S. Tahoe balances budget without using reserves

By Kathryn Reed

For the first time in five years South Lake Tahoe's budget is balanced without using reserves, cutting staff or cutting services.

The $1 million ongoing deficit has been wiped off the books at least for the 2013-14 budget that will be presented to the City Council on Sept. 17.

"It's because we have a different budget philosophy," City Manager Nancy Kerry told *Lake Tahoe News*. "I was able to strip $1 million from the budget."

A thorough scrubbing of the budget has been done. Budgeting is now based on expected expenses, not expected revenues. For example departments that every year budgeted $5,000 for supplies but only spent $2,000 will now get a line item of $2,000 for supplies.

South Lake Tahoe City Manager Nancy Kerry reviews budget documents. Photo/Kathryn Reed

While these excesses in the past were carried over each year in the unassigned excess reserve account, it also meant the budget did not reflect true costs. This excess is on top of the 25 percent reserve the council established in 2004. (In 2003 the city had zero dollars in reserves.)

There is still a balance in this excess reserve account. The city has allocated $700,000 from it to buy a building and vacant parcel in the industrial area with the goal of moving the fleet yard on Rufus Allen Boulevard there. This in turn would provide more recreation opportunities in that area. The property is in escrow.

The city's total budget is about $90 million, with approximately $30 million being the general fund. The general fund is where payroll and the day-to-day bills get paid.

About $20 million – or 64 percent – of the general fund pays for salaries, pensions, health care and other benefit costs. Police services cost the most, taking up 27 percent of the general fund, fire at 15 percent, and public works-general government at 8 percent.

Kerry said it makes sense for the city's greatest expense to be people because the city is in the business to provide services to the public and it takes people to provide those services.

While revenues are doing better, the approach is to be conservative and have a true midyear review in March. If there is "extra" money, then the council can decide if it wants to hold onto it or spend it.

The council will be asked to start thinking now about what it would want to do if it even had a small pot of cash like a couple hundred thousand dollars to spend in six months. Public input will be sought how to spend that money.

Not everything costs millions of dollars. A few years back the city spent about $30,000 to put in the popular dog park.

Hal Cole and Brooke Laine are on the council’s budget committee. Their ideas include dedicating money to improve the look of Highway 50, putting a percentage toward recreation infrastructure, and money for roads.

“We need to look at our core values and needs,” Laine told *Lake Tahoe News*.

She would rather have the discussion early about what to do with “extra” money than wait. This allows for a more thoughtful discussion.

What Kerry is proposing is to change the way the city operates. Instead of spending everything in the good years and struggling in the lean years, be prudent every year. This also means using the public’s money for public projects – this includes infrastructure, recreation and then people.

“Employees need to realize that investing in the public is investing in themselves,” Kerry said.

That doesn’t mean the employees aren’t being considered. In the budget is money for a full time fire chief, after having funded this position on a part-time basis the last fiscal year.

Property, hotel and sales taxes are the city’s three main revenue sources.

Property taxes have taken a serious hit as the value of housing has gone down. However, the median price of a single-family residence in South Lake Tahoe has increased 23 percent from July 2012 to July 2013. The city is forecasting 1 percent to 2 percent increases in property taxes through 2018.

While occupancy has been higher at South Shore hotels for the past two summers, national indicators are that the economy is still sluggish. That is why the city is not banking on transient occupancy taxes dramatically increasing. But they are on an upward momentum. The budgeted increase is 1 percent for a total of $4.85 million.

The expenses that are nearly crippling the city are what it has to pay for employee pension and health benefits. And that doesn’t even take into account the city’s $53.6 million unfunded pension liability or $45 million unfunded health care liability.

The city pays $3.6 million a year into the California Public Employee Retirement System. As of Oct. 1, 2012, all employees pay their share of PERS – which ranges between 7 percent and 9 percent of their salary.

Public entities are not allowed to change the formula for current employees. This must be done by the Legislature. Change is slow, and what change has occurred affects new hires who have not been part of CalPERS before. And it is not reasonable for entities to abandon CalPERS.

Kerry is proposing the adoption of a pension trust fund to help balance the good and bad investment years. This philosophy has a lot to do with seeing the employer rate jump 155 percent from 2004 to today.

“The real problem is health care,” Kerry said.

There are 785 people receiving health benefits from the city. Only 170 of them are active employees. Half of that total number never worked for the city. This is because years ago a city manager thought it a good idea to give spousal benefits to retirees that continued even after the employee died.

The city is self-insured. This means it pays all the medical bills. It comes out to more than $4 million a year. (This is 13 percent of the general fund.) Employees don’t pay any sort of monthly premium for their health care. They have a $750 deductible with a maximum annual payment of $4,000.

To begin to solve the problem the city is having Medicare-eligible retirees use Medicare supplements as their secondary insurance rather than the city's plan as their secondary insurance; the goal is early retirees who are not 65 will be able to have health plans through the Affordable Health Care Act; and the city will look at options that could include having a provider and not being self-insured.

Kerry warns that without those three changes the city may have to only offer catastrophic health care benefits.

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This is a copy of Kerry's budget message that will be discussed Tuesday at the council meeting, which starts at 9am at Lake Tahoe Airport.