

## MEMORANDUM

**TO:** Board of County Commissioners

**FROM:** Daniel C. Holler, County Manager

**DATE:** February 17, 2005

**RE:** The State of Douglas County

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### Background

Last year the outlook for the State as a whole was cautiously optimistic. There was good cause for the optimism. In his State of the State address, Governor Guinn said, "I am proud to report that the state of our State is strong ... very strong." The strength is reflected in record tourism numbers, growth in small businesses, economic diversification, job growth, a good business climate, low unemployment, and a healthy State budget. All counties in the State of Nevada are also healthier.

The economic recovery that started in 2003, in the State and the Nation continued as expected through 2004. Nevada's taxable sales were up 12.8% from fiscal year (FY) 03 to FY 04. Statewide growth continues for the first 5-months of FY 04-05, showing a 14.9% increase. Only one county saw a drop in sales tax revenues from FY 03 to FY 04. Gaming revenues are also growing statewide with an increase of 5.7% for FY 04 over FY 03. Gaming win for the first 5-months of FY 04-05 were up 9.1%. However, gaming win in Northern Nevada continues to lag, following a 1.5% drop last year. Washoe County declined 2.1% from FY 03 to FY 04. Gaming win for FY 04-05 is up slightly at 2.67% through December. South Lake Tahoe win was up 2.7% in FY 04, but is down 2.24% through December. The Carson Valley is up 10.6% for the first 6-months in FY 04-05, with win up 7.05% in FY 04. Elko County experienced a decline of 1.1% in FY 04, but has seen a solid gain of 8.1% going into FY 05.

Job growth across the State increased with 53,700 new jobs in 2004. Only three rural counties experienced an increase in unemployment. Rural Nevada will benefit from a number of new projects, including a Sherwin-Williams plant in Fernley, a Home Depot in Elko, a Wal-Mart expansion in Fallon, a new trucking terminal in Wells, a new assembly plant in Douglas County and a Wal-Mart distribution center in Storey County, to name a few. Additionally, new power plants are planned or under construction in Storey, Eureka, and White Pine Counties. Only three counties dropped in total assessed value going into FY 05-06, compared to 8 last year.

Nationally, the economy continues to expand with employment growth. Modest increases in interest rates and inflation have not dampened economic activity. Inflation is modest with a CPI of 2.7% for calendar year 2004. Factory orders continue on an upward trend. Growth in the Gross Domestic Product was 4% for the third quarter. Nationally, homebuilding was strong setting a record pace for new home starts. Concerns continue to be expressed over the National deficit, weak dollar, and trade deficit.

The condition of Douglas County was characterized as stable heading into 2003, with a positive outlook. The outlook for 2004 was “poised for solid economic gains and improvements in the County’s financial base resulting from a growing and diversified economy.” The projection held true as we built on a stable foundation. Our assessed value is growing, our population is growing, our revenues are growing, our business base is growing and diversifying, and public services are continuing at effective levels with some specific areas of increase. What can Douglas County anticipate for 2005? The financial outlook for the County is bright, allowing the County to focus on meeting the current and future needs of the community. The state of the County is – in a word – Good.

### **Douglas County’s Economic Overview**

The County’s financial status is healthy today due in large part to the financial policies, management, and practices, implemented over the past several years. A commitment to encourage new businesses and to develop a larger retail sector has resulted in an expanded tax base. Our tourism sector continued to be the weak part of our economy. A fiscally conservative approach has been taken in funding existing and new programs and services.

The depth of our economy is reflected in a number of key indicators. As with the State and National economies, Douglas County experienced a number of positive fiscal indicators from FY 03 to FY 04, with the majority of lagging indicators related to tourism. Douglas County’s fiscal indicators include the following:

#### **Revenue Trends:**

- Taxable sales up 15.6%, with new stores providing growth
- Assessed Value up 6.8%
- General Fund operating revenues up 4.0%
- General Fund property tax up 11.0%
- Building permit revenues down 11.1%
- Gaming revenues down 8.9%
- Gas tax revenues up 2.0%
- Room tax revenues down 1.9%
- South Tahoe gaming win up 2.7%; Carson Valley up 7.05%

As a service providing organization, primary costs are personnel related. FY 04 personnel costs accounted for 55% of total operating expenditures and 79% of General fund operating expenditures. Key expenditure indicators include the following:

**Expenditure Trends:**

- General Fund operating expenditures up 3.7%
- County salary and wage cost up 4.6%
- Total medical insurance cost up 25.0%
- Total workers compensation up 3.0%
- Total County personnel cost up 5.3%
- Senior Services expenditures up 6.5%
- East Fork Fire/Paramedic Districts operating expenditures up 8.9%

The County continues to see overall positive economic indicators in a number of areas reflecting a continued diversification of the economic base. Douglas County is part of a northern Nevada regional economy that is no longer dominated by a casino gaming base. The regional economy now includes a broad base of firms in financial and other services, manufacturing, warehousing and distribution. An increasing number of technology-based firms can be included to the diversification of the economic base.

The County's manufacturing and related industrial development prospered in 2004 and will see solid gains in 2005. Our service industry, including automotive, professional, personal care, health care and home services, continues to expand. Construction was generally stable, with permits for single-family homes in 2004 dropping to 505 from 517 in 2003, the lowest level since 1999. The retail and commercial sectors continued at a strong pace with a 15.6% increase in taxable sales. The growth is reflected in a number of taxable sales categories driven by new businesses and retail centers in north Douglas County, Minden, and smaller businesses throughout the County. Our tourism industry continues to struggle. As with the past two years, tourism is an area of concern for economic growth. This is most notable in the steady decline in room tax revenues over the past few years.

The strength of the County's economy has a direct impact on the budget and the ability to provide services. This includes meeting the growth in costs of current services and prioritizing new service responsibilities and requests. It is both the stability and growth of the budget that translates into the ability to provide public services. This includes having attractive and appealing parks and recreational opportunities, meeting the needs of seniors (i.e. transportation, meals, and social activities), feeling safe, wildland fire protection, clean neighborhoods, good schools, safe streets, efficient water and sewer systems, and job and housing opportunities - to note just a few of the attributes of what makes our community a desirable place to be.

**Douglas County's Economy**

The financial health of Douglas County is tied directly to our economy. To understand our economy and the dynamics that work together to support government services, there are four broad areas to review. These include the development of primary jobs, the retail/commercial sector, the tourism and hospitality industry, and the construction industry including both housing and commercial projects.

**Primary Job Growth**

The development of primary jobs and related business activity is emerging as one of the County's strongest assets. The growth in a diversified wage base enhances the overall health of the local economy. To the extent that these wages are at or above the average wage, we find real growth in the quality, not just quantity, of economic growth. Growth in primary jobs will bring added wealth to a community by importing money into our economy. Wealth importing jobs usually include manufacturing, wholesale, transportation, mining, and agriculture. Tourism serves as a wealth generator, but the wage base is generally lower. Transfer payments may enhance the wealth of a community depending on if they are generated outside of the market area (i.e. retirement, social security, rents, dividends, interest, and medical payments). This is an area that benefits Douglas County.

A second tier level that may generate wealth includes financial services, insurance, real estate, and State and Federal government. The third level generally consists of retail, services, construction, and local government, all of which tends to be more reactive to the other wealth generators. As a service, health care may cross categories. To have an increasing viable economy, growth at all levels is necessary. The following charts provide an overview of Douglas County and the region's employment base.

#### **Douglas County**

<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
<b>Employment Average</b>	<b>19,135</b>	<b>19,126</b>	<b>19,350</b>	<b>19,240</b>	<b>19,624</b>
<b>Labor Force Average</b>	<b>19,936</b>	<b>20,086</b>	<b>20,370</b>	<b>20,340</b>	<b>20,471</b>
<b>Unemployment Average</b>	<b>4.0%</b>	<b>4.8%</b>	<b>5.0%</b>	<b>5.4%</b>	<b>4.1%</b>

\*Preliminary. Source: Nevada Department of Employment, Training and Rehabilitation

#### **Carson City LMA\***

<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004**</b>
<b>Employment Average</b>	<b>57,781</b>	<b>57,120</b>	<b>58,800</b>	<b>58,400</b>	<b>59,536</b>
<b>Labor Force Average</b>	<b>60,432</b>	<b>61,433</b>	<b>61,500</b>	<b>62,200</b>	<b>62,687</b>
<b>Unemployment Average</b>	<b>4.4%</b>	<b>5.7%</b>	<b>5.9%</b>	<b>6.1%</b>	<b>5.0%</b>

\*Includes Carson City, Douglas, Lyon and Store Counties

The manufacturing sector makes up approximately 8% of the County's employment base, as does the construction industry. The leisure and hospitality industry provides approximately 42.5% of our job base, a drop of 1.5% from last year. Trade, transportation, and utilities make up almost 13%, which is a growth sector. Government makes up 10% and professional and business services provide 6%. (Data is from the first 6-months of 2004).

Growth in primary jobs will continue with the location of new firms and construction of facilities within our business parks. Two larger companies are planning to locate in the Carson Valley. There is currently 100,000 square feet of light industrial space under construction. Vacant buildings are being leased. The outlook for the next year is positive, with the planned location of at least two larger firms (300+ jobs) and the continued expansion/location of smaller firms. The growth in primary jobs supports the development and expansion of other service related businesses and the retail sector.

The Minden-Tahoe Airport continues to grow. Over 100,000 square feet of hanger space was constructed this past year. There is the potential for another 100,000 square feet to be constructed this year. The long-term view for the Airport is for over 1 million square feet to be built in the next 20 years. Smaller industrial areas will continue to build out and fill vacant space.

Medical investment in the region is substantial. The new Carson Tahoe Hospital is under construction. For Douglas County, the Carson Valley Medical Center 15-bed acute care hospital is expanding its services, the urgent care facility planned in south Douglas County should open this year, and the Carson Valley Residential Care facility is expanding.

The challenges facing Douglas County's ability to continue to support this level of new business investment will be availability of a well-trained workforce, cost of comparable investment in the region, affordability of the County as a place to live, and more recently, the availability of land. Continued investment in the County's infrastructure is also needed. If not addressed, our transportation/road system may become a limiting factor. Overall, the outlook for continued growth in the manufacturing and related businesses will be strong for 2005.

### **Retail/Commercial/Business**

The retail and commercial sector of our economy has gone through a significant change over the past 5 years. The development of national level retailers in north Douglas County has added a new dynamic to the local economy. The pace at which these developments have progressed, and the success of the stores was surprising. This highlights the desire of residents for this type of a regional retail center. The next significant step will be the development of additional land in north Douglas County, with the potential for adding another 600,000 square feet of retail over the next 3-5 years. This will bring with it the potential addition of not only retail stores, but office and home development as well. Existing and expanding developments have significantly improved the County's sales tax base, even with a sluggish tourism component.

Commercial property development in the Minden/Gardnerville area has seen a mix of new building and filing of existing ones over the past few years. This activity will continue. The new Minden Village project is under construction (95,000+/- sq. ft.) with a number of the buildings to be completed in 2005. Smaller projects include office development along Highway 395; rehabilitation of 2 restaurants, 2 new banks (2 banks are also planned in north County area), and a variety of smaller retail space has also been filled. The Ranchos business area continues to develop with a mixed-use project under construction with the housing portion nearly complete. David Wally's resort continues at a steady pace, with Phase Four of the time-share project planned for 2005. The Tahoe Ridge Winery plans to start construction this year, following the opening/expansion of their Genoa wine tasting room this past year. A few smaller retail projects are planned for the TRE/Topaz area. While not exhaustive, the noted level of activity is representative of our growing and diversified economy.

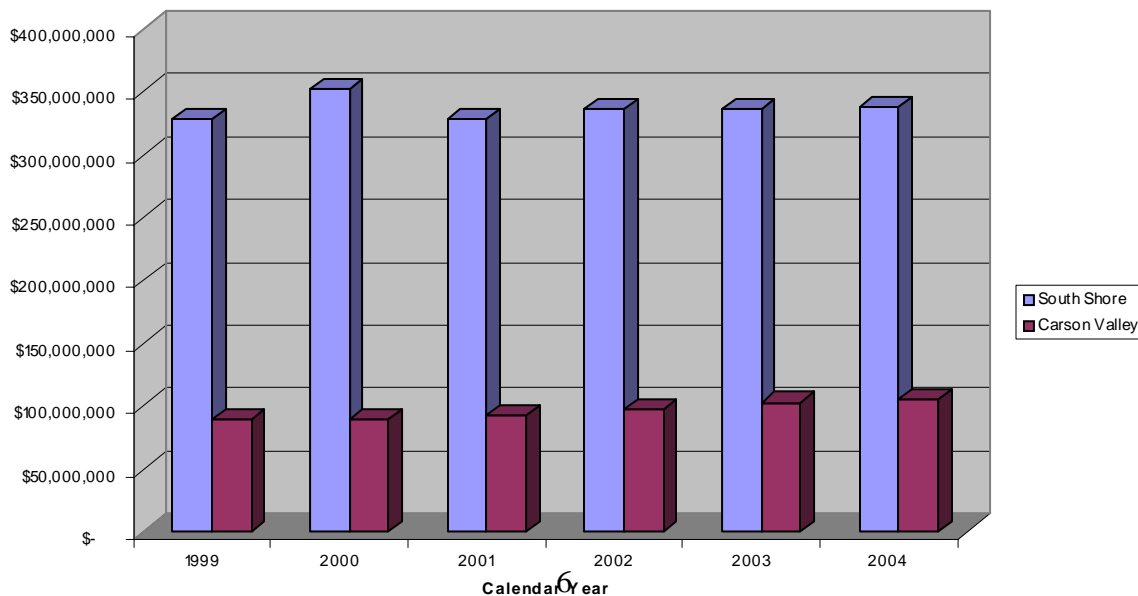
## Tourism

Tourism is still the County's single largest industry. Tourism represents 7 of our top 10 employers. The "leisure and hospitality" industry provides about 42.5% of our job base, down slightly from 45% in FY 03. The other 3 largest employers are GE/Bentley, the School District, and Douglas County. Heavenly Valley is the only non-gaming related tourism based employer in the top 10. The single largest category for taxable sales is eating and drinking, generating almost 22% of total taxable sales, down from 24% last year. The drop is due to stronger growth in other categories. This category has seen some growth (3.8% for FY 04) spurred in part by new restaurants coming in the Carson Valley. Nearly 100% of the room tax is generated from tourism, which has been declining for the past three years. The County receives annual gaming license revenues of approximately \$1.8 million, which is also experiencing a multi-year decline.

The gaming establishments at Lake Tahoe dominate our tourism industry. However, the market includes other casinos, hotels, and restaurants providing the key indicators for tourism's health. Douglas County offers a number of other activities and attractions for visitors, such as: boating, fishing, hiking, biking, skiing, ballooning, soaring, golf, time-shares, off-roading, shooting, hunting, and a destination for special occasions and events. Even with everything Douglas County has to offer tourists, the industry is headed for difficult times. This is reflected in a continued drop in room tax revenues, and a lack of significant growth in key sales tax categories. The drop in room taxes reflects lower room rates and occupancy level. There is little ability to grow in the higher demand seasons due to a lack of hotel space. During the other 6-months of the year, occupancies are consistently at a lower level due to a lack of customers.

Casino revenues drive our primary tourism market. The Tahoe market peaked in 2000 with \$352 million in gaming win. The win for 2004 was \$338 million, which is slightly higher than the six-year average. The market is relatively flat and faces a challenging future. The opening of Thunder Valley in California, and future planned Indian casinos in California, will continue to impact northern Nevada's gaming market. The following chart provides an overview of gaming win by area.

Gaming Win



The Carson Valley/Carson City gaming market has seen a steady increase in gaming win (\$105 million in 2004). The growth has been driven primarily through expansions and the opening of the Fandango in Carson City. Expansions have placed greater pressure on the local market with the ability to absorb gaming expansions becoming more difficult. The ability to fill hotel rooms is also more difficult, with occupancy rates slipping from FY 03-04 to FY 04-05. The expansion of gaming in California will continue to place pressure on our smaller market, as well as Tahoe and Reno markets.

The County's role in addressing the drop in tourism is limited, but not without influence. Five responses regarding the decline in tourism have been discussed in the last 2 years. The most important element is working to develop Tahoe, along with the Carson Valley/Topaz areas as a "Destination". Lake Tahoe and Carson Valley have implemented aggressive campaigns to establish a "brand identity" for each location. The expansion of the destination resort concept outside of the summer and ski seasons is a significant challenge. This requires quality lodging, dining, and entertainment. People will need attractive and appealing reasons to come to our region, be that for hiking, biking, golfing, soaring, special events etc. The overall experience will need to be one that they want to repeat.

Second is to continue to develop the concept of "Appointment Marketing". This means creating a specific event or entertainment experience that will attract a specific customer on an invitation basis. This may include a direct individual marketing effort or opening an event to the general public through marketing efforts. This may include selling a concert event, golf tournament, or specific activity (i.e. Eagles and Ag Tour). These types of events are growing.

Third, the area needs to focus on creating a more dynamic general events calendar. Classic examples are the Celebrity Golf Tournament and the July 4<sup>th</sup> celebration. These events draw the local population, as well as people from out of the area. The key to developing new events is to coordinate the event with the time of year when the bed base (rooms rented) is not at full capacity. The goal is to give visitors a dynamic general calendar of events to attend each year during Lake Tahoe's "off" season. To be successful community support and involvement is needed.

Fourth, a strategic effort needs to be made to expand the bed base as a means of growing the number of customers available at any given time. One strategy is the development of time-shares or other tourist accommodations (campground, RV parks etc.) to attract a broader range of visitors. These types of units bring in a different customer base and don't rely on the need to fill traditional hotel rooms throughout the year. Douglas County is lacking in outdoor accommodations.

Finally, there is a need to create new venues for activities. This has been discussed in the terms of a convention center at Tahoe and a performing arts center in Carson Valley. Other endeavors include the reconstruction of the V & T Railroad, and the establishment of the Dangberg Home Ranch museum and event area.

A combination of these strategies will be vital to reviving our tourism industry and diversifying it away from gaming. It is in Douglas County's best financial interest to see that quality

opportunities are provided to our visitors, thereby creating an experience that makes Douglas County special and attractive to the tourism customer.

**Housing**

Residential housing is the single largest investment in the County as measured by total assessed value. Housing comprises about 74% of our assessed value, thereby providing the largest share of our property tax revenues. In 2002, we saw a record number of dwelling units permitted (717). In 2003, the housing market was more reflective of historical trends with 517 single-family home permits issued. It was a record year for multi-family units with 108 units. The increase in multi-family units was seen as a positive step in diversifying our housing stock. Manufactured home permits of 27 rounds out the year’s total number of units at 652. The real estate market continued to do well, but slowed in 2004, with total dwelling units permitted at 578. Permits included 505 single-family units, 54 multi-family and 19 manufactured units. The demand for single-family housing is strong, interest rates are low, inventory is low and we have a desirable place to live. The challenge will be affordability.

The average price of a home in the East Fork Township has seen substantial increases, with the average sales price for 2004 at \$323,788. The following chart shows the growth in the number of sales, average price and number of building permits issues for the last six years. Building permits are for the total County and sales and average prices do not include Tahoe.

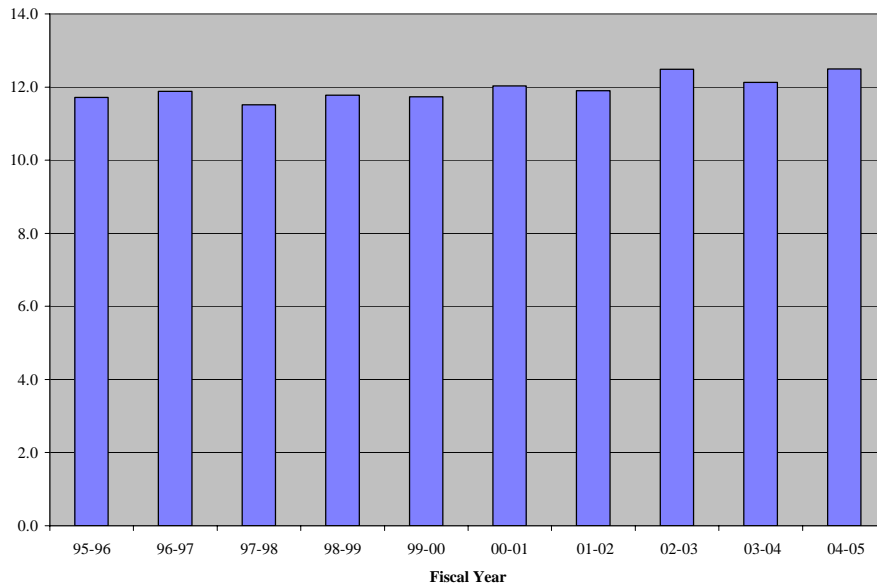
<b>Year</b>	<b>Total Sales</b>	<b>Average Sales Price</b>	<b>Building Permits/ Dwelling Units</b>
1999	913	\$ 179,705	517
2000	970	\$ 199,202	675
2001	1126	\$ 207,794	672
2002	1074	\$ 242,098	717
2003	1010	\$ 285,786	652
2004	1258	\$ 365,540	578

The demographics of the County are changing. This is related somewhat to the cost of living, and the price of homes in Douglas County. In 2002-2003, students increased by 191 with an enrollment of 7,180. The District saw an increase of 10 students for 2003-2004, for a total of 7190, and added 20 students in 2004-05 bringing the total to 7,210. Enrollment peaked in 1998-99 at 7,322 students. The County has seen a substantial increase in our older population, with a 127% increase from 1990 to 2004 for those in the 65 and up age range.

The expectation for basic public services continues to grow, as does the request for enhanced levels of service, such as paved streets, dust/mud control on dirt roads, recycling, low cost water and sewer, code enforcement, cable TV, storm drainage, speed controls, and traffic enforcement. The nature of how some services are provided will need to change. The smaller population of young adults directly impacts the volunteers who are capable to participate in our volunteer fire departments. New residents often do not realize the fire station in their neighborhood is a volunteer station. To meet growing demands in fire and emergency medical services, a number of new personnel have been added to the East Fork Fire and Paramedic Districts. Personnel were added within the judicial branch with the opening of the Aurora Pines Girls facility.

The County has done well in maintaining an overall flat ratio of employees per 1,000 population. The comparison of employees per 1,000 population for all funds is shown in the following chart. Over the past 5 years, the ratio has stayed around 12 employees per 1,000 population.

### Employees per 1,000 Population All Funds



While the demand for additional services exists, the willingness to pay for them is limited. There is constant pressure to keep tax rates low, to limit increases in fees and charges, and to have “someone” else pay. Over the past several elections, the voters have said “no” to new revenues to purchase open space, to maintain roads or build new ones, or to fund a senior center, recreation center, and performing arts facility complex. The one exception was the approval of a 50-cent a square foot tax on new commercial development. The County does not levy or impose a number of other revenue alternatives commonly levied in other Nevada counties (i.e. 5-cent gas tax, ¼ cent sales tax for roads, ¼ cent sales tax for infrastructure and schools, general business licenses, or utility operator fees). This places more pressure on the County to manage costs and to enhance our existing revenue sources. The strength of our economy directly impacts a number of revenues due to the financial structure of Douglas County.

#### **Financial Structure**

The financial structure of Douglas County is complex. As a geographic area there are 37 units of government, 31 that may levy separate property taxes, and 26 that share in the allocation of State Consolidated Taxes (CTX). The tax burden for any given business or home will fluctuate depending on their location within the County.

Douglas County’s fiscal health is driven by a number of key revenue sources. Three revenue sources dominate the County’s budget: 1) state consolidated taxes or sales tax; 2) property taxes, and 3) room taxes. The fourth revenue source area is the charges for services driven by the County’s utility systems and related customer fees and charges. In 2004, rates were increased

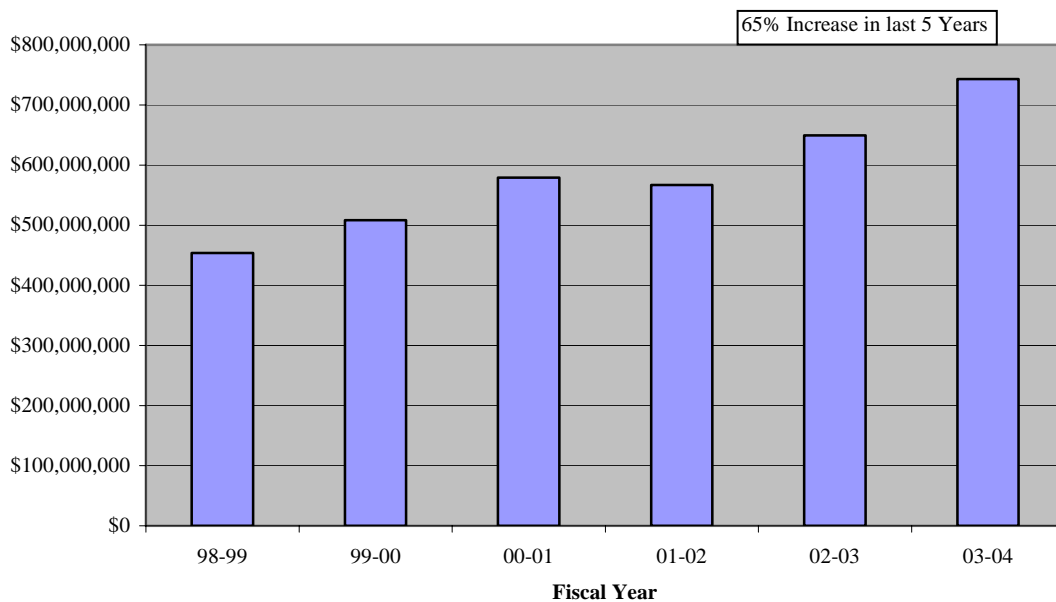
for the County's larger water system, and lowered for the sewer system. Rates in the smaller systems were raised in previous years. This year rates will increase in new areas, but rates in other systems are projected to remain flat.

**State Consolidated Tax**

State Consolidated Tax (CTX) is the single largest source of revenue for Douglas County's General fund and contributes substantially to a number of other agencies. CTX is made up of six revenue sources, including BCCRT and SCCRT (sales tax), Cigarette and Liquor Tax, Real Property Transfer Tax (RPPT), and Motor Vehicle Privilege Tax (MVPT). The State minimum sales tax rate is 6.5%. The County's tax rate is 6.75%. The extra .25% was added after receiving voter approval and is dedicated to parks, airport, library and seniors (PALS). The County does not levy a variety of other sales tax increments for purposes such as open space, roads, transportation, infrastructure, and schools. CTX revenues are allocated to the County and other agencies based on State law.

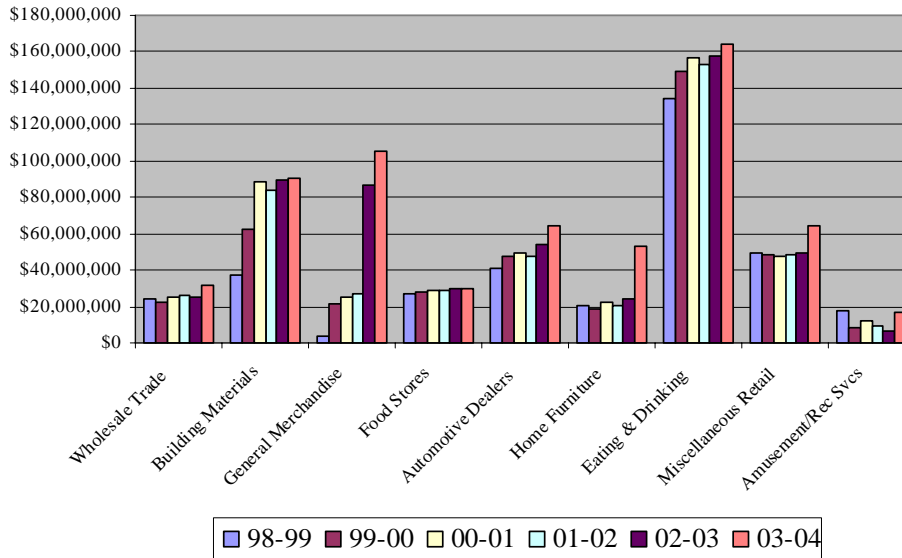
The County has enjoyed a continued growth in CTX revenues. The increase is primarily due to the guaranteed amount of the 1.75-cent supplemental city/county relief tax (SCCRT – sales tax) distributed to the County. The ½ cent BCCRT (basic city/county relief tax) has also seen solid growth. The growth in SCCRT is formula driven using CPI, growth in population, and assessed value or the statewide growth in SCCRT.

**Taxable Sales**



Sales tax growth since FY 02 has been stronger than expected. Taxable sales in FY 99 were \$454 million and have increased to \$751 million in FY 04. Approximately 56% of taxable sales are accounted for in 4 categories: Eating & Drinking Places; General Merchandise Stores; Building Materials, and Miscellaneous Retail. Growth in a number of key areas is highlighted in the following graph.

### Douglas County Taxable Sales – Key Categories



### Property Tax

Property tax revenues are based on the tax rate levied and the assessed value. Continued growth in assessed value also works to keep low tax rates. This past year, the County experienced significant value growth in the residential and vacant land categories. By major category, housing makes up the majority of the County’s assessed value accounting at 74%. This is followed by tourist commercial development at 7.6%, vacant land for 7.1%, and commercial/industrial development accounts for 6.1%. The continued reliance on housing for assessed value is concerning, and efforts to diversify the property tax base must continue. The assessed value for FY 05-06 is projected to be over \$2.4 billion.

#### Assessed Value by Major Category

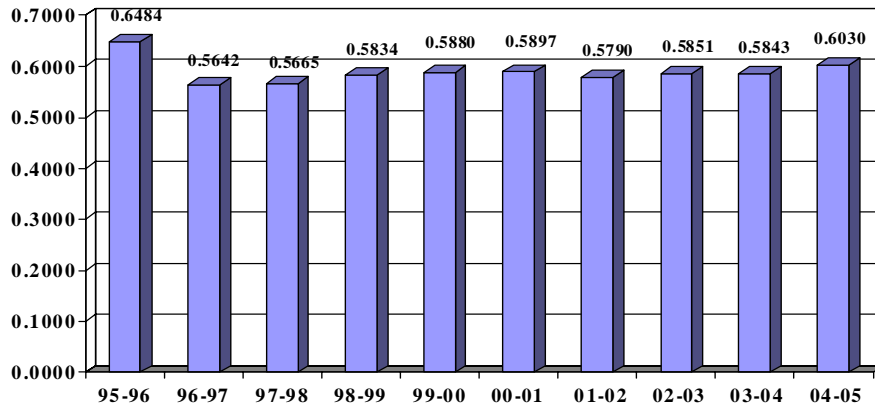
	FY 2002-03	FY 2003-04	FY 2004-05	% of Total	Preliminary	
					FY 2005-06	% of Total
Vacant Land	103,834,451	118,152,326	119,374,426	5.8%	172,012,544	7.1%
Residential	1,268,331,226	1,363,778,087	1,471,566,838	72.0%	1,793,008,567	74.0%
Tourist Commercial	181,573,924	180,348,642	182,297,081	8.9%	184,462,821	7.6%
Commercial/Industrial	122,106,469	132,674,707	145,773,819	7.1%	148,284,625	6.1%
Agricultural	18,284,670	19,948,549	20,469,689	1.0%	23,530,012	1.0%
Other	43,134,320	110,743,195	103,701,325	5.1%	102,863,395	4.2%
<b>Total</b>	<b>1,737,265,060</b>	<b>1,925,645,506</b>	<b>2,043,183,178</b>	<b>100%</b>	<b>2,424,161,964</b>	<b>100.0%</b>

The County does levy the full range of residential construction taxes on new homes. This includes \$1,600 for schools, \$1,000 for parks, and \$500 for roads. A \$0.50 per square foot tax levied for roads on non-residential construction was implemented in 2004.

Douglas County is a low property tax county. The average overlapping tax rate continues to be one of the lowest in the State. For FY 04-05 it was the second lowest, with an average overlapping tax rate of \$2.42. The rate is consistently the 2<sup>nd</sup> or 3<sup>rd</sup> lowest in the State. The

average rate has increased overtime going from \$2.33 in FY 00 to \$2.42 in FY 05. The 10-year tax rate strictly for County operations is provided in the following chart. This rate has remained relatively flat. The rate for FY 05-06 will depend on the legislative process, as there are a number of proposals to limit the growth in assessed value and/or tax rates. Depending on legislative action, the tax rate should remain flat.

### Douglas County Tax Rates 10-Year History



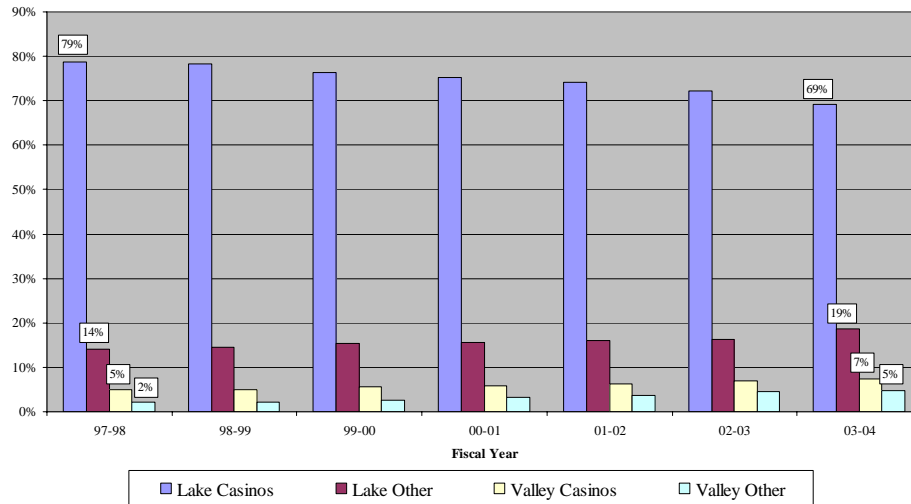
**Notes:**  
Tax rates are for the Douglas County government only. Does not include rates for the EFFPD, towns, GID's or special districts.  
\$0.07 Water District rate removed in FY96-97. WNRVC tax rate added in FY99-00 at 0.0125.

### Room Tax

Room tax revenues are on a decline driven by consistent drops from Tahoe operations, which account for the vast majority of the revenue. With the lack of growth in room nights sold and the limited increase in room rates, room tax revenues will continue to be flat. Filling rooms in the off-season is becoming more difficult, as is filling rooms during mid-week during parts of the summer. Tahoe has a limited room base to further growth in the high seasons, and there is a lack of a year-round market in the Valley to drive new room nights.

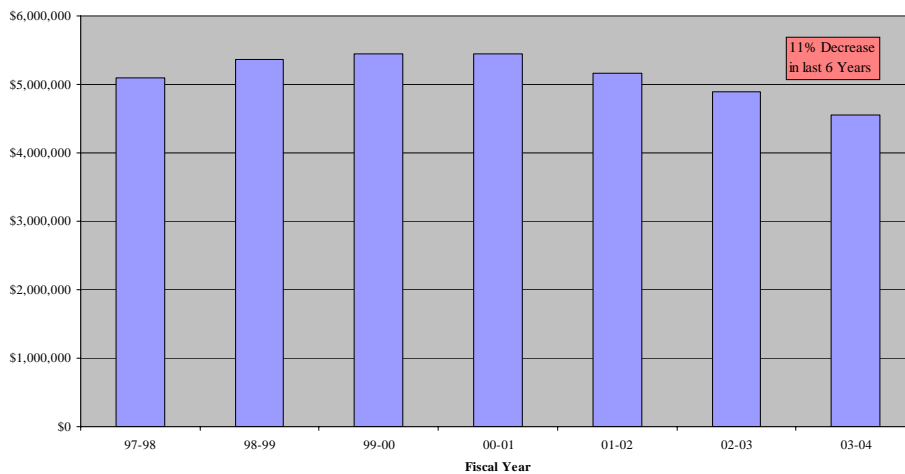
The loss of room tax revenue is significant due to the fact that it funds a large part of our parks/recreation, senior services, and library services. These services are also funded from the ¼ cent sales tax, which has seen strong growth. Revenue growth has not kept up with the cost of services. This has required the shifting of tax resources away from these services and increases user fees. Operational funding for capital improvements has also been limited. The required shifting of room tax revenue to fund promotion has placed additional strain on the remaining revenues to meet service needs. To meet service requirements, additional funding will be necessary in the coming years or very difficult choices in our service mix will need to be made. The following chart provides an overview of historical Revenue Collections by Area.

## TOT Revenue Collections % by Area



The decline in revenue is clearly seen in Lake Tahoe’s casino room tax collections, which has dropped by 11% over the last 6 years.

## Lake Casino Taxes Collected



The decline in Room Tax revenue continues to be an area of concern and has the potential to have even deeper reductions based on new operations opening in Northern California. As with last year the County needs to be ready to take a proactive role in working with the industry to maintain market share.

## **The Future**

Where does all of this leave us going into 2005, the next fiscal year, and beyond? The financial outlook for Douglas County continues to strengthen. The one unknown will be any limits placed on property tax revenues by the State Legislature. The diversification of the tax base has provided a solid base for continued growth. The growth in revenues allows us to maintain service levels with some limited areas of expansion.

We will continue to receive requests for more traffic enforcement and control (i.e. signals); more road repairs and new roads, which will continue to be under-funded; and new personnel in a number of departments, several of which will receive careful consideration. We will continue to experience cost increases for employees, services, energy, etc.

Douglas County's current financial base is solid and expanding. The most significant challenge will continue to be the health of our tourism industry. If this area stagnates or declines, so will several key revenues. Industry within Douglas County will continue to expand. The greatest challenges will be providing a skilled workforce, and an affordable place to live. The commercial/retail sector will again be a bright spot for the County. Housing should continue at a normalized rate of growth. The County will continue to manage its finances in a conservative fashion. This is seen in consistent balanced budgets resulting in actual revenues coming in slightly ahead of expenditures. This allows for a stable or growing fund balance that is used to meet unforeseen needs, cash flow and generates interest income.

In the next fiscal year, there are a number of key areas that will need to be considered for enhancement to meet current and future organizational and public needs. Over the past two years, the East Fork Fire and Paramedic Districts have added personnel and equipment to better meet the needs of our community, and to take a more proactive role in fire prevention. Some additional steps will need to be taken in FY 05-06.

Next year, a systematic review of our Sheriff's Department and their current and future staffing requirements will need to be addressed. In FY 05-06, the addition of three to five deputies will be needed. Other related services and infrastructure will also need to be assessed.

The growth in the County's technology and use of computer systems to more effectively meet work demands has placed added demands on the ability to manage that technology. As the County relies more and more on technology to enhance services, the support structure will need improvement. This will mean keeping up with an aggressive computer replacement program and adding support staff.

In 2004, the County was required to make substantial changes in our voting system, at a higher cost than any previous systems. More mandates are expected for the next election. These added costs are here to stay, and will need to be incorporated in the base operating budget.

Douglas County Community Development Department is undergoing change. New requirements, a greater level of expectations for public involvement, and an increased workload will require added staff and technology. There are a number of long-range planning issues that need to be completed. The 10-year review and update to the Master Plan will be initiated this

year. The transportation element will be revisited along with the related Capital Improvement Plan. The open space plan updated and new parks and trails developed. Two major water related studies will continue. The expansion of water and sewer systems will continue to be a high priority and necessity, including addressing Federal water quality standards for arsenic. New County facilities will be constructed as we invest in our towns.

There will continue to be increased demands on Douglas County's senior services and transportation programs. Senior services are quickly outgrowing the physical infrastructure used to provide services (i.e. the senior center). This will need to be addressed within the next two years to enable the current level of senior services.

The items noted here only touch on a few areas that will be highlighted in the FY 05-06 budget, as will other areas that each department feels is in need of more support. On top of the need to expand certain services is the ongoing need to be competitive for attracting and retaining employees. The cost of living in Douglas County and the surrounding region has made this more difficult and is a growing concern. The financial strength of the County will be critical in our ability to meet these and other challenges.

### **Conclusion**

The growth of the County will continue both as a community and as an organization. A number of service requirements will need to be met in the coming year. This will require the continued prioritization of public services based on the current and future financial capability of the County. Douglas County is in a good position to continue as a low tax, high quality community. The actions taken in the past, required vision and leadership that will need to continue into the future. Providing expanded public services will require creativity. Our success will depend on the ability to set and achieve short-term and long-term goals.

Douglas County has a solid foundation in which to progress into 2005. We are in an exceptional position to experience constant economic gains and improvements. An expanded and diversified economy will broaden Douglas County's financial base. Success in this area will allow the County to focus on meeting the current and future needs of the community. Next year, the County will be in a good position to enhance certain service levels to better meet the needs and requests of the residents, businesses and visitors who live, work and recreate in Douglas County.

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Douglas County Manager