

# SLT's financial future on precarious ground

By Kathryn Reed

South Lake Tahoe's finances are stable today. Look again in November and it may be a completely different story.

That will be one of the messages delivered Tuesday by Debbie McIntyre, the city's finance director, when she goes over the midyear budget with the City Council.

What could change in seven months for the city is the potential ballot initiative that would ban vacation home rentals everywhere but the tourist core.

"We could create our own depression in our own city because of the initiative," McIntyre told *Lake Tahoe News*.

The hotel tax is one of three main revenue streams for the city, with property and sales taxes being the other. If that income were to suddenly go away, so would services and staff.

The other concern is what the VHR ban would do to the real estate market, and therefore property taxes. That's a scenario that frightens those who are looking at it from a financial standpoint.

The first thing being hit is the new recreation center. Voters approved Measure P in November 2016 which raised the TOT by 2 percentage points. The added cash is to be dedicated solely toward recreation. That includes what is supposed to be a state-of-the-art recreation center to replace the dilapidated one from the 1970s, improvements to Regan Beach and other items.

The rec center started out at \$25 million, went to \$40 million and now has a price tag of \$33 million. The problem is there

is only \$2.5 million in the bank. Without stable TOT, the city doesn't know what it would have for debt service on the rec center.

The council will receive an update about the rec center in late April or in May.

Complicating the matter is that the rec center was used as collateral for the 2006 bonds that the city took out. Now the D Street building and Fire Station No. 1 are the collateral, which means the D Street site can't be sold until the bonds are paid off in 2026.

This makes it more imperative to finish the D Street project so that site can be used by the city. It is one of the projects, which includes relocating the city's corporation yard, that is being recommended by staff to be funded by undesignated reserves.

The city has more than \$10.27 million in the undesignated reserves account. Of that, about \$1.5 million is being recommended to be spent on midyear expense adjustments. McIntyre is proposing then spending about half of the remaining \$8.8 million on one-time expenses.

Her other suggestions include:

- Fully funding the retiree health insurance commitment for the remaining two years
- Police building remodel
- Police, fire, public works radio system
- City vehicle and equipment replacement.

It will be up to the electeds if they want to spend any of that money and then to decide how to do so.

The staff report for the April 3 meeting says, "The finance

department did a comprehensive revenue study of the major revenues encompassing the past three years, and determined that TOT budgets should be increased upward but only to the extent actual collections in 2015-16.”

Revenues at midyear (the city’s fiscal year starts Oct. 1) are up nearly \$2 million. Much of this is TOT and property taxes. Expenses, though, are at more than \$3.2 million. This is why the cash from undesignated reserves is being requested.

Some of the larger additional expenses include:

- \$1.159 million one-time costs for employees per contracts that were recently agreed to;
- \$500,000 to account for salary adjustments;
- \$220,000 for city attorney contract;
- \$200,000 for snow removal from the 2016-17 season;
- \$160,000 three new firefighters.

What isn’t in the report is any compensation for Fire Chief Jeff Meston for taking over as acting city manager. Nor is there money for an interim to take over. The budget is being adjusted by \$140,000 to pay out former City Manager Nancy Kerry for her sick and vacation time. The city manager budget stays the same to reflect Kerry’s payout of nine months’ worth of salary. The report notes it is not anticipated to have a new city manager until after Sept. 30, at least as far as budgeting goes.

There also isn’t any money for roads. This is usually when that budget is adjusted.

The line item capital improvement projects are \$100,000 for the stream environmental restoration at the Whole Foods site and \$85,381 for new equipment in council chambers.

A change going forward is that the city is likely to return to where it has a more comprehensive budget process in the fall, and the midyear would have fewer alterations. McIntyre said this is easier on her department. Doing it the current way, she said, is like preparing two budgets. For department heads, it will mean being more precise at the get-go. That doesn't mean there won't be a midyear budget adjustment, it will just be less robust because of the change.