

NO: R075

COUNCIL DATE: April 23, 2018

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 12, 2018**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report - First Quarter - 2018**

RECOMMENDATION

The Finance Department recommends that Council receive this report for information.

INTENT

The purpose of this report is to provide Council with an update on the City's financial activity for the first quarter of 2018 and to compare this activity with the 2018 Financial Plan and the same period in 2017.

DISCUSSION

The Five Year (2018-2022) Financial Plan was adopted by Council on December 18, 2017.

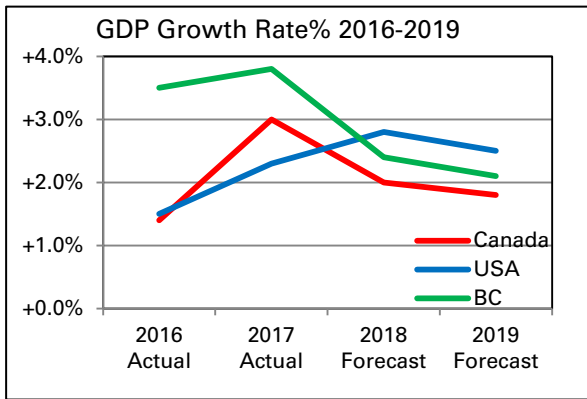
The following discussion provides a summary of the current economic environment including key economic factors, highlights of the Provincial Government's 2018 budget, followed by an outline of Surrey's financial performance for the first quarter of 2018. It also includes an overview of the City's investment portfolio performance.

Economic Environment and Key Economic Factors

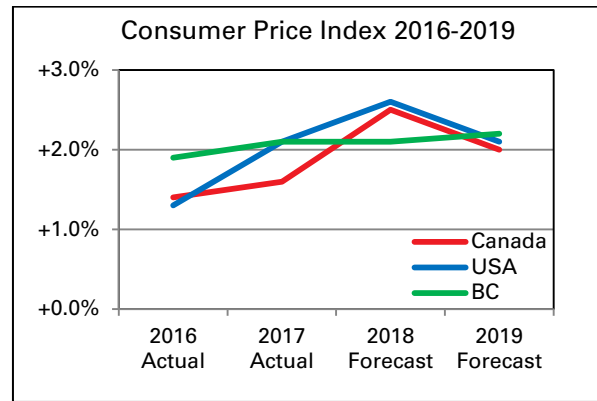
Global economic outlook

The global economy is expected to maintain momentum in the long term due to positive outlooks in United States (US), Japan and Europe but some risks and challenges loom in the medium term including inward-looking policies, geopolitical tensions, and political uncertainty in some countries.

Recently, US and China have been involved in threats and counter threats of \$50 to \$100 billion in new trade duties, although none of these duties have yet been implemented, this has raised the prospect of a trade war between the world's two economic superpowers that could harm the global economy.



Graph 1



Graph 2

Gross Domestic Product (GDP) Growth Rate and Consumer Price Index (CPI)

US GDP growth rate has been steadily going up and is forecasted to remain stable in the next 12 months. Recent reductions to US corporate tax rates and increase in consumer confidence along with a lower than expected unemployment rate has resulted in GDP growth rate forecast to be the highest it has been in the last 3 years by the end of 2018. CPI in the US has been rising steadily due to increasing energy and food costs. Although the interest rates are forecasted to rise steadily, Federal Reserve Bank is forecasted to keep the pace of increase to 0.5% each year for the next 2 years.

In Canada, GDP growth rate is forecasted to slow down due to a reduction in consumer spending caused by rising interest rates. Uncertainties around the North American Free Trade Agreement (NAFTA) and rising interest rates have also resulted in a slowdown in corporate spending. CPI in Canada has been rising steadily due to increasing gasoline prices and construction material costs.

In BC, the GDP growth rate is expected to slow down due to rising labour costs amid record low unemployment rates. In the last few years, BC benefited significantly from labour flowing from Alberta to work in BC, with Alberta's economic resurgence, that trend will likely lessen. Furthermore, rising interest rates could rein in investment, and may also slow down BC's housing market. CPI in BC has been steady in the past 2 years and is forecasted to slightly increase primarily due to increased gasoline prices and construction materials costs.

BC 2018 Budget Highlights

BC's Finance Minister delivered the Province's 2018 budget on February 20, 2018. The budget strongly targeted speculation in BC's housing market and overall affordability in BC. Listed here are some of the key measures announced in this budget that will directly impact the residents' financial state, and directly or indirectly impact the City's financial position.

Employer Health Tax (EHT)

Starting in 2019, a new EHT will be introduced. It will be calculated as a percentage of payroll as follows:

Annual BC Payroll	Annual Tax	Tax as a Percentage of Payroll
\$500,000 or less	\$0	0.00%
\$750,000	\$7,313	0.98%
\$1 million	\$14,625	1.46%
\$1.25 million	\$21,938	1.76%
\$1.5 million	\$29,250	1.95%
Over \$1.5 million	\$29,250 plus 1.95% of payroll over \$1.5 million	1.95%

In 2019, employers will pay MSP premiums at a 50% reduced rate and will also pay the new EHT. Starting in 2020, MSP payments will be completely eliminated and EHT will remain. Based on a preliminary staff analysis, EHT is expected to cost the City \$4.7 million in 2019 and \$3.35 million in 2020.

Provincial Property Transfer Tax (PTT)

Effective February 21, 2018, the PTT on residential properties (or properties with residential class) with purchase price of \$3 million increased from 3% to 5% on amounts over \$3 million.

Foreign Buyer's Tax (FBT)

FBT increased from 15% to 20% of purchase price on residential properties purchased in GVRD, Fraser Valley, Capital, Nanaimo and Central Okanagan Regional Districts.

Speculation Tax (ST)

The budget introduced a new tax on residential properties in BC at a rate of \$5 per \$1,000 of assessed value in 2018 and will increase to \$20 per \$1,000 of assessed value (British Columbians will pay a reduced rate of \$10 per \$1,000 of assessed value) in 2019 and will initially apply to Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts and in the municipalities of Kelowna and West Kelowna. This tax is intended to target foreign and domestic home owners who do not pay income tax in BC and have the residential properties vacant for more than 6 months in a year. Cabins and other vacation homes in rural areas will be exempt from this tax.

Progressive Provincial School Tax (PPST)

Starting in 2019, provincial school tax on most residential properties with an assessed value between \$3 million and \$4 million will increase by 0.2% and properties assessed in excess of \$4 million will see an increase of 0.4%.

Public Transit Funding

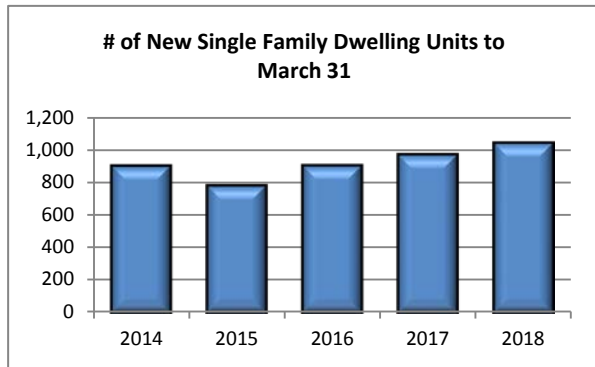
The Provincial budget set aside \$1.179 billion for public transit infrastructure investments for the three-year period between 2018 and 2021. Although, there were no specific allocations to Surrey's Light Rail Transit (LRT) system, the Budget reiterated the Province's commitment to funding 40% of the costs of TransLink's Mayors' Council Phase Two Transit Plan, which includes Surrey's LRT.

Summary of Provincial Budget

Staff are analysing the overall impact of all the Provincial budget items discussed above, and will consider these as a part of the City's 2019 budgeting process. Staff are also analysing the impact of these taxes on Surrey residents who will pay additional amounts to BC without any direct benefits flowing back to the City.

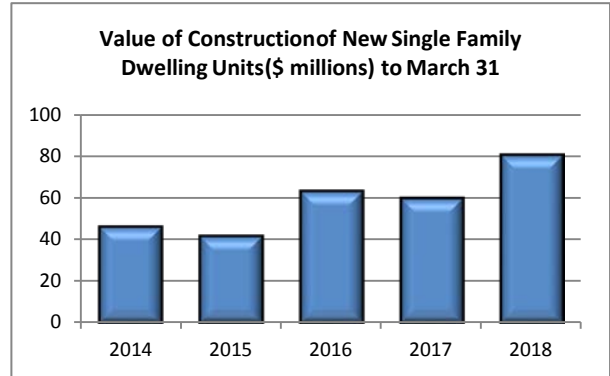
Surrey's Financial Performance

The following graphs show data for the first three months of 2018 compared to previous years.



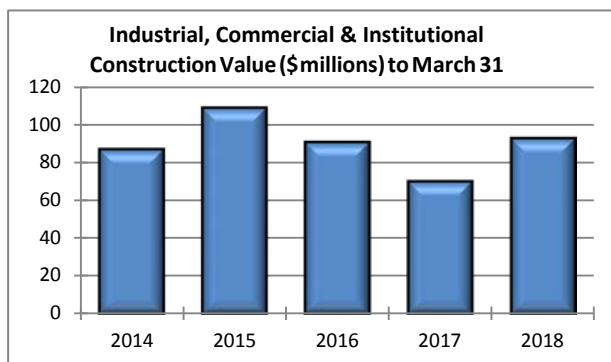
Graph 3

Based on real estate sales data for BC, overall sales activity is continuing with a cooling trend in the first three months of the year, mainly due to tougher Federal mortgage qualification rules, rising interest rates and newly announced BC budgetary changes. However, in Surrey, the number of new Single Family Dwelling Units approved is slightly higher than the same period last year.



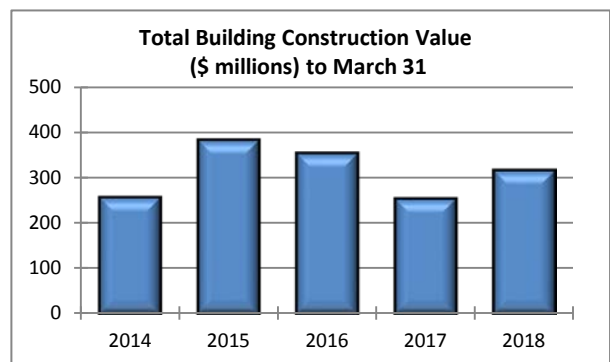
Graph 4

Consistent with the number of new Single Family Dwelling Units, the value of construction for new single family dwelling units is higher than the same period last year.



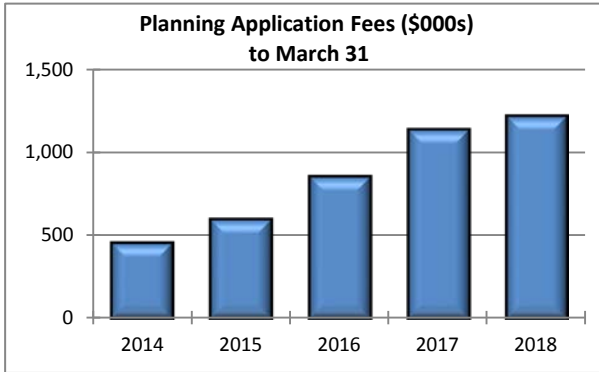
Graph 5

Construction value of Industrial, Commercial Institutional (ICI) permits for the first quarter of 2018 is 33% higher as compared to the same period in 2017. This indicates a positive trend in non-residential construction in the City. This increase in value also includes the new North Surrey Sport and Ice Complex being built by the City.



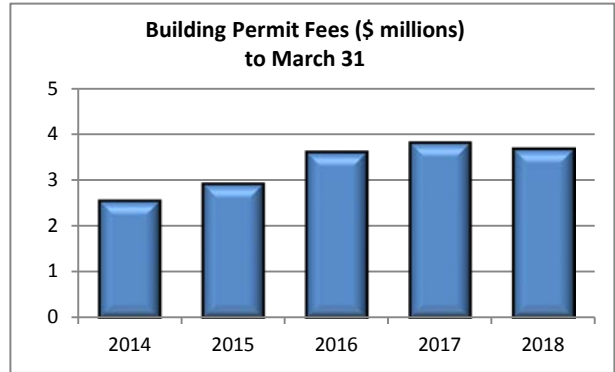
Graph 6

Overall, the value of total building construction in the City for the first three months of the year is 25% higher when compared to the same period last year.



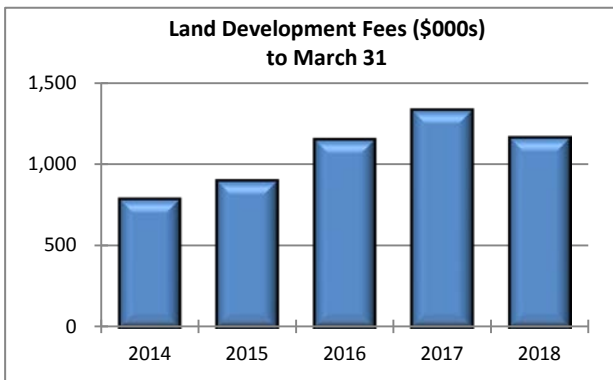
Graph 7

Planning application fees collected in the first quarter of the year are 7% higher than those collected in the same period last year.



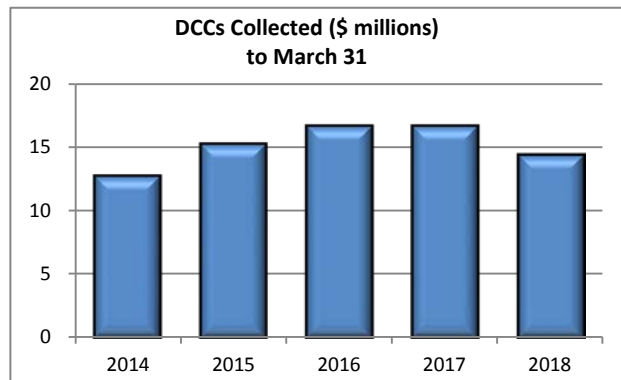
Graph 8

Building permit fees collected for the first three months of this year are 4% lower than those collected in the same period last year. These fees are indicative of Building Permits issued by the City for new build projects. Overall, it is expected that Building Permit fee revenue will meet target.



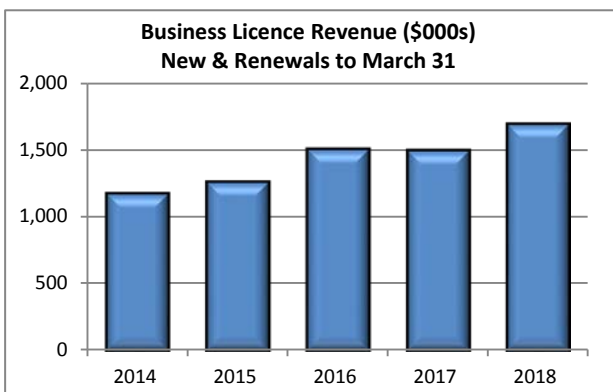
Graph 9

Engineering Land Development fees collected in the first three months of the year are 13 % lower than the same period in 2017.



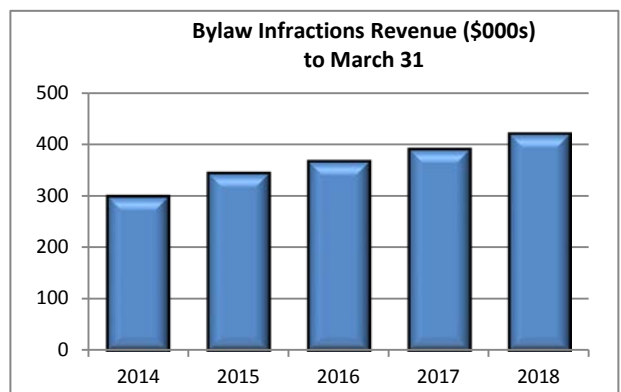
Graph 10

Development Cost Charges (DCCs) that have been collected in the first three months of the year are 14% lower than those collected in the same period in 2017.



Graph 11

Business Licence Revenue has increased by 13% as compared to the same period last year due to an increase in business activity in the City.

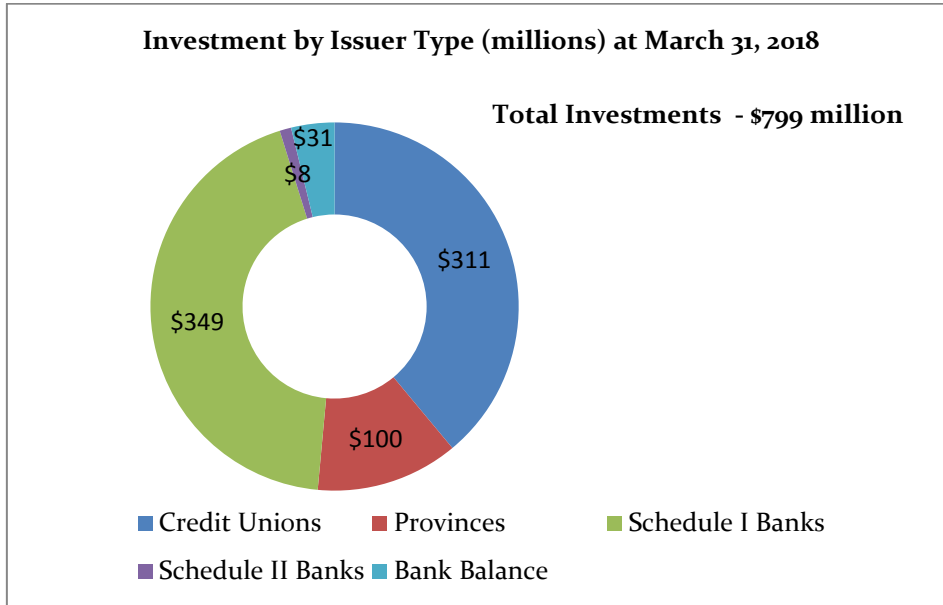


Graph 12

Bylaw Infractions Revenue has increased by 8% as compared to the same period last year.

City Investment Portfolio

The City invests public funds in a prudent manner, providing investment return and long term security while meeting daily cash flow needs. The investment portfolio is currently valued at \$799 million. Most of these funds have either been committed to specific capital projects or are funds that have been invested until they are needed to pay current operating expenses. The graph below shows the City's Investment Portfolio by issuer type.

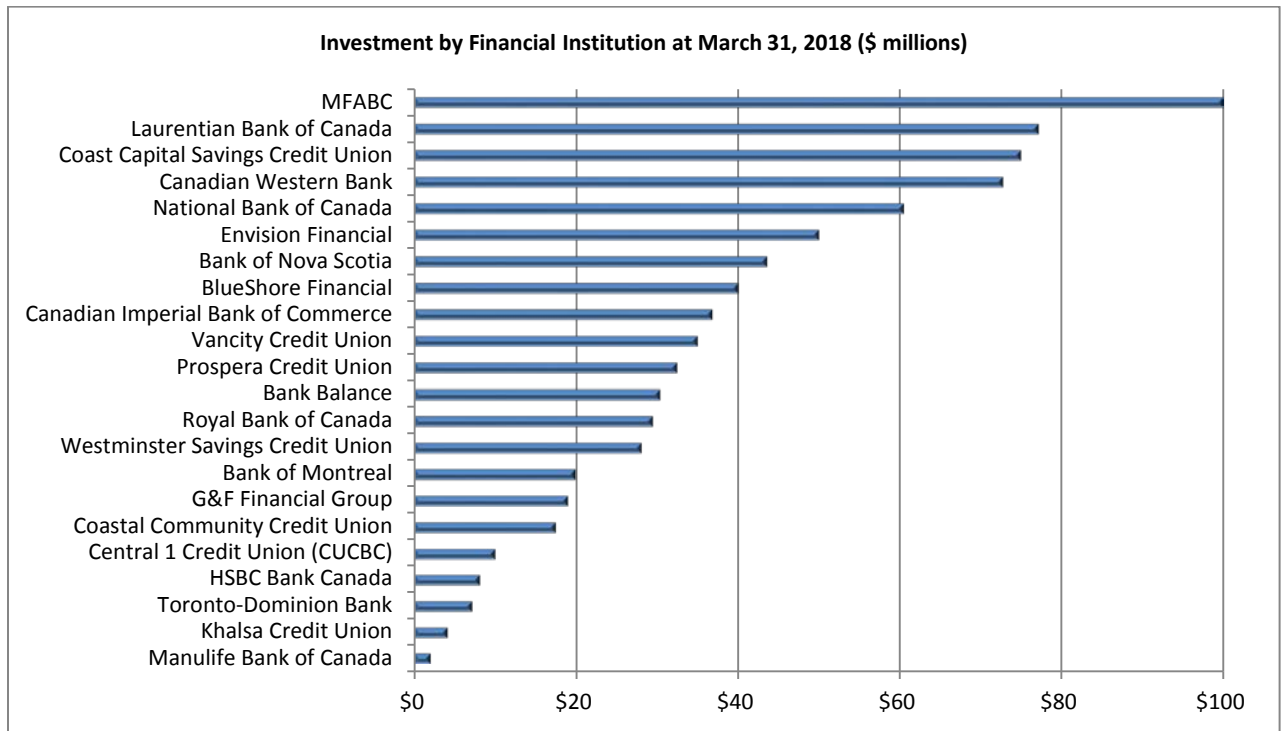


Graph 13

Investments within the portfolio are managed within the framework of the City's Investment Policy. Objectives of the Policy include:

Diversification

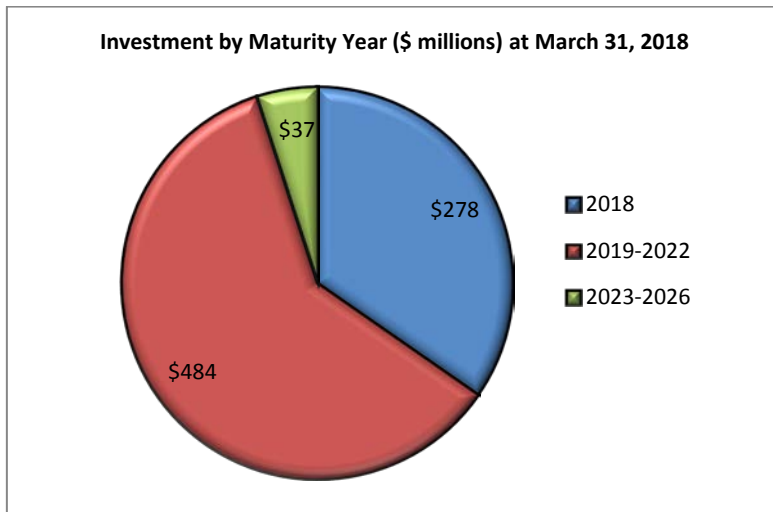
In order to reduce overall portfolio risk, the City diversifies its investment holdings across a range of security types and financial institutions. Graph 14 shows a listing of the City's portfolio by Financial Institution.



Graph 14

Liquidity

The City ensures that the investment portfolio remains sufficiently liquid in order to meet all reasonably anticipated operating and capital cash flow requirements. Maturities coincide with cash requirements, as much as reasonably possible. Graph 15 shows the portfolio by maturity terms.



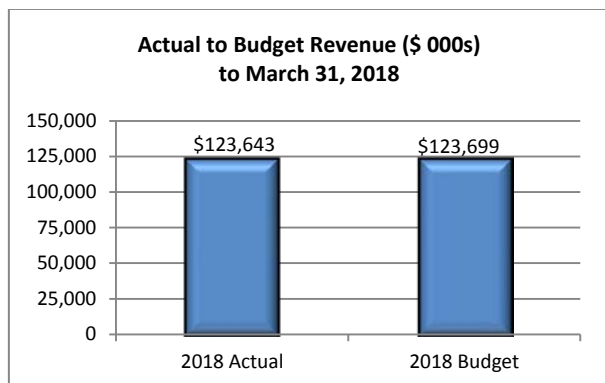
Graph 15

Return on Investment

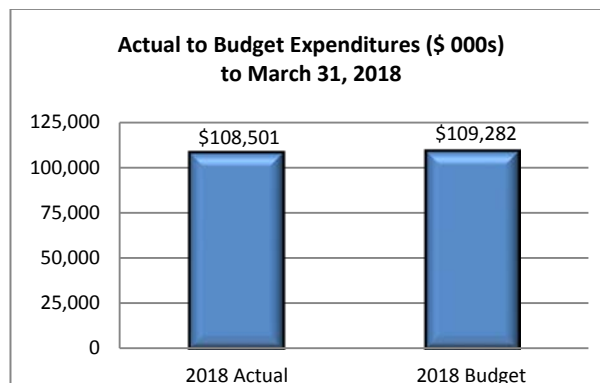
The City’s investment portfolio is currently earning a combined rate of approximately 2.16% while maintaining investment security as outlined in the City’s investment policy. Interest revenue is currently expected to meet budget by year end. The City strives to earn a reasonable rate of return on the investment portfolio throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

Actual Revenues and Expenditures Relative to the 2018 Budget (Financial Plan)

The following graphs illustrate the variances between the actual and the budgeted operating revenues and expenditures respectively, excluding transfers to reserves, for the first quarter of 2018.



Graph 16



Graph 17

Appendix “I” documents the General Operating Fund’s revenues and expenditures for the first quarter of 2018 at a more detailed level. Departments are proactively monitoring their actual results on a monthly basis. The following section provides an explanation on a Department-by-Department basis of year to date variances in relation to the 2018 Financial Plan; and as shown in Appendix “II”

RCMP currently has a favourable variance of \$74,000, resulting from vacancies and timing of expenditures.

Fire Services has a favourable variance of \$89,000, resulting from vacancies and timing of expenditures.

Engineering Services Department currently has a favourable variance of \$67,000, primarily due to staff vacancies and the timing of expenditures.

Parks, Recreation & Culture Department is showing a favourable departmental variance of \$107,000, which is primarily due to the timing of revenue received for programming and the timing of various expenditures.

Library Services currently has a favorable variance of \$44,000, primarily due to the timing of expenditures relative to budget.

Planning and Development Department, which also includes Civic Facilities, is reporting a positive variance of \$198,000 due to staff vacancies and the timing of maintenance costs for civic facilities.

Mayor and Council currently have a small favorable variance of \$3,000.

City Grants is currently on budget.

City Manager’s Department is currently showing a \$20,000 favorable variance; this is primarily due to the timing of expenditures.

Public Safety Department is currently showing a favorable variance of \$87,000 this is due primarily to staff vacancies and the timing of expenditures.

Investment & Intergovernmental Relations Department currently has a favorable variance of \$55,000, primarily due to the timing of expenditures.

Finance Department currently has a favourable variance of \$8,000. This is primarily due to staff vacancies.

Corporate Services Department has a favourable variance of \$167,000 due to staff vacancies and timing of expenditures.

CONCLUSION

Overall, in relation to the 2018 adopted budget, there has been no material concerns noted for the first quarter of 2018. Staff will continue to closely monitor all areas to ensure that any variances from the 2018-2022 adopted budget are recognized in a timely fashion and appropriate mitigating action is taken.

Kam Grewal, CPA, CMA
General Manager, Finance

Appendix "I": 2018 First Quarter Council Report, Executive Summary - Revenues & Expenditures
Appendix "II": 2018 First Quarter Council Report, Departmental Detail

2018 1st QUARTER COUNCIL REPORT				
EXECUTIVE SUMMARY - REVENUES & EXPENDITURES				
\$ 000's				
REVENUE SUMMARY	2017: 1st Qtr YTD ACTUAL	2018: 1st Qtr YTD Actual	2018 YTD BUDGET	2018 ANNUAL BUDGET
Net Taxation	82,115	87,598	87,880	351,521
Investment Interest	3,996	3,825	4,329	17,316
Secondary Suite Infrastructure Fee	4,426	4,646	4,432	17,728
Contribution from SCDC	1,125	1,125	1,125	4,500
Provincial Casino Revenue Sharing	888	1,125	1,125	4,500
Penalties & Interest on Taxes	862	54	45	3,869
Corporate Leases	1,790	2,203	2,001	7,074
Carbon Tax Rebate	100	125	125	500
Other Revenues	313	575	567	3,000
Non-Tax Revenues	13,500	13,678	13,749	58,487
Program Revenues	21,444	22,367	22,070	85,471
TOTAL REVENUES	117,059	123,643	123,699	495,479
EXPENDITURE SUMMARY	2017: 1st Qtr YTD ACTUAL	2018: 1st Qtr YTD Actual	2018 YTD BUDGET	2018 ANNUAL BUDGET
Program Expenditures	100,891	104,926	105,549	444,879
Council Priorities	63	46	65	260
Fiscal Services	86	164	141	564
MFA Principal	3,177	3,194	3,195	12,779
Other	20	171	332	1,326
TOTAL EXPENDITURES	104,237	108,501	109,282	459,808
TRANSFER SUMMARY	2017: 1st Qtr YTD ACTUAL	2018: 1st Qtr YTD Actual	2018 YTD BUDGET	2018 ANNUAL BUDGET
Carbon Emission Offsets	100	125	125	500
Transfer to Capital Program	3,863	4,700	4,700	18,800
Contributions to Road & Trans. Fund	4,148	4,148	4,148	16,592
Transfers To(From) Own Sources	(1,387)	(408)	(237)	(219)
TOTAL TRANSFERS	6,724	8,565	8,736	35,673

2018 1st QUARTER COUNCIL REPORT
DEPARTMENTAL DETAIL
\$ 000's

	2017: 1st Qtr	2018: 1st Qtr	2018	2018
	YTD	YTD	YTD	ANNUAL
PROGRAM REVENUES	ACTUAL	ACTUAL	BUDGET	BUDGET
R.C.M.P.	1,960	2,038	2,022	8,088
Fire	83	89	57	1,752
Engineering Services	1,868	2,139	2,092	7,559
Parks, Recreation & Culture	9,316	9,456	9,427	34,234
Surrey Public Library	410	417	397	1,573
Planning & Development	5,441	5,584	5,417	21,668
Mayor & Council	-	-	-	-
City Grants	-	-	-	-
City Manager	3	-	1	2
Public Safety	2,066	2,369	2,308	9,200
Invest. & Intergovernmental Relations	47	-	-	-
Finance	250	270	348	1,393
Corporate Services	-	5	1	2
TOTAL PROGRAM REVENUES	21,444	22,367	22,070	85,471

	2017: 1st Qtr	2018: 1st Qtr	2018	2018
	YTD	YTD	YTD	ANNUAL
PROGRAM EXPENDITURES	ACTUAL	ACTUAL	BUDGET	BUDGET
NET OF INTERNAL TRANSFERS				
R.C.M.P.	38,896	40,300	40,358	164,437
Fire	14,116	14,224	14,281	64,006
Engineering Services	1,873	2,238	2,258	10,533
Parks, Recreation & Culture	20,938	22,354	22,432	96,276
Surrey Public Library	4,308	4,459	4,483	18,060
Planning & Development	7,372	7,180	7,211	30,534
Mayor & Council	331	389	392	1,684
City Grants	420	439	440	1,758
City Manager	213	287	308	1,242
Public Safety	2,050	2,304	2,330	9,862
Invest. & Intergovernmental Relations	261	305	360	1,531
Finance	2,382	2,391	2,477	10,599
Corporate Services	7,731	8,056	8,219	34,357
TOTAL PROGRAM EXPENDITURES	100,891	104,926	105,549	444,879

	2017: 1st Qtr	2018: 1st Qtr	2018	2018
	YTD	YTD	YTD	ANNUAL
NET PROGRAM	ACTUAL	ACTUAL	BUDGET	BUDGET
R.C.M.P.	36,936	38,262	38,336	156,349
Fire	14,033	14,135	14,224	62,254
Engineering Services	5	99	166	2,974
Parks, Recreation & Culture	11,622	12,898	13,005	62,042
Surrey Public Library	3,898	4,042	4,086	16,487
Planning & Development	1,931	1,596	1,794	8,866
Mayor & Council	331	389	392	1,684
City Grants	420	439	440	1,758
City Manager	210	287	307	1,240
Public Safety	(16)	(65)	22	662
Invest. & Intergovernmental Relations	214	305	360	1,531
Finance	2,132	2,121	2,129	9,206
Corporate Services	7,731	8,051	8,218	34,355
NET PROGRAM TOTAL	79,447	82,559	83,479	359,408