

Memo

To: Board of County Commissioners
From: Daniel C. Holler, County Manager
Date: February 19, 2004
RE: The State of Douglas County

Background

The financial condition of the State of Nevada continues to be one of mixed messages. The outlook for the State is cautiously optimistic. The condition of the State's 17 counties reflects this status. From FY 03 to FY 04, six counties saw a reduction in population, nine counties experienced a drop in assessed value (8 when net proceeds of minerals are included), and seven counties are at or less than a penny from the maximum tax rate. Five counties ended FY 03 with a decline in sales tax revenue, compared to 11 counties in FY 02 and only 2 counties show a decline in sales taxes through November 2003. For calendar year 2003, nine rural counties saw a decrease in unemployment and six counties experienced an increase in unemployment. Job growth across the State increased with 40,000 new jobs in 2003. The increase in gold prices and planned mine openings should provide needed jobs and revenues in parts of rural Nevada. The majority of the counties that have at least 2 negative indicators are in rural Nevada.

The economic recovery that started in 2003 for the Nation and in Nevada, are expected to continue in 2004. Nevada's taxable sales were up 5.6% for fiscal year 2003 and have continued to grow for the first 5 months of FY 04. Gaming revenues are growing statewide, with an increase of 2.84% for FY 03. Revenues are up 1.29% for the first 6 months of FY 04. However, gaming wins in Northern Nevada continues to suffer with a 1.54% drop in Washoe County and a 0.18% decline for South Lake Tahoe in FY 03. For FY 04 Washoe County is down 4.42%, with South Lake showing a slight increase for the first 6 months, up 1.19%, due to a good December. The Carson Valley is up 6.13% for the first 6 months in FY 04.

Debate over tax policy and a variety of tax increases dominated the 2003 legislative session. A number of these issues will be back before the legislature in 2005. States across the country continue to experience different levels of fiscal stress. Most notably for Nevada are the financial

problems facing California. The cost of doing business in California continues to be a plus for business relocations to Nevada.

Nationally, the economy is making a slow recovery. Interest rates and inflation remain low. Inflation is modest with a CPI of 1.9% for 2003. Industrial production is increasing, with strong gains in productivity. Growth in the Gross Domestic Product was 8.2% for the third quarter. Housing starts remain strong and the stock market has improved significantly. Tax cuts helped consumer spending. The weaker U.S. dollar helps with exports, however this past year there was still a record trade deficit. Nationally there was a loss of 74,000 jobs and growth in the federal budget deficit worked to slow the economic recovery.

The condition of Douglas County heading into 2003 was characterized as stable with a positive outlook. This projection held true as the County ended 2003 strong. The County's economic base generally improved. Our assessed value grew, our population grew within projected levels, the majority of our revenues grew, and our business base expanded. Public services continued at effective levels with some specific areas at increased levels.

Where is Douglas County as we look to 2004 ? We are poised for solid economic gains and improvement in the County's financial base resulting from a growing and diversified economy.

Douglas County's Economic Overview

Douglas County has made substantial economic gains since the declines in late 2001 and 2002. Our current financial status is stable today due in large part to the financial policies, management and practices put in place over the past several years. We have also taken a fiscally conservative approach in funding existing and new programs and services.

The strength of our economy is reflected in a number of key indicators demonstrating that Douglas County enjoyed an economic rebound from FY 02 to FY 03. As with the State and National economies, Douglas County also saw mixed results. One important area of weakness continues to be in the tourism market.

Indicators include the following:

Revenue Trends:

- Taxable sales up 14.1%, with new stores providing growth
- Gas tax revenues up 7.8%
- Recorder fees up 51.3% (due in part to a fee increase)
- Building permit fees up 25.5% (driven by growth limit concerns)
- General fund property tax revenue up 5.78%
- Assessed Value up 6.79%
- Room tax revenues down 3.9%
- General fund interest earnings down 44%
- South Tahoe gaming win down 0.18%; Carson Valley up 3.5%

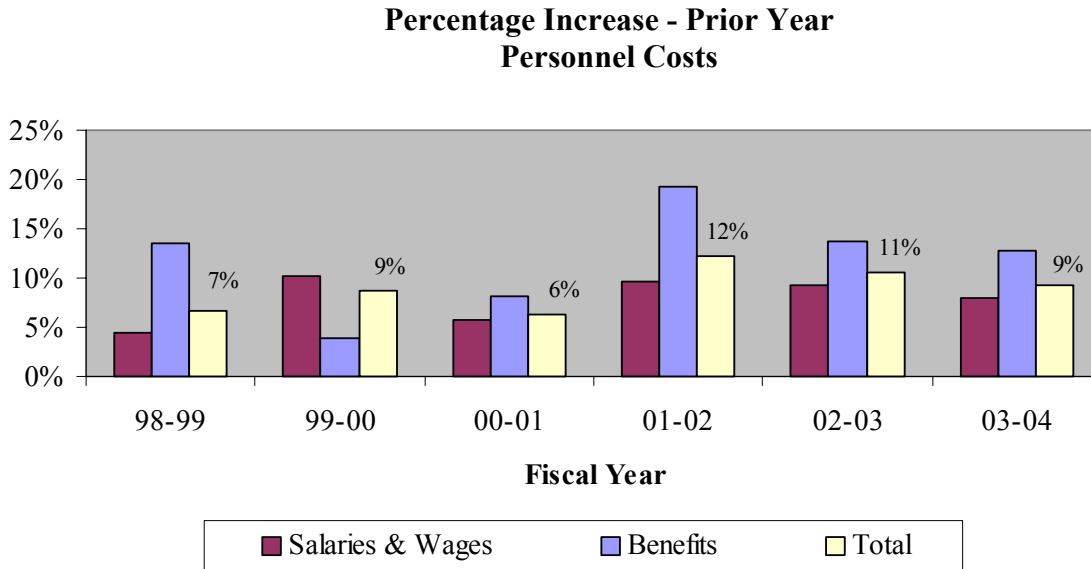
Labor Force / Employment Trends

- Carson City LMA Labor Force 2003 – 61,660; 2002 – 61,900
- Carson City LMA Employment 2003 – 58,020; 2002 – 58,200
- Carson City LMA Unemployment 2003 – 5.9%; 2002 – 5.9%
- Douglas Labor Force 2003 – 20,178; 2002 – 20,190
- Douglas Employment 2003 – 19,127; 2002 – 19,170
- Douglas Unemployment rate 2003 – 5.2%; 2002 - 5.0%
- Population growth of 3.1%

Expenditure Trends:

- Douglas County Personnel wage costs up 8.6%
- Medical insurance cost up 20%
- Workers compensation up 34% for sworn personnel, 10% for others
- Property and Liability insurance cost up 22%

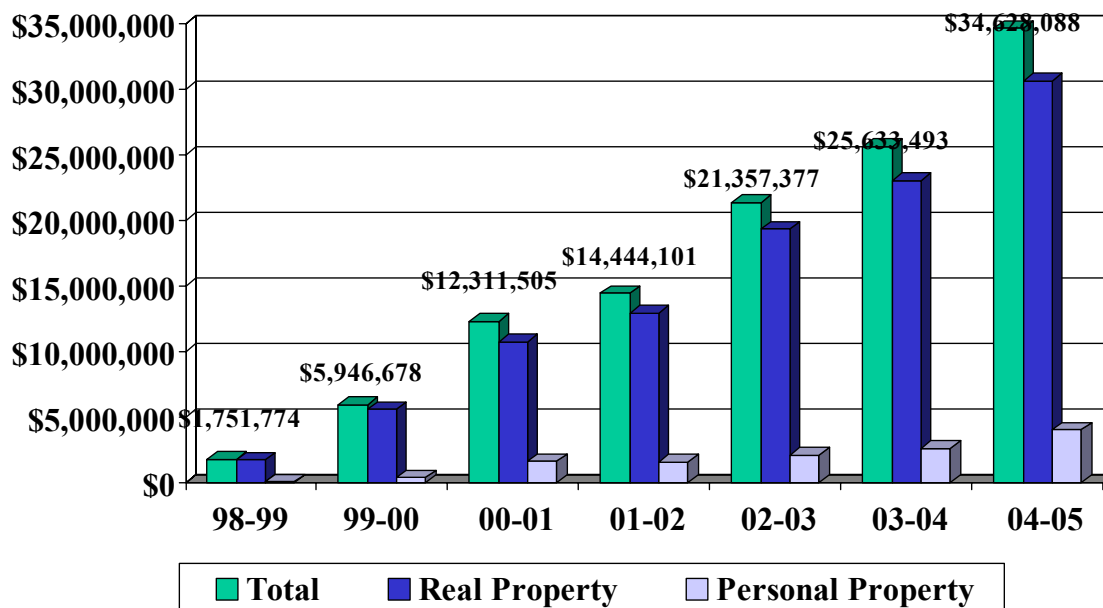
As a service organization personnel is the most significant cost driver for the County. The following chart highlights actual personnel cost increases from year to year on a percentage basis.



The health of the economy directly impacts the County’s budget and our ability to provide mandated and expected services. The stability and growth of the budget translates into the ability to more effectively provide and meet public expectations for service. A weak economy results in a tight budget and the natural reaction is to focus on short-term needs and immediate relief from any loss of service. This action often comes at the expense of long-term goals and investment. Our fiscal health will be based on setting and achieving long-term goals and effective management and investment of our resources. This basic management and fiscal strategy has been effectively implemented in Douglas County.

The change in the County's economy is beginning to show positive signs. For many years, the County was highly dependent on the gaming and tourism industry. This segment of the economy provided the majority of jobs and dominated the County's tax base. While the industry continues to provide the majority of private sector jobs, we have for the first time seen a retailer move into the top 10 employers, which is the Wal-Mart Supercenter. Taxable sales from general merchandise and building material stores exceeded sales from the eating and drinking establishments category. The success of the new retail centers in North Douglas County has been impressive and surprising. The vision and investment made through the County's Redevelopment Agency is clearly seen as a benefit to the County. The following chart reflects the agency's overall tax base increase.

Douglas County Redevelopment Agency – Assessed Valuation



The County's manufacturing and related industrial development has prospered this past year and has a positive outlook for 2004. Our service industry – automotive, professional, personal care, health care and home services - continue to prosper, with room and plans to expand in 2004. Construction continues to be strong with permits for new homes in 2003 at a more historic level following a spike in 2002. The housing market represents 70% of our assessed value. Our tourism industry continues to struggle, and as with last year continues to be the most vulnerable to becoming a stagnant industry.

A growing and diversified economy is central to keeping an effective, progressive and healthy local government. This health translates into achievements, that many credit with having a positive impact on our quality of life. First is the ability of residents to have good job opportunities and the ability to live and raise a family. Other services include having attractive and well used parks and recreational opportunities, feeling safe, clean neighborhoods, and good schools, to note just a few of the attributes of what makes our community a good place to live.

Making our economy work for us, as a county government, requires strong overall management and financial policies and controls. The County's budget process is effective. Operating budgets are balanced with operating expenditures at or below revenues. Conservative budgeting has resulted in small surpluses, which are reinvested in reserves, capital purchases, facilities, or used to meet unforeseen needs.

Our future continues to be built on this foundation. Having the right systems in place allow us to effectively respond to the changes in the economy and be more proactive in meeting the needs of the community. We are indeed fortunate to have a bright future, but it still requires a commitment of time, energy, and work from all of us to continue to bring the vision of our future into reality. Doing so will ensure that Douglas County continues to be a great place to live, work and visit.

Douglas County's Economy

The financial health of Douglas County is based on our economy, which drives the generation of finances for public agencies. 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 community wealth. 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 also 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 of jobs 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 tend to be more reactive to the other wealth generators. As a service, healthcare may cross categories. Growth at all levels is necessary to have a growing viable economy. Douglas County is also part of an economic region that provides an overall benefit. The following charts provide an overview of the County's and the region's employment base.

Douglas County					
Year	1999	2000	2001	2002	2003*
Employment Average	16,900	19,000	19,050	19,170	19,127
Labor Force Average	17,750	19,800	20,010	20,190	20,178
Unemployment Average	4.8%	4.0%	4.8%	5.0%	5.2%
*Preliminary. Source: Nevada Department of Employment, Training and Rehabilitation					
Carson City LMA*					
Year	1999	2000	2001	2002	2003**
Employment Average	51,900	57,400	57,800	58,200	58,020
Labor Force Average	54,800	60,000	61,300	61,900	61,660
Unemployment Average	5.3%	4.4%	5.7%	5.9%	5.9%
*Includes Carson City, Douglas, Lyon and Store Counties					
**Preliminary. Source: Nevada Department of Employment, Training and Rehabilitation					

The manufacturing sector makes up approximately 8% of the County’s employment base. This percentage dropped slightly from 2002 due to the increase in retail jobs. The leisure and hospitality industry provides approximately 45% of our job base, which has been declining for the past few years.

There is a growing level of interest in the region and Douglas County’s business parks following the slow down in 2002 and for the first part of 2003. One of the larger new employers is Patmont Motor Werks (i.e. Go Ped), which completed its 69,400 square foot manufacturing plant this past year. A 26,000 square foot facility for Line Drive U was completed along with a few smaller industrial buildings. Two 20,000+/- square feet industrial/commercial buildings are currently under construction. A couple of smaller companies have also relocated to the area utilizing existing vacant space. The outlook for the next 5 years is strong, with 3-5 new facilities per year being constructed adding 25 to 40 employees each year. We will also see one or two larger companies choose to locate in the County bringing 50 to 100 employees each. The growth in primary jobs support the development and expansion of other support and service related businesses. This expansion in manufacturing jobs is important for the County and the State’s overall fiscal health and economic diversification. As a basis of comparison, from 1990 – 2000, California was the only western state to lose manufacturing jobs. The primary reasons were regulations, fees and taxes.

The Minden-Tahoe Airport will continue to grow. A new restaurant was established this past year. Over 100,000 square feet of hanger space is under construction and 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. This includes large projects by Washoe Med, St. Mary’s, and Carson Tahoe Hospital. For Douglas County, the Carson Valley Medical Center’s 15 bed acute care hospital is now open. An urgent care facility recently opened in North Douglas County and a second urgent care facility is planned for South County. The Evergreen Nursing Home is scheduled to open and the Carson Valley Residential Care facility completed an

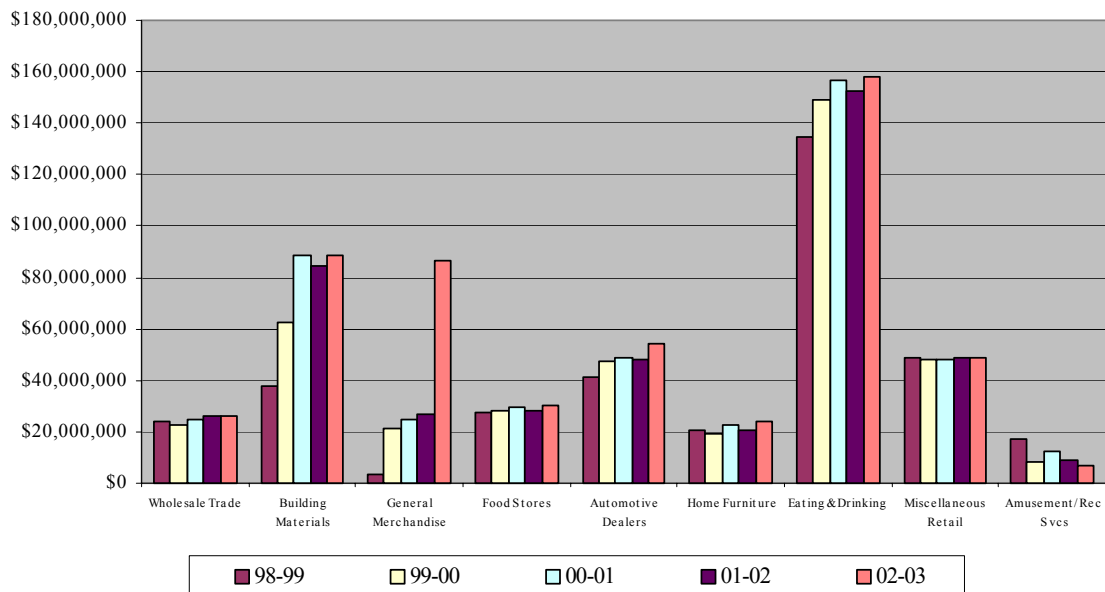
expansion. As a region, Northern Nevada is benefiting from the expansion in the medical services industry.

The challenges facing the County’s ability to continue to support this level of investment by new businesses includes: changes in the State’s tax structure; available workforce; cost of comparable investment in the region; and overall affordability of the County as a place for employees to live. The on going investment in public infrastructure and maintenance of existing systems (i.e. roads) is also important to stay competitive.

Retail/Commercial/Business

The retail and commercial sector of our economy is in a state of dynamic change. The development of national level retailers in north Douglas County will continue. The out pads at the Wal-Mart Super Center and the Home Depot / Target Center will be developed within the next 2 years. The new Carson Valley Center will be built out within 2 years. The pace at which these developments have progressed was surprising and demonstrated the need for this type of retail center in the region. The development of BLM land in north Douglas County will allow this area to continue to develop as a shopping and business center for the next several years. The 5-year outlook for north Douglas County is healthy with the potential addition of not only retail stores, but office and home development as well. This development has significantly improved the County’s sales tax base.

Taxable Sales by Major Categories



Commercial property development in the Minden/Gardnerville area has seen a mix of new buildings and a decline in vacancies in existing buildings over the past year. Strong business activity is anticipated to continue. Two significant projects are planned for Minden: 1) Nevada Northwest and 2) the Lucerne mixed-use project, now under construction. Smaller projects include office development along Highway 395 and a new restaurant in downtown. There is the potential for 2 new banks to open, Wells Fargo is expanding, three churches are planning to be constructed, and smaller office projects are planned. South Gardnerville is poised for some significant retail/commercial development within the next 2 years. The Ranchos business area continues to develop with a mixed-use project under construction. David Wally's resort continues a steady pace with phase three of the time-share project under construction. The Tahoe Ridge Winery is scheduled to start construction this year. A few smaller retail projects are also planned for the TRE/Topaz Lake area. While not exhaustive, the list of projects indicates a healthy and diversified economy.

Tourism

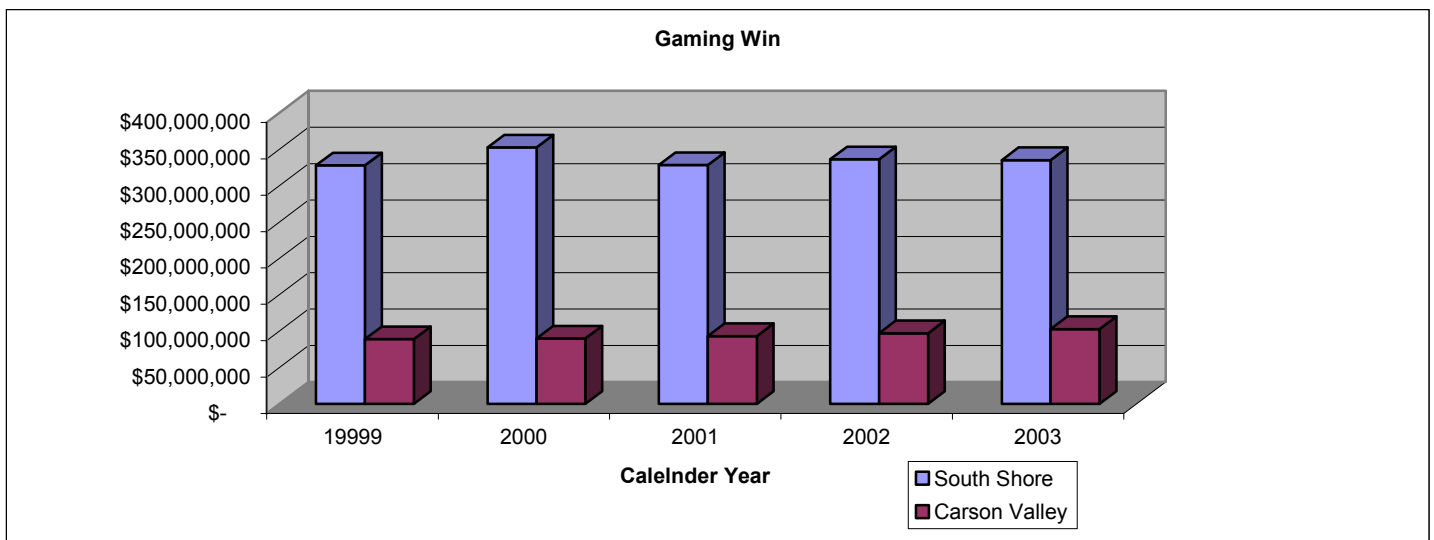
Tourism is the County's single largest industry. The industry represents 7 of our top 11 employers. The "leisure and hospitality" industry provides about 45% of our job base. The other four largest employers are GE/Bently, the School District, Douglas County, and Wal-Mart Supercenter. The tourist commercial sector represents 9.2% of our assessed value with the other commercial/industrial properties accounting for 6.8%. An estimated 40% of our taxable sales come from tourism. The single largest category for taxable sales is eating and drinking, generating almost 25% of our total taxable sales. Growth in this category is sluggish. After finishing FY 03 with a 3.5% increase the category is down .5% for FY 04.

The gaming establishments at Lake Tahoe dominate our tourism industry. However, the market includes other casinos, hotels, and restaurants. The County offers a number of other activities and attractions for visitors including: boating, fishing, hiking, biking, golf, skiing, time-shares, off roading, shooting, hunting, special occasions and events, soaring and hot-air ballooning. Even with all the activities the area has to offer, the industry is headed for trying times. This is reflected in the continued drop in room tax revenues and key sales tax categories. The drop in room taxes reflects lower room rates and occupancy levels. There is little ability to grow, in the higher demand seasons, due to 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 2003 was \$335.5 million, down slightly from last year's \$336.4 million. The average for the past 5 years is \$336 million. Current year revenues should be at or slightly above the average. The market is relatively flat and faces a challenging future. The recent opening of Thunder Valley in California and future planned Indian casinos in California will continue to impact northern Nevada's gaming market. The County receives annual gaming license revenues of approximately \$2 million, which also declined from FY 02 to FY 03.

The Carson Valley/Carson City gaming market has seen a steady increase in gaming win, exceeding the \$100 million mark in 2003 (\$102,961,022). The growth has been driven primarily through expansions. The ability to absorb gaming expansions is becoming more difficult. The ability to fill hotel rooms is more difficult. The expansion of gaming in California has and will continue to place pressure on this smaller market, as well as the Tahoe and Reno markets.

The County's role in addressing the drop in tourism is limited, but not without influence. Last year, five responses to the decline in tourism were presented. Those same responses still hold true for this year. The most important element is working to develop Tahoe and even the Carson Valley/Topaz areas as a "Destination." Lake Tahoe and the Carson Valley have put in place 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 to be enticed to come to our region, with their overall experience being one they desire to repeat.



Secondly, we need to continue developing 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. These types of events are growing. A stronger entertainment presence is being developed. New events are being planned for both Tahoe and the Carson Valley.

Third, the area needs to focus on creating a more dynamic general events calendar. The classic example is the Celebrity Golf Tournament or July 4th celebration. These events draw the local population, as well as people from out of the area. The key to developing new events is to work on times of the year when the bed base is not at full capacity. 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 is being pursued at Tahoe with discussions on building a convention center. In the Carson Valley, a regional events center and a performing arts center have been discussed. With the County's proposed Question 1 for this year's election, the concept of a performing arts center may take a step closer to reality. 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 crucial to reviving our tourism industry and diversifying it away from gaming. Efforts will benefit the Valley and the Lake areas, although in different ways. It is in the County's 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 70% of our assessed value, thereby providing the largest share of our property tax revenues. In 2002, we saw a record number of units permitted (717), due in large part to a reaction of the passage of the slow growth initiative. The outcome of the initiative is still unknown as it is now before the State Supreme Court. If upheld, it will fundamentally change this part of the County's economy. This past year, 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 is a positive step in seeing more diversification in our housing stock. Mobile home permits of 27 rounds out the year's total number of units at 652. The real estate market is expected to do well through 2004. The demand for single-family and multi-family housing is strong, interest rates are low, inventory is low and we have a desirable place to live. The one challenge will be affordability. The following chart shows housing costs in the East Fork Township.

Year	Average Sales Price	# of Sales
2003	\$284,865	1,096
2002	\$242,098	1,074
2001	\$207,794	1,126
2000	\$199,202	970
1999	\$179,705	913
1998	\$169,441	805
1997	\$167,565	675

The average price of a home in the East Fork Township is around \$284,865. This is up from last year's price of about \$242,098. The demographics of the County are also changing. No doubt, this is related to the cost of living and the price of homes in the area. From 1996-97 to 2001-2002 student enrollment was flat or declining. In 2002-2003, students increased by 191 with an enrollment of 7,180. The School District saw an increase of 10 students for 2003-2004, for a total of 7190. This is still below the peak of 7,322 reached in 1998-99.

The change in demographics was highlighted last year as one of the driving factors in looking at the need for additional County facilities. This included the need for a new senior center, recreational center and performing arts center. This year these facilities may receive the necessary funding to be built over time if a proposed ballot question is passed this September. A consolidated senior center and library are also proposed for Lake Tahoe. The future also holds a new pool as part of the planned Kahle Park development.

The expectation for basic services continues to grow, as does the request for enhanced levels of service, such as paved streets, limited dust, 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 change. The smaller population of young adults directly impacts the pool of people who participate as volunteers. To meet growing demands in fire and emergency medical service, a number of new personnel are proposed for the East Fork Fire and Paramedic Districts in FY 04 - 05.

While the demand for additional services exists, the willingness to pay for them is limited. There is consistent pressure to keep tax rates low, to reduce fees and charges, and to have "someone else" pay. Over the past several elections, the voters have said "no" to new revenues to maintain roads or build new ones. The one exception is the 50 cents a square foot tax on new commercial development. Voters have said "no" to funding the purchase of easements on agricultural lands to protect them from development, area residents have declined to create drainage assessment districts, and businesses and residents have opposed the implementation of a number of other revenues to support the operation of County government. This places more pressure on the County to manage costs and to enhance our existing revenue streams. The strength of our economy directly impacts a number of revenues due to the financial structure of the County.

Financial Structure

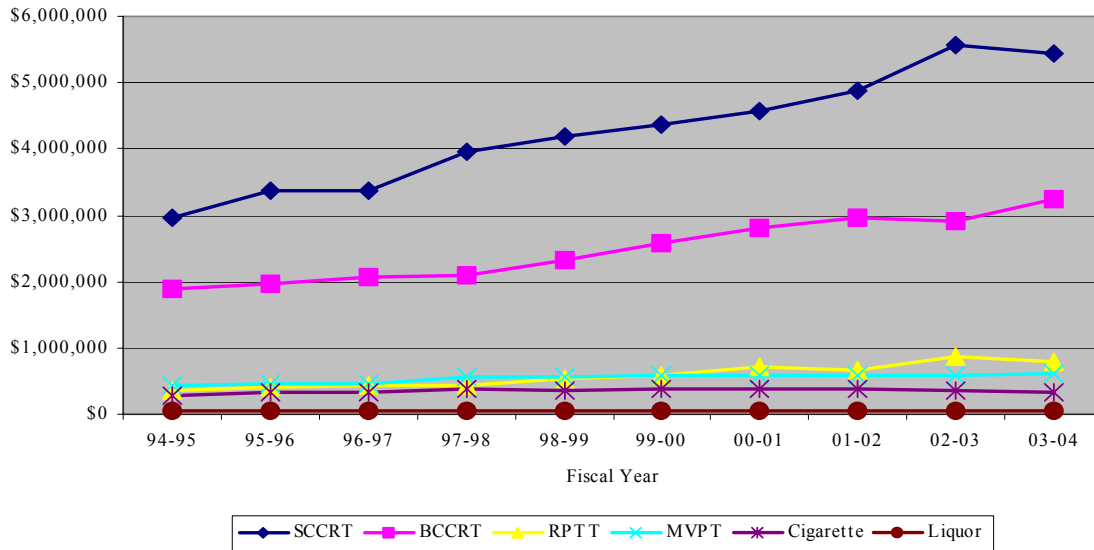
The financial structure of Douglas County is complex. As a geographic area there are 38 units of government, 31 that may levy separate property taxes, and 26 that share in the allocation of State consolidated taxes. The tax burden for any given business or homeowner will fluctuate depending on where they are located.

The County's fiscal health is driven by a number of key revenue sources. Four of them tend to dominate the County's budget: 1) state consolidated taxes or sales tax; 2) property taxes; 3) charges for services; and 4) room taxes.

State Consolidated Tax

State Consolidated Tax (CTX) is the single largest source of revenue for the 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 Tax, Liquor Tax, Real Property Transfer Tax (RPPT), and Motor Vehicle Privilege Tax (MVPT).

State Consolidated Taxes



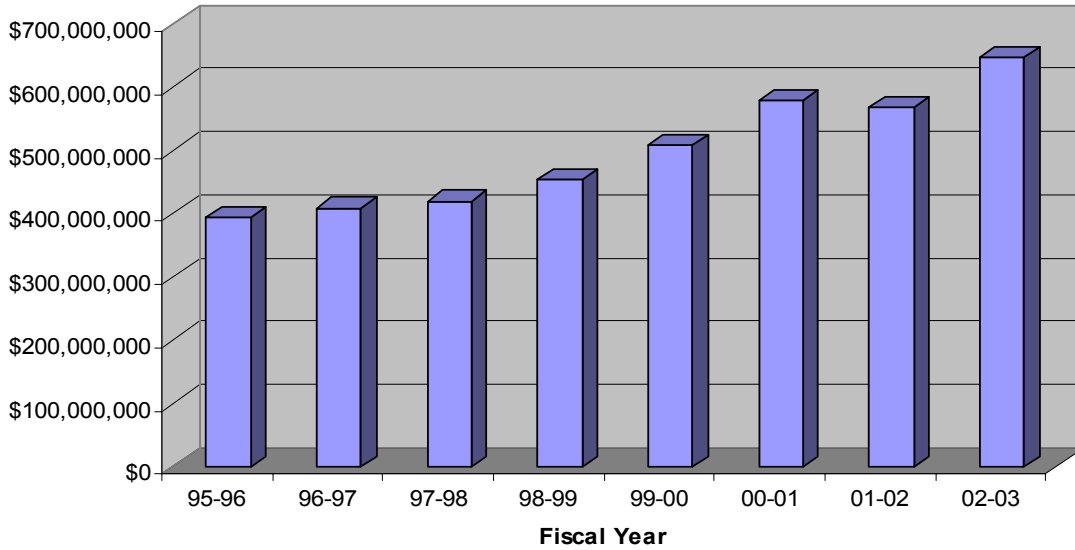
Sales tax is a vital part of the County’s revenue base. The state minimum sales tax rate is 6.5%. The County’s tax rate is 6.75%. The extra .25% was added after receiving voter approval and is dedicated to parks, airport, library and seniors (PALS). The county does not levy a variety of other sales tax increments for purposes such as open space, roads, transportation, infrastructure, and schools. Sales tax revenues are allocated 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 this past year. The growth in SCCRT is formula driven using CPI, growth in population and assessed value or the total growth in SCCRT statewide. The growth in CTX benefits a number of local governments, not just Douglas County.

The Douglas County sales tax rate is 6.75%. The tax is broken down as follows:

Component	Description	Benefiting Agency
2%	State Sales Tax	State General Fund
2.25	Local School Support	School Districts
1.75%	Supplemental City County Relief Tax	All counties (based on formula)
0.5%	Basic City County Relief Tax	Eligible agencies in a county
0.25	P.A.L.S.	Specific Douglas County Depts.

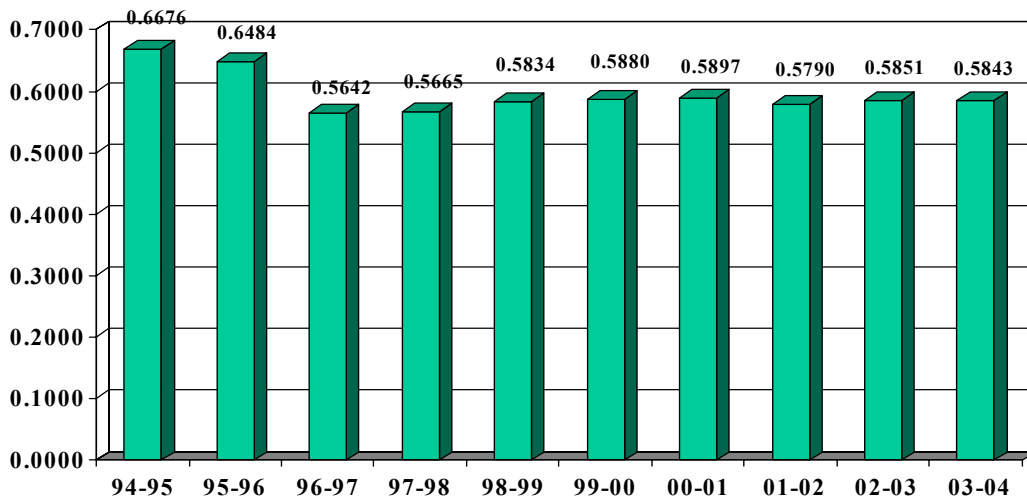
Taxable Sales



Taxable sales were down 2.3% from FY 01 to FY 02. Sales dropped from \$579.4 to \$566 million. This loss was recaptured in 2003 with sales increasing by 14.1% to \$647 million. Taxable sales for FY 04 are on track to increase by 8%. If the development in north Douglas County continues along with the rest of the County, we should see annual increases in the 8% range over the next 3-5 years.

Property Tax

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 it was the second lowest. It has been the 3rd lowest for three years prior (FY 01, FY 02, & FY 03) and was the second lowest for the four years previous. The rate has remained relatively flat going from \$2.3583 in FY 00 to \$2.3943 in FY 04. The tax rate strictly for County operations has dropped slightly from \$0.5880 in FY 00 to \$0.5843 in FY 04. This was a slight decrease from FY 03's rate of \$0.5851. A slight increase is anticipated in FY 05 due to State mandated funding. The following chart provides a 10-year history of just the County's portion of the property tax rate.



The continued growth in assessed value helps to keep the tax rate low. Our assessed value benefits from the high values at Lake Tahoe, which represents approximately 40% of the County's total value. This percentage is dropping. By major category, housing makes up the majority of the County's assessed value accounting for about 70.5%. This is followed by tourist commercial development at 9.2%. Diversification in this category is important, as the casino component has dropped nearly \$10 million in value since FY 01. Commercial/industrial development accounts for 6.8% and vacant land for another 6.6%. 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 is projected to be close to \$2 billion.

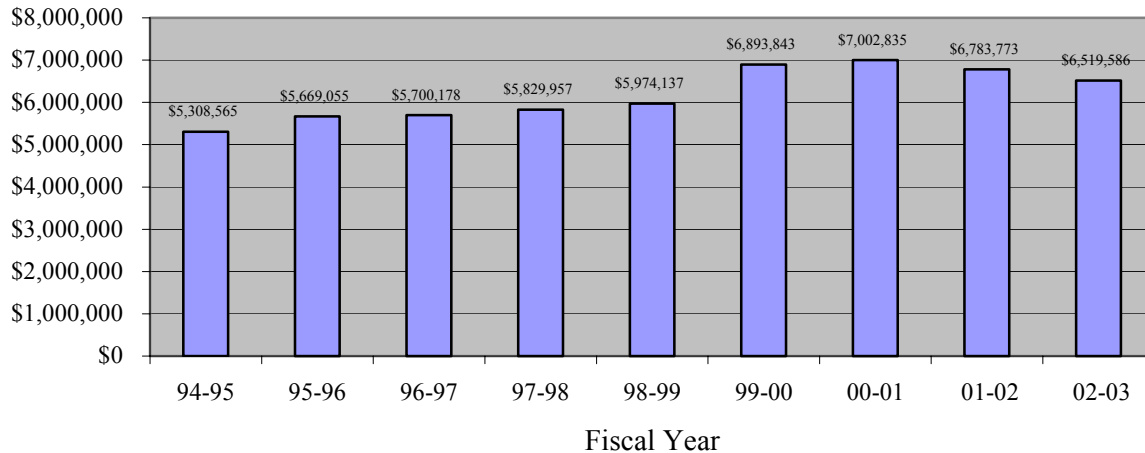
<i>Assessed Value by Major Category</i>					<i>% of Total</i>	<i>Preliminary FY 04-05</i>	<i>% of Total</i>
	<i>FY 00-01</i>	<i>FY 01-02</i>	<i>FY 02-03</i>	<i>FY 03-04</i>			
Vacant Land	79,101,733	83,887,861	103,834,451	118,152,326	6.1%	131,999,193	6.6%
Residential	1,004,126,492	1,172,929,093	1,268,331,226	1,363,778,087	70.8%	1,404,278,736	70.5%
Tourist Commercial	180,881,572	182,823,615	181,573,924	180,348,642	9.4%	183,547,315	9.2%
Commercial/Industrial	104,336,264	107,690,476	122,106,469	132,674,707	6.9%	135,127,999	6.8%
Agricultural	15,081,592	15,866,935	18,284,670	19,948,549	1.0%	20,448,834	1.0%
Other	86,416,331	76,639,068	43,134,320	110,743,195	5.8%	115,417,062	5.8%
Total	1,469,943,984	1,639,837,048	1,737,265,060	1,925,645,506	100.0%	1,990,819,139	100.0%

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 on non-residential construction will be implemented in 2004. In light of the potential new taxes to be placed on business at the State level, this local tax may have more of a negative impact on business than previously considered.

Room Tax

Room tax revenues were down 7.4% from FY 02 to FY 03. This followed a 3% drop FY 01 to FY 02. For FY 04, it appears that the revenues will again show no growth. 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 peak 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 important as it funds a large part of our parks/recreation, senior and library services. These services are also funded from the ¼ cent sales tax, which has seen strong growth. The growth in sales tax will help offset the loss of room taxes, but makes meeting greater service demands more difficult.

Room Tax Revenue Collections



Other Revenues

Interest earnings are down across the board. The County's General Fund dropped 48.3% from \$603,030 in FY 01 to \$311,935 in FY 02, falling to \$173,452 in FY 03. The drop in revenue comes at a time when our fund balances are increasing. Interest earnings are projected to continue at historic lows for this year.

Gas tax revenues were up 7.8% from FY 02 to FY 03. This followed an increase of 5.2% from FY 01 to FY 02. Gas tax revenues should see some continued growth due to new stations and depending on the strength of the tourism market and general population growth. Revenues are based on the number of gallons sold and State formulas rather than on price.

Revenues related to building activity were up sharply from FY 02 to FY 03, due to the spike in building permits. Revenues were up 25.5%. For FY 04, revenues are anticipated to drop to a more historic level. Other building related fees were also up. Recorder fees saw a dramatic increase of 51.3%. The increase was due in part to an increase in fees set by the State, as well as increased levels of activity and values.

The Future

Where does all of this leave us going into 2004, the next fiscal year and beyond? The financial outlook for the County will be better this year than last. The base that we are building off is strong and we are seeing increases in a number of areas. 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). We will continue to receive requests for road repairs and extensions, all of which are under-funded. We will continue to receive requests for new personnel in a number of departments. We will continue to experience cost increases for employees, services, energy, insurance etc. Whereas a year ago much of our future was uncertain, this year we have a stronger and more confident outlook.

The County's current financial base is solid and expanding, we have made up the losses due to the recession and 9-11. The most significant challenge will continue to be the health of our tourism industry. If this stagnates and declines, so will several key revenues. Industry in the County is set to continue to expand. The greatest challenge 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. The future of our housing market is in the hands of the Court, but is currently strong and steady. It has been the mainstay for our assessed value growth for years. A shift will change the dynamics of our property tax base.

Over the next few years, we will need to face a number of public service expectations and requirements. We will need to revamp our voting systems this year. As noted before, we are planning for a new Senior Center and other community facilities. Demands for road maintenance will increase. Infrastructure investment will continue, along with the need to meet new regulations, such as the federal arsenic standards. New challenges for public transit will come forward. Public safety will continue to be a high priority with substantial investments in Fire and EMS services taking place now and next year.

Conclusion

Douglas County is in a good position to continue as a low tax, high quality community. The actions taken to date have required vision and leadership and that will need to continue. Meeting demands will often require creativity. Continuing our success will require time, working together, giving and taking of individual and community interests and respect. There will need to be some sacrifice as we set and achieve specific goals. We will turn ideas into action leading to "on-the-ground" results.

Douglas County has a solid foundation. We are poised for solid economic gains and improvements in the County's financial base resulting from a growing and diversified economy. Over the next year, the County will be in an even better position to meet the needs and desires of the residents, businesses and visitors who live, work and play in Douglas County.

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