

Convoluting accounting bogs down South Tahoe budget

Publisher's note: *This is the first in a three-part series about the South Lake Tahoe city budget.*

By Kathryn Reed

Based on review of documents provided by South Lake Tahoe officials, including the current 2010-11 fiscal year budget, the city is deficit spending even though by state law it must have a balanced budget each year.



Deficit spending is when a government spends more money than it generates in a particular period of time.

Even the 2010-11 budget doesn't balance. Revenues are projected to be \$101,013,904, while expenses are expected to be \$101,838,705.

The deficit spending is occurring because the city for several years has been moving money around without actually operating within its means. Some of this money is being taken out of the multiple reserve accounts to make ends meet. But those reserves are a limited resource and one day could be drained if this practice were to continue.

It is a practice that will eventually backfire because it does not address the issue of expenses outpacing revenues – or living within one's means.

“The city does have sound operating reserves. It's in excess of 25 percent,” City Manager Tony O'Rourke said. “But at some

point you can't continue to utilize that cushion. That's why the business model has to be overhauled."

O'Rourke inherited the budget structure from his predecessor who was well known for his micromanaging. He also is stuck with the 2010-11 budget because former City Manager Dave Jinkens fast-tracked the budget through the council during his last week on the job in August.

An example of the robbing Peter to pay Paul practice is in the 2009-10 budget when \$100,000 was taken out of the Redevelopment Agency budget and put into the budget for the City Attorney's Office. This was done because when Patrick Enright was hired in June 2009 he was touted as a redevelopment specialist. The City Attorney's Office's budget for that fiscal year didn't have the funds to cover doubling the number of city attorneys. The money had to come from somewhere – that somewhere being redevelopment's pockets.

Reconciling 2009-10 budget

In the Nov. 16 council agenda packet is the monthly financial statement for September 2010, the last month of the 2009-10 fiscal year – so it has nothing to do with the current fiscal year. The current fiscal year started Oct. 1. The council is not publicly being provided current financials, just 6-week-old information for a fiscal period that is already closed.

Like a personal checkbook, city financial information should be readily accessible and easy to disseminate. Presumably, elected officials depend on this information to make timely, informed decisions. Information given to the council should be from the most current month, not weeks behind.

(They and anyone in the public has a right to this information and may request it – all are public documents.)

In the documents provided in the council packet (click on Consent 2) it shows the actual revenue in the general fund for

fiscal year 2009-10 was \$27,103, 362; expenses were \$29,168,991. This means the general fund generated a deficit of \$2,065,629.

The general fund is essentially the discretionary part of the budget.

Adding all the reported fund numbers together in the 2009-10 report the total deficit comes to \$4,249,819, twice the amount for the general fund.

The staff report signed by O'Rourke and Finance Director Christine Vuletich says \$2.1 million will come from "one-time un-assigned funds" to balance the budget. This is another way of saying reserves.

But in this paperwork it does not specifically say how the remaining gap will be filled. An annotation says the Capital Improvement Project fund revenues are expected to increase. Yes, after the close of the fiscal year.

O'Rourke told *Lake Tahoe News* he is trying to make changes to how the budget information is disseminated.

"We need to do more work on it," he said of the monthly report. "We need to simplify it."

CIP budget issues

However, to confuse matters more and not make it easy for the public to figure out what is going on, the last graphic on the report to the council is dated Nov. 2, 2010, saying about \$2.4 million has been added to the CIP fund.

But it never says which fiscal year these dollars will be applied to.

The CIP fund never seems to be in balance based on looking at stacks of paperwork. It's not reported concisely. It is hard to determine when and how the matching of expenses to income

is occurring.

Interpreting the comments and answers received from the city it appears the accounting of CIP is done on a cash basis, while the other accounts are on an accrual basis. This distorts what is happening in the overall budget. Most businesses use one accounting method, not multiple, in order to make for clean accounting practices and a sense of transparency.

The CIP reported in the 2010-11 budget forecasts \$34,524,280 in revenues and \$30,805,295 in expenses. This would appear to mean there would be a surplus of more than \$3.7 million in this account.

Not true, says the city.

Lake Tahoe News on Oct. 9 published responses by Vuletich to a series of questions *LTN* had asked.

Regarding the CIP, she wrote, "79% to 83% of all CIP projects that the City has authorized are grant funded which causes a discrepancy between budgeted amount of revenue and budgeted amount of expense. Grant funded projects require that the funds be expended first, and then reimbursement be requested by the City. Also, retention of 5% is held by the granting agencies as an assurance that the project will be completed. The City bills the granting agencies quarterly, so anytime during the busy building season [May to October] there can be a large difference between revenue and expense budget due to receivables due from the granting agencies."

That answer points to using the cash basis accounting formula.

But this doesn't make sense when the city's three major revenue sources – transient occupancy tax, sales tax and property tax – don't come in one lump sum either. In the budget, the dollar amounts are recognized before the money is in hand.

Proper accounting would have the city claiming the CIP dollars – whether they are from the feds, state or other grantor – in the ledger when it's known the grant has been awarded, and as funds are disbursed for expenses in order to accurately match income and expenses. Instead, the current practice appears to recognize revenues when the check arrives.