



Southeastern
Economic
Development
Corporation

Memorandum

Date Issued: February 12, 2010 Item No. 7b – Report No. 10-004

Meeting Date of: February 17, 2010

To: Chair and Members of the Budget & Finance Committee

From: Brian L. Trotier, Acting President/CEO
Terry Darden, Chief Financial Officer

Subject: *Review, Discuss, and Recommend Approval of an Amendment to the FY 2010 Corporate Budget*

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SUMMARY

Staff Recommendation: Staff recommends that the Budget & Finance Committee recommends to the SEDC Board of Directors approval of an amendment to the SEDC Corporate Budget for FY 2010 to implement steps to reduce personnel costs by \$125,000 and to reduce non-personnel costs by \$100,000 with implementation of the budget reductions in place no later than April 1, 2010.

Fiscal Impact: This will result in a total reduction in the Corporate Budget for FY 2010 of \$448,000, comprised of the savings measures set forth above plus YTD savings of \$223,000.

DISCUSSION

The FY 2010 budget, as adopted by the Redevelopment Agency Board in May of 2009, contained certain key assumptions related to the collection of tax increment revenue in SEDC's four project areas (Central Imperial, Mt. Hope, Gateway, and Southcrest). When the budget was approved, SEDC's fiscal and economic consultant estimated SEDC's tax increment collections for FY 2010 would be \$6,823,000.

In September 2009, staff informed the Board this estimate was off due to reduced property values and the impact on the FY 2010 budget would be a reduction in collected tax increment of \$733,000 for a new total of \$6,090,000. In November 2009, staff received a new projection from the Office of the County Assessor that estimated tax increment in our four project areas for FY 2010 would be \$5,894,000 which represents an additional reduction of \$196,000 and a total reduction of \$929,000 from the amount originally approved in the budget.

If staff felt this reduction was of a temporary nature, it would be our recommendation to cut non-personnel expenses as much as possible without interfering with new redevelopment or economic development activities. However, the economic downturn is projected to last well beyond the end of FY 2010 and our fiscal and

economic consultant is now advising us that tax increment collections may not increase until FY 2013. Staff reported these facts to Budget & Finance Committee and to the Board last month and were directed to develop an action plan for the Board to consider at its next (February 2010) meeting. After looking prudently at the options available, it is the recommendation of staff that SEDC immediately institute measures to reduce both personnel and non-personnel costs in a way that reduces SEDC's estimated annual expenses for FY 2010 by at least \$448,000. This would reduce SEDC's estimated operating deficit for FY 2010 to just \$246,000.

In taking immediate steps to reduce the operating deficit, we believe SEDC is fulfilling its fiduciary responsibility to the communities it serves by preserving as much of SEDC's carryover and bond proceeds as possible. Many experts predict the real estate market will be stagnant for at least 2 more years, resulting in little or no development activity during this period. By conserving resources until the economy improves, SEDC will be positioned to help these communities fully participate in the economic rebound. Although redevelopment law allows the use of carryover funds and certain bond proceeds to defray operating costs, staff does not feel such a decision is prudent at this time.

In addition to expense reduction, SEDC is pursuing several important changes to its financial structure in the proposed strategic plan which will also increase SEDC's ability to generate new development and create tax increment once the economy recovers. Specifically, the strategic plan proposes extending the time limits and lifting the cap for Gateway in order to avoid forfeiting some tax increment in 2011 and beyond. The strategic plan also proposes a fiscal merger of SEDC's four project areas to reduce accounting costs and increase the efficient deployment of resources using grass roots community input through a single Project Area Committee (PAC). Last, but not least, the strategic plan calls for an expansion of the Gateway Center West project area into the Dells-Imperial study area to create new opportunities for redevelopment activity. Unrelated to the strategic plan, but directly related to future capacity and serving the needs of the community, staff has also begun studying the possibility of two new expansion areas in District 4.

Looking forward, staff estimates the measures being recommended would reduce operating expenses in FY 2011 and FY 2012 by close to \$1,000,000 each year. Based on current projections concerning tax increment collections which staff believes are conservative, this would reduce SEDC's projected operating deficit to approximately \$250,000 in FY 2011 and FY 2012.



Submitted by
Terry Darden
Chief Financial Officer



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Brian L. Trotier
Acting President/CEO