

# **Bond Case Briefs**

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## **This City is Heading Down Detroit's Path.**

North Las Vegas could be the next city to risk bankruptcy if its current trends continue, a new report warns.

“North Las Vegas, while not in default, is nearing insolvency,” said Fitch Ratings Director Matthew Reilly. He added that the “dire fiscal picture stems from a steep drop in revenues due to the severity of the recession” coupled with several years of contractually obligated salary increases for city employees. “The city also faces a structural budget deficit, one-time expenses, and restrictions on certain revenue-raising measures,” Reilly said in a prepared statement.

His statement accompanied a report released Monday that concludes North Las Vegas, a city of nearly a quarter million that has almost doubled in population since 2000, faces the same factors that led to the bankruptcies in Harrisburg, Stockton and Detroit. Namely, North Las Vegas has made bad financial decisions, has rigid and escalating cost structures and also faces revenue raising limitations and weak economic conditions.

The report notes that America’s now bankrupt cities all were hamstrung by financial decisions made years before that increased their liabilities. Yet lawmakers also failed to make necessary decisions to fund those obligations. In particular, the pension benefits in all three cities became burdensome liabilities during the 2000s. Detroit, for example, issued debt in the mid-2000s to shore up a more than \$1 billion pension funding gap, only to face a \$644 million unfunded liability by 2013. (The city’s emergency manager, using different assumptions, says the pension’s unfunded liability is closer to \$3.5 billion.)

Nevada state law is unclear on whether cities can file for Chapter 9 bankruptcy but a Moody’s Investors Service analysis earlier this year noted that “state intervention is possible given the city’s significant financial pressures.” Under a “severe financial emergency” the state would take over management of the city or Nevada could also provide “technical financial assistance” to review and consult on operations and debt administration. In April, the city barely submitted a balanced budget to the state after officials initially projected a \$24 million budget shortfall (nearly 15 percent of budgeted operating revenues). However, North Las Vegas is drawing upon its reserves to achieve the balance.

Adding to those pressures were recent court judgments against the city. One was settled down to \$7.7 million after a judge initially awarded \$25 million in back pay to public safety workers. The other award was for \$4 million in damages to land developers from wrongful pre-condemnation by the city.

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