

Tax revenues good omen for SLT budget

By Kathryn Reed

The budget the South Lake Tahoe City Council will be asked to approve on Tuesday has been built with cautious optimism.

City Manager Nancy Kerry likes to look at the big picture when putting numbers together. In particular she is paying attention to models that show recessions in the last 50 years have hit on average every six years. It's been eight years since the last one.

And while that last recession was a doozy, Kerry doesn't want to forget the lessons learned from it. She doesn't want to spend money with abandon or overinflate the payroll with employees.

The global economy has a direct correlation to Lake Tahoe as a whole because if money tightens elsewhere, people tend to stop traveling. And with a tourist-based economy, the area gets slammed harder when the economy heads south.

The California travel forecast is for the international tourist market to shrink a bit.

South Lake Tahoe's three main revenue sources are hotel, sales and property taxes. The first is all tourists, sales is a mix of locals and others, and property taxes are both as well, though with second homeowners at 70 percent they are still the predominant purchasers of houses here.

Property taxes grew 3.5 percent in fiscal year 2014, 4.7 percent in FY 2015 and are expected to hit 4.3 percent this year. The 2016-17 budget calls for a spike of 5.1 percent. But after that the city projects property taxes to be flat at 1.5

percent for several years. The upward trend in the last few years is attributed to housing being one of the last sectors to recover from a recession, so it's just now that prices are returning to prerecession figures.

With sales tax, the city saw an increase of 9 percent in FY 2014, 3.7 percent in FY15, and a 7.4 percent was budgeted for this year. The budget that goes into effect Oct. 1 forecasts a 1.4 percent increase.

TOT has been fabulous of late. In FY 2014 there was a 17 percent increase from the previous year, it was up 16 percent in FY 2015 and it expected to hit 8 percent at the close of this fiscal year. The budget for 2016-17 calls for a 4 percent increase. After that the city is reeling in the numbers, saying a 1 percent increase is likely.

Kerry believes now might be the time to rethink having 25 percent reserves. After all, that money was not touched during the Great Recession. Lowering that percentage to 20 would loosen up the overall budget a bit and still have plenty in the bank for a catastrophic situation. To change the allocation would take a four-fifths vote of the council.

There is much to be celebrated with where the city is today economically compared to recent times. The city is \$100 million better off today than it was five years ago. Half of that is from state and federal grants; the other half is what the city did via health care and debt refinancing. The city's debt accounts for 4 percent of the General Fund. Refinancing bonds has lessened that burden.

The General Fund for 2016-17 calls for \$38.4 million in revenue and \$37.2 million in expenses for a net revenue of \$1.2 million.

"This is the first budget in the city's history that we can find where we are budgeting with a positive cash flow," Kerry told *Lake Tahoe News*.

Between 2010 and 2012 the city was experiencing \$5 million in structural deficits. Thirty percent of the workforce was laid off. In 2003 the city didn't even have any reserves.

A little more than three years ago Kerry said for the South Shore to be an economically viable region \$1 billion in capital investment would be needed. That goal, through public and private dollars, is more than halfway to being a reality. It includes such things as single-family residences, BevMo and the hotel complex at Edgewood Tahoe.

Looking forward the city may have more money in its coffers if voters this November increase the transient occupancy and sales taxes. TOT would be used exclusively for recreation infrastructure, while the sales tax could be used for anything. Voters will be asked where they want the extra sales tax money to go, but the council is under no obligation to follow that suggestion.

Admittedly, the budget doesn't cover the costs of all the needs South Lake Tahoe has – such as roads, future raises for employees (their current contract expires at the end of September 2017 and negotiations are under way), and the nearly \$4.6 million unfunded pension liability. Those are bigger picture issues council members will have to face, though they are not expected to do so at their Sept. 20 meeting.