

Opinion: S. Tahoe explains why it does what it does

Open letter to the community:

At the Sept. 15, 2011, special City Council meeting to discuss the city's projected \$5.2 million deficit, several members of the community made statements during public comment that could be construed as fact and thus, need clarification. But first, some background on the framework of the proposed fiscal year 2012 budget and the need to eliminate a \$5.2 million projected deficit.

- **In December 2010 a Citizen Survey was conducted of the community and resulted in the following:**

- o 85 percent indicated the city was headed in the wrong direction. In fact, the city of South Lake Tahoe ranked last among 267 other cities surveyed in this category. The survey clearly indicated the City needed and in fact was required, to make significant changes.



Tony O'Rourke

- o As a result of the survey, the City Council developed and adopted a Strategic Plan, Business Plan and Five-Year Financial Plan to head the city in the right direction. The Strategic Plan includes initiatives to improve our failing infrastructure, become fiscally sustainable, focus on economic development, strengthen partnerships and improve the public's

trust.

o The Five-Year Financial Plan identified average budget deficits of \$3.4 million between FY 2012-2016 and the need to reduce city expenses to “live within our means” but also invest in the community’s aging infrastructure by proposing \$25 million to make substantial improvements to city roads and infrastructure over the next five years.

o As a result of the Five-Year Financial Plan, the City Council adopted a Reorganization Plan in March that cut city expenses by \$10.2 million over the next five years and also included eliminating six senior management positions (redevelopment director, division fire chief, assistant parks and recreation director, public works director, assistant city manager and police captain). Subsequent to the reorganization plan, the fire chief resigned and the position was frozen. The savings realized by eliminating and freezing these positions is over \$1.2 million per year. Three of the remaining directors were tasked with taking on the collective responsibility of these vacated positions and received an average 10 percent raise to so do (police-fire chief, community services director and finance director).

o The proposed FY 2012 budget reorganization includes the elimination of up to 26 positions and contracting out for certain services. These actions will result in \$1.7 million in FY 2012 savings and \$2.5 million per year thereafter. The majority of these savings are from the fire and police departments reducing senior command hierarchy with little or no impact to front-line services.

• **Does the city use temporary employees for snow removal?**

o The city has always hired seasonal (temporary) employees for snow removal because snow is a seasonal event and seasonal workers supplement the fulltime crews. Snowplow operators must possess specific qualifications for operating snowplow

equipment. The city maintains a fulltime workforce of the most experienced workers to provide supervision oversight and training of snowplow drivers.

- **What is the source of the city's projected FY 2012 \$5.2 million deficit?**

- o \$1.8 million payment to the state of California to continue the city's redevelopment activities.

- o Decline in revenue due to the protracted economic downturn.

- o Escalating expenses, including employee salaries and benefits, which represent 65 percent of all operating expenses.

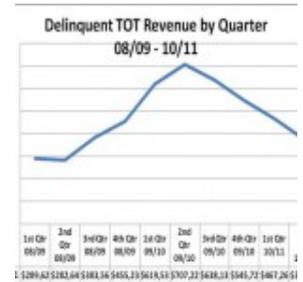
- **City of South Lake Tahoe has no plans to close the senior center or reduce recreation programs or services.**

- o In fact, the city is currently exploring additional service enhancements and programs. All current programs including the nutrition program, which is currently administered by El Dorado County, will continue without interruption. A letter from the mayor confirming no plans to close the senior center was posted at the center Sept. 19, 2011.

- o In addition, the city has no plans to eliminate or reduce other recreation programs or services. The city is exploring alternative service delivery options, which could potentially provide cost savings and enhanced programming.

- o In addition, the city's housing low-income programs will continue as they are, with no change in services to the low-income population impacted.

- **How does the city perform in terms of its collection of transient occupancy tax and vacation home rental fees?**



Click on image to see in full.

o In the past several years, one of the impacts of the economic downturn has been an increase in delinquent transient occupancy taxes. The City has strengthened its revenue collection efforts for those lodging businesses who fail to pay the TOT owed to the city by utilizing a number of measures including, subpoenas and/or seizures of records, audits, property liens, business shutdown, payment plans and other legal actions. The city has successfully collected or established court-ordered payment plans in most of these cases. As a result, the amount of delinquent TOT has decreased by 51 percent.

o Vacation home rentals pay both TOT and permit fees. The annual permit fees have remained consistent throughout the recession and TOT from vacation home rentals has increased over the last two years. However, to strengthen the enforcement of the required annual permits and payment of TOT, the city established a task force consisting of staff from the police department, Legal and Finance departments, and a local property management firm that rents VHRs. Their efforts have resulted in increased collaboration between the police community service officers, residents and neighborhood teams to identify VHRs operating without a permit, and in increased TOT reporting requirements for VHRs beginning next quarter.

- Some people have suggested increasing taxes and fees to help the budget gap.

o In the December 2010 survey, 70 percent of residents indicated they would not support any residential tax or fee increases. In addition, increasing taxes to avoid reducing expenses is a burden the taxpayers shouldn't have to bear. We need to cut our expenses as far as possible first, demonstrate our ability to perform at a level satisfactory to the citizenry and deliver results before asking more of the taxpayers.

o We are exploring other revenue enhancements including utility cut fees, business licenses fees and vacation home rental permit fees, but even an increase in one or more of these fees would generate several hundred thousand dollars, which is about 4 percent to 6 percent of the \$5.2 million deficit.

- **Retiree health benefits**

o Retirees are provided the same health plan upon retirement as current employees at an average cost of \$14,000 per retiree or \$1.9 million annually. Retirees will continue to receive the same health care plan as active employees. In an attempt to control costs, employees are meeting to make health plan design changes that reduce costs by increasing health plan deductibles, changing the network provider and additional cost containment measures. The percentage retirees pay toward their premium, if any, will remain the same. Health care costs the city \$5.2 million annually and currently consumes 18 percent of the city's operating costs. To become fiscally sustainable, health care costs need to be better managed.

- **How sound is the city's general fund reserve policy of 25 percent?**

o The City Council adopted a general fund reserve policy that requires no less than 25 percent of its general fund operating expenses be set aside in undesignated reserves, which equates to approximately three months (or 25 percent) of regular

general fund operating expenditures “to provide for temporary financing for unanticipated extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, economic recession, or an unexpected liability created by Federal or State legislative action.”

o The Government Finance Officers Association recommends a council-authorized policy that, “should be assessed based upon a government’s own specific circumstances... at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months (or 16.6 percent) of regular operating revenues or operating expenditures.” A March 2009 survey conducted by members of the League of California Cities determined an average reserve policy of 27 percent of general fund working capital existed among the approximately 80 cities that responded to the survey. In South Lake Tahoe’s case, given the tourist-based nature of our economy and the lack of economic diversification, the 25 percent reserve policy standard is prudent given the discretionary nature of tourism and its general volatility verses more economically diversified cities.

Based on the measures the city has taken, the proposed FY 2012 budget, as well as the projected budgets for FY 2013 to FY 2016, are balanced, prudent, and responsive to the needs of the community.

Appreciation is expressed to the entire city staff and to the City Council for providing the leadership and strength to prevail in these challenging times and move the city in a direction that is sustainable and successful.

Sincerely,

Tony O’Rourke, South Lake Tahoe city manager