Hotel taxes bright spot in SLT budget

By Kathryn Reed

An unexpected spike in the cost of retiree pension benefits and a continual declining value of some redevelopment properties is being offset by a substantial increase in transient occupancy taxes in South Lake Tahoe.

All of this means the 2015-16 budget that takes effect Oct. 1 is balanced. And while legally the city has to have a balanced budget, it is being done so without borrowing from other funds.

The City Council on Sept. 1 will hear a presentation on the budget, with adoption likely two weeks later.

CalPERS has rejiggered how it calculates what public agencies must contribute. Just to make the police and fire department retiree costs South Lake Tahoe has to come up with another $1.2 million.

“They don’t have to have a good return on their investments. They just send us a bill,” City Manager Nancy Kerry said of how CalPERS operates.

Earlier this week CalPERS announced a **2.4 percent return** on its investments, which is much lower than what most entities are posting. Because these are defined benefits, retirees are guaranteed a set dollar amount no matter what CalPERS has in the bank. This means the entities where the retirees worked must make up the difference. This is unlike the private sector, which mostly has 401(k) plans where workers deal with market volatility, not the business.

The other big thing throwing a wrench into the city’s coffers is the value of condos at the Marriott Grand Residence. The price per condo is $183,776. This compares to the Timber Lodge condos across the sidewalk that are selling for $502,836. Grand Residence has 199 units, while Timber Cove has 264. At the former, they are sold as 13-week intervals, with 940 parcels on the tax rolls. Timber Lodge is mostly weekly timeshares, with 11,703 taxable parcels.

While every place else in the city limits the assessed value is going up, that is not the case for the Marriott properties that anchor the Heavenly Village. There has been a 43 percent drop in value from fiscal year 2009-10 to FY 14-15. Half of the decline in property value in the redevelopment area – which runs from Ski Run Boulevard to the state line – is from the Marriott properties.

There is a $100 million difference between the assessed values of the two Marriotts. Part of this has to do with there being a number of foreclosures at the Grand Residence as well as the ownership criteria. Plus, Marriott has restructured the value of the properties with a point system that is helping to keep the value down.

City officials are in talks with the assessors' office to see if anything can be done to have the numbers be more reflective of the true value.

Kerry does not anticipate the same thing happening when the Chateau hotel-condos open in 2017. For now, that site is all one parcel and therefore is assessed as one property. With the project calling for a 32-room hotel-condo with full ownership, the developer would have to seek separate parcel numbers after build out.

While the city always wants more money in the bank, a big concern with any decreased value in the redevelopment is that $180 million is still owed in bond debt. This includes principal and interest. It should be paid off in 2038.

Property taxes pay for the debt as well as TOT.

Even though the city is not reaping as much in property taxes from these parcels, throughout the jurisdiction the transient occupancy tax collection has been well above what was anticipated. TOT is up 20 percent – or more than $2 million – from what was forecasted.

Much of that will be reinvested in fields as a joint project with Lake Tahoe Community College and Lake Tahoe Unified School District.

The other big piece in this budget and those going forward is how the city revamped it's **health care costs** in the last year.

"Were it not for the changes in the health care program, we'd be facing deficits today. Decisions to completely revamp the health care benefit structure reduced annual costs by over $1 million and reduced our unfunded liabilities by 73 percent," Kerry said. "Without these changes, regardless of TOT increases, regardless of growth in the economy, etc., we'd be in deficits today."

One thing Kerry plans to stress at Tuesday's meeting is that if the city is to continue in its quest to be a recreation destination that it will take more money beyond current revenues to upgrade facilities. This may mean going to the voters in 2016 for a tax – be it increasing the hotel tax or a new amusement-recreation tax. The goal would be to dedicate that revenue stream to recreation, with the tourist bearing the burden.

Kerry's presentation will also include a note of caution as the city looks to the future. Monetary issues run in cycles, with many forecasting 2017 as when the next recession may hit – though not necessarily like the Great Recession.

"The value of looking ahead is to mitigate the risks," Kerry told *Lake Tahoe News.*

This means being conservative with spending, while also looking at how to generate sustainable revenue. The latter, the city believes, is through offering quality recreation facilities for locals and tourists.

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Note:

- The council meeting starts at 9am Sept. 1 at Lake Tahoe Airport.