concerned that older sections of the city were costly to administer because they were "fee simple" and functions such as code enforcement were the responsibility of the city as opposed to the volunteers that provide this same function in master planned communities.[4]

> North Las Vegas, like so many Boomburbs, has both rich and poor sections. The divide here is I-15, which runs north out of Las Vegas and splits the city in two. The largely built-out area east of I-15 is low income and composes about a third of North Las Vegas. The still-booming space west of I-15 is higher income and accounts for about two-thirds of the city…New projects approved in the new parts of North Las Vegas are more upscale than the existing neighborhoods in the east. The mayor argues that the city needs to do this to balance the city's income, but the more pressing issue for Montandon is that North Las Vegas's east neighborhoods create enormous costs in code enforcement. The problem is that the east side of the city has few homeowners associations to manage relations between feuding neighbors and local government must be brought in to settle disputes. This requires hiring municipal employees to do the settling, and that raises taxes.[5]

It is important to note that there are distressed areas in neighboring Las Vegas, Henderson, and unincorporated Clark County. However, the share of such neighborhoods relative to wealthier sections and business centers is greater in North Las Vegas, resulting in less resources and tax capacity per capita. In the last decade, North Las Vegas addressed this mismatch via a "builders' solution," where most growth was concentrated in more affluent master-planned communities such as Aliante (a project that includes housing, retail, and a Station's Casino). Yet late in the decade, as North Las Vegas quickly added middle and upper income households, the real estate bubble burst and reversed the growth pattern.

North Las Vegas soon found itself mired in the deepest economic downturn since the Great Depression, and at ground zero for the nation's home foreclosure crisis. The once promising Aliante master planned community saw its prices fall to below half their 2006 peak and the Station's Casino file for bankruptcy in 2009. Overall, the city's tax base shriveled as real estate values fell 65 percent from their peak. Again, this occurred in a city that began the last decade with the weakest fiscal capacity among all major metropolitan population centers in southern Nevada.

Adding to the diminishing reputation of North Las Vegas are widespread charges of fiscal mismanagement by city officials. The most publicized of these charges targets overly generous contracts with public employees—especially those in public safety. The charge has merit. Las Vegas Chamber of Commerce salary surveys demonstrate that southern Nevada's local city and county workers are among the best compensated public employees in the country. These surveys illustrate a regional pattern, suggesting that while North Las Vegas may be a bit more generous than most other jurisdictions it is hardly an outlier. The problem is that North Las Vegas has the least fiscal capacity to sustain high wages.

For the region, the state, and the nation, North Las Vegas is the proverbial "canary in the coal mine." The structure of North Las

Vegas government leaves it as the most likely to fail in the face of a deep recession. Although nearby jurisdictions also suffered greatly in the recent Great Recession, they possessed the capacity to manage fiscal shortfalls and stay afloat during this long economic downturn.

Large suburban cities such as North Las Vegas employ far fewer municipal workers per capita than comparably sized traditional cities in the Northeast and Midwest. Geographic factors contribute to this, as most Boomburbs lie in the Sunbelt where there is a tradition of contracting with private firms for government services. In addition, a large share of residents in Sunbelt suburban cities—from Coral Springs, Florida to Irvine, California—live in master planned communities that feature private government. These private governments substitute for public ones and significantly reduce municipal tax burdens. Former mayor Montandon in North Las Vegas intuitively understood this connection, as he pushed for all new growth to be located in private communities. The fact that North Las Vegas still maintains a large public space east of Interstate 15 requires a larger municipal staff than jurisdictions where more people live in private communities.

The Fallout: What if North Las Vegas Fails?

North Las Vegas could fail, and in a highly visible way. The damage, however, would not be confined solely to that city. The collateral damage to the cities of Las Vegas and Henderson, and, most notably, the Las Vegas Strip, could be significant and lasting. The first major impact would be the severe damage to the reputation of the region's business climate. For years, Las Vegas benefited from its national identity as the fastest growing large U.S. metropolitan area. Las Vegas was a growth machine—the newest big metropolis in America.

The Great Recession, and the crushing collapse of the construction industry and the home and business foreclosure crisis hit southern Nevada with unparalleled force. When the bust came, the national media descended on Las Vegas to document its striking reversal of fortune. The once high-flying, fun-loving vacation and convention destination was brought to its knees by the downturn. Major projects stalled. City Center—the largest private development in U.S. history, located in the center of the Las Vegas Strip—teetered for a time on the edge of failure. The tale of riches-to-rags decline spread so far that many foreign news outlets stationed reporters in Las Vegas waiting for the next shoe to fall. Few could have imagined that the press would compare the region's decline to that of Detroit. One academic coined a term for the condition Las Vegas now experienced. "Sin City" was now a "Sun Burnt" city as opposed to a Sunbelt city. In the past year or so the narrative has shifted as the local and national economy shows signs of recovery. A new "Las Vegas is Back" storyline has emerged. Visitor figures continue to grow, convention business is on the upswing, and 2012 is expected to be a record year for tourism.

The economic recovery of the Las Vegas region remains fragile and subject to instant revision. The failure of North Las Vegas would be a visible reminder that the fallout from the Great Recession continues. A new "Perhaps Vegas is Not Back" storyline could emerge and immediately erase months of accumulating positive news. The failure of North Las Vegas could become a metaphor for the diminished opportunities of the region as a whole. With 226,510 residents, North Las Vegas is now the third largest city in the state. It is larger in population than other Western centers such as Reno, Boise, and Salt Lake City. North Las Vegas is nearly the size of Orlando and surpasses such Eastern urban cores as Birmingham, Alabama; Richmond, Virginia; and Little Rock, Arkansas.

To date, the biggest U.S. city to flirt with bankruptcy is Stockton, California, which has almost 300,000 residents. Stockton lies in a state with nearly 38 million people. By contrast, Nevada has just 2.7 million residents. Only 1 in every 129 Californians live in Stockton, while 1 in 12 Nevadans reside in North Las Vegas. Stockton's failure does not equate to California's failure *writ large*. The city is not the third largest in the state—or even the third largest in the California's Central Valley (it is fourth largest). By contrast, North Las Vegas at the third rank in Nevada is the equivalent of San Jose, California.

In short, the failure of North Las Vegas risks becoming a public relations disaster for the state. Even the name "North Las Vegas" is problematic. Many people could mistakenly assume that *Las Vegas* is failing—minus the "north." The timing is also bad. North Las Vegas could fail at the very moment that the state launches its new regional development authorities. Governor Brain Sandoval is energetically promoting the launch of this effort—and the results are all positive. Reforming Nevada's economic development efforts has received popular local and national media attention. And there are many more upbeat stories the state could promote.

Some local leaders believe that North Las Vegas should fail—that the city has it coming because of its one-sided contracts with public employee unions. The State of Nevada, however, has no provision for a municipal bankruptcy wherein a city can simply renege on municipal contracts and start over. The process of sorting out financial obligations would be nasty, messy, and very public. The drama could extend for weeks or even months. Each story would continue the main sub-narrative—failure. North Las Vegas equals failure, or Las Vegas equals failure, and even Nevada equals failure. The risks here are great and the payoff small in that insolvency does not release the public from the city's labor contracts.

North Las Vegas' financial insolvency also risks its credit rating. That means the cost of borrowing would go up as the city's municipal bond rating drops and the interest rates rise. The increased public cost of infrastructure would put the city at a distinct competitive disadvantage for attracting new residents and businesses. At first glance, this would seem only a local concern limited to just one—albeit large—municipality. There are bigger stakes at play. North Las Vegas contains just over half of the remaining developable land in the entire Las Vegas Valley. By contrast Henderson is nearly "built out" as its development pushes to the edge of federal lands. The same is true for much of the western edge of the region in places such as Summerlin. In essence, Las Vegas' future development lies mostly north, where the last sections of the region's beltway are yet to be finished. Hampering the development of North Las Vegas by burdening it with a high cost of borrowing could significantly reduce the competitive position of the entire Las Vegas Valley.

The Path Forward: Avoiding a Public Failure

The state and city should take actions to prevent North Las Vegas from financial failure and reneging on any of its fiscal obligations. A default could result in a cascading disaster that impacts the region's fiscal capacity and business reputation. The current estimate is that the city will see a $32 million short fall in next year's budget (beginning July 1, 2012). There is also a concern that the city lacks liquidity to meet immediate commitments. The discussions to remedy this situation have concentrated on two key areas for savings: union concessions and service consolidations. Yet there are problems with both approaches. The unions are actively resisting any major concessions and discussions to merge municipal services with other jurisdictions have broken down (although there may still be an option for merging the city prison).

Options that remain viable include massive layoffs of public employees and some cash assistance from the state. City officials recently approved a significant number of layoffs, and this number may grow depending on how many voluntary retirements the city can negotiate and the amount of savings that produces. The amount of direct resources that Nevada can offer is limited but creative options are available. However, the politics of this assistance are also problematic. The state cannot be seen as simply bailing out North Las Vegas. Critics will charge that a bailout will only encourage other localities to act in a profligate manner and then demand a state rescue. Any state assistance needs to be conditioned on specific reforms that reduce municipal expenditures in the future. While the state is certainly cash strapped, it does have some modest resources available to assist North Las Vegas. In fact, revenue is running a bit ahead of estimate and the state also holds new resources that may be available to help address this crisis.

Nevada will receive tens of millions of dollars as part of a 49 state $25 billion settlement with major banks in a lawsuit resulting from unlawful foreclosures. Approximately $20 billion in these funds will go directly to impacted consumers in an effort help avoid foreclose. The other $5 billion will go to the states, with a third of that money targeted to about 750,000 households that were illegally foreclosed on who will now receive $2,000 checks each. The State of Nevada is slated to receive $57.4 million under the settlement. The distribution of the money is directed by the state's attorney general, although there is nothing to prevent the money from being swept into Nevada's general fund. The intention is to use these resources to prevent future foreclosures via programs such as consumer counseling. North Las Vegas is eligible for funding as it is currently structured, provided that the city applies the funds in specific programmatic areas determined by the attorney general.

There may be some flexibility in helping the city more directly. The politics are dicey, but Nevada leaders from both parties have demonstrated a newfound willingness to work together. The state's new economic development plan, *Unify, Regionalize, Diversify: An Economic Development Agenda For Nevada* [6], a blueprint for restructuring economic development and diversification across the state, is one bipartisan example. Nevada political leaders from both parties could support a plan to designate a portion of the funds noted for municipalities impacted by the foreclosure crisis. The state could also leverage these funds by creating a revolving loan fund to assist localities that have cash flow problems. The bottom line is that the Nevada's leaders need to think creatively and determine the best use of this windfall resource in order to protect any locality from long-term economic failure.

The weeks ahead are perilous for North Las Vegas and the state. The best case is for both to act in cooperation and to be flexible in this crisis in order to avoid an actual economic failure. The politics are difficult. The perception that the city deserves to fail is palpable. Cooler heads must prevail. The state can ill afford for North Las Vegas to become a symbol for an enduring decline in Nevada. That negative public image is in no one's interest, including the city's harshest critics.

Footnotes

[1] Lang, Robert E. and Jennifer B. LeFurgy, *Boomburbs: The Rise of America's Accidental Cities.* Washington, DC: Brookings Institution Press, 2007. 3 p.
[2] Orfield, Maryon, *American Metropolitics: The New Suburban Reality*. Washington, DC: Brookings Institution Press, 2002. 221 p.
[3] Orfield, *American Metropolitics,* 221 p.
[4] Lang, *Boomburbs*, 130 p.
[5] Lang, *Boomburbs*, 130 p.
[6] *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada.* Metropolitan Policy Program at Brookings; Brookings Mountain West; and SRI International, 2011. 176 pp, *http://www.diversifynevada.com/images/business/Brookings_SRI_-_Full_report.pdf.*

About the Author

Robert E. Lang is a Professor of Urban Affairs at the Greenspun College of Urban Affairs and the Executive Director of The Lincy Institute at UNLV. His research areas and interests include suburban studies, real estate, demographic and spatial analysis, economic development, and metropolitan governance. He is the author of the book *Boomburbs: the Rise of America's Accidental Cities* (2007), published by the Brookings Institution Press. Dr. Lang's newest book titled *Megapolitan America,* was published by the American Planning Association in the fall 2011.

Acknowledgments

The author wishes to thank William E. Brown, Jr., Director of Planning and Communication, Brookings Mountain West for his contributions to this brief. In addition, Lucy Klinkhammer, Associate Vice President for Community Relations, The Lincy Institute and Alexandra Nikolich, Business Manager, The Lincy Institute and Brookings Mountain West, reviewed and provided feedback on drafts of this brief.

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Established in 2009, The Lincy Institute conducts and supports research that focuses on improving Nevada's health, education, and social services. This research will be used to build capacity for service providers and enhance efforts to draw state and federal money to the greater Las Vegas. The Lincy Institute will also highlight key issues that affect public policy and quality-of-life decisions on behalf of children, seniors, and families in Nevada.

The Lincy Institute has been made possible by the generous support of The Lincy Foundation. Robert E. Lang, Ph.D. serves as the Institute's Executive Director. To learn more visit: http://lincyinstitute.unlv.edu/

UNLV | THE LINCY INSTITUTE
University of Nevada, Las Vegas
4505 S. Maryland Parkway, Box 453067
Las Vegas, NV 89154 (702) 895-0088

For citation purposes, please use: Lang, Robert E. (May 2012). "A High Stakes Gamble in North Las Vegas." University of Nevada, Las Vegas (UNLV), The Lincy Institute. *The Lincy Institute Issues Brief* No. 1.