

NO: R171

COUNCIL DATE: July 23, 2018

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 16, 2018**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report - Second 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 through the second 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 globally, nationally and in our province followed by an outline of Surrey's financial performance through the second quarter of 2018. It also includes an overview of the City's investment portfolio performance.

Economic Environment and Key Economic Factors

Global and National Economic Outlook

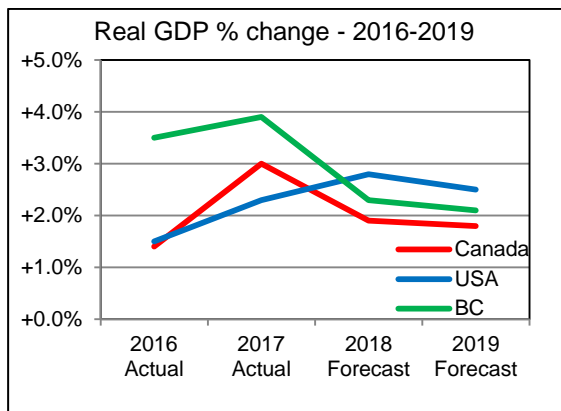
Trade tensions continue to escalate between the US and other top world economies. Auto and technology stocks were hit the hardest as these sectors are being specifically targeted by the US government.

The trade dispute between the US and China worsened in June as the US government announced intentions to place tariffs on 90% of the goods the US imports from China, worth up to \$450 billion dollars. The first round of tariffs worth \$34 billion will go into effect in July. In response, China has announced it will put forth equivalent amounts of counter-tariffs on American goods if the US chooses to proceed with its tariffs.

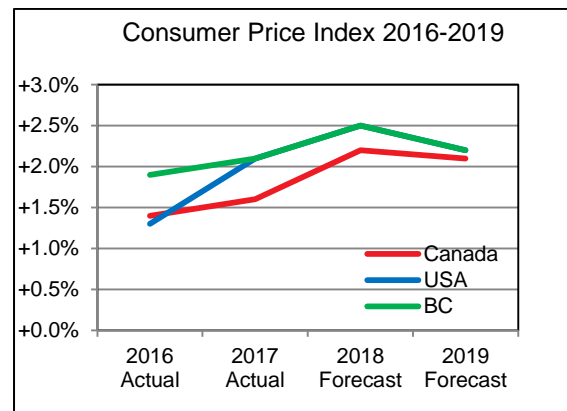
The US Government rescinded the exemption on steel and aluminum tariffs granted to Canada, Mexico, and Europe. This led to retaliatory counter-tariffs imposed by all countries impacted. The US government responded to retaliations by threatening to impose a 20% tariff on automotive imports from Europe and Canada. Further escalation of trade barriers will threaten global economic growth. Economists are predicting global growth could slow by 0.4% if countries targeted by the US respond with tariffs of their own.

Tariffs will lead to higher input costs and prices for consumers. The barriers will reduce trade volumes, disrupt supply chains and ultimately lead to job losses. With uncertainties looming around US trade policies, many businesses are postponing hiring and investment decisions and are in a holding pattern.

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



Graph 1



Graph 2

The US Federal Reserve (Fed) raised its key interest rate for the second time this year and has signalled two additional hikes by year-end. With a healthy labour market and low unemployment in the US, and inflation at the Fed's target level, the central bank is likely to meet expectations for rate increases, barring any fallout from potential trade wars.

Strong consumer spending is expected to push US GDP upwards in the second quarter. US tax reforms boosted household disposable income; however, these effects are expected to be transitory. The US corporate tax cuts have not led to increased business investment as organizations are taking a cautious approach to new spending due to increased trade protectionism.

The threat of US tariffs and uncertainties surrounding NAFTA are expected to be a drag on business investment in Canada. Higher inflation and increased borrowing costs will restrain consumer spending. In July, The Bank of Canada (BOC) increased its key interest rate by 0.25% for the second time this year. With three additional BOC interest rate announcements scheduled before year-end, the possibility of further increases remains. If the US moves ahead with tariffs on the automotive industry, heavy job losses are expected in Ontario and Quebec.

BC Economic Highlights

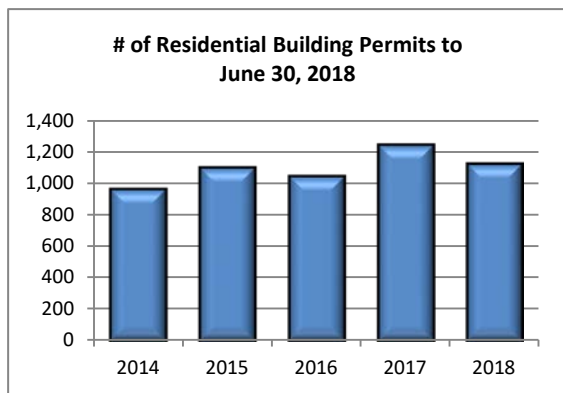
BC's GDP growth is expected to come in at 2.3% this year due to a slowdown in the housing sector, primarily due to an increase in interest rates, tougher mortgage rules and initiatives taken by the BC government through speculation taxes. Business investment could be hampered by trade protectionism rhetoric coming from BC's biggest export market, the United States. Our forest industry still faces pressure from countervailing and anti-dumping duties on soft wood lumber, and the outcome of NAFTA talks remains unclear.

To promote growth in the province, the provincial government is offering a PST exemption for the construction costs on LNG facilities in an effort to secure a final investment decision from LNG Canada, comprised primarily of Royal Dutch Shell Plc, Mitsubishi Corp., Malaysia's Petroliam Nasional Bhd., PetroChina Co. and Korea Gas Corp. The \$40 billion dollar project is expected to create 10,000 jobs.

The federal government intervened and purchased the Trans Mountain Pipeline from Kinder Morgan, allowing the project to move ahead. Efforts by environmental activists and First Nations court challenges could delay the construction of the pipeline project.

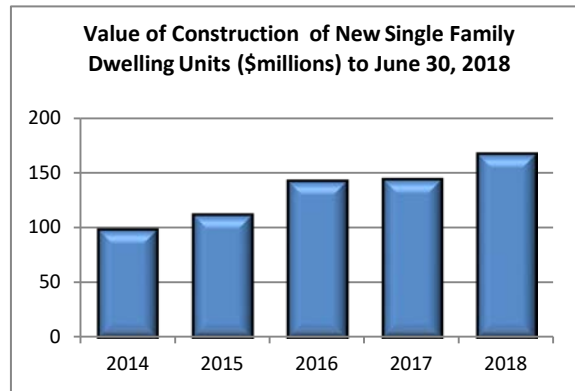
Surrey's Financial Performance

The following graphs show data through the second quarter of 2018 compared to previous years.



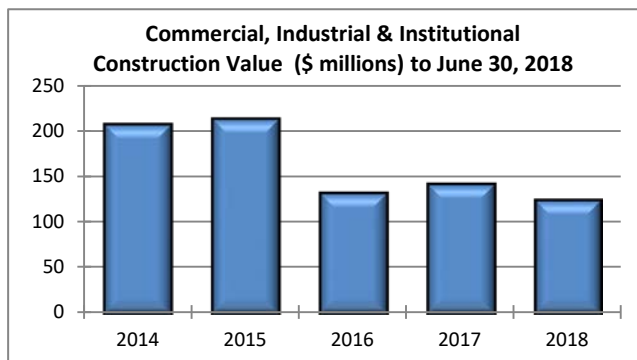
Graph 3

Based on real estate sales data for BC, overall residential sales activity is continuing with a cooling trend in the first half of the year, mainly due to tougher Federal mortgage qualification rules, rising interest rates and newly announced BC budgetary changes.



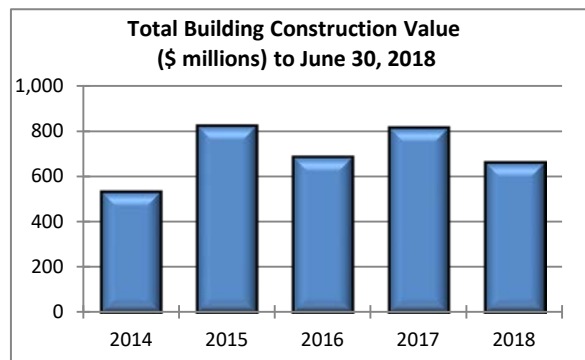
Graph 4

Due in part to an increase in the cost of construction, the value of construction for new single family dwelling units is 16% higher than the same period last year, although the number of Single Family Dwelling Permits has declined in the same time period.



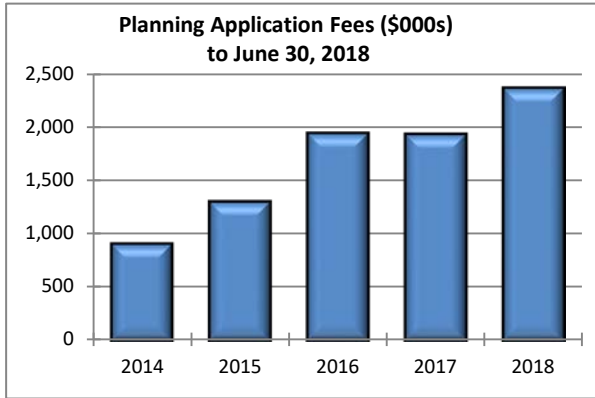
Graph 5

Construction value of Industrial, Commercial Institutional (ICI) permits through the second quarter of 2018 is 12% lower as compared to the same period in 2017.



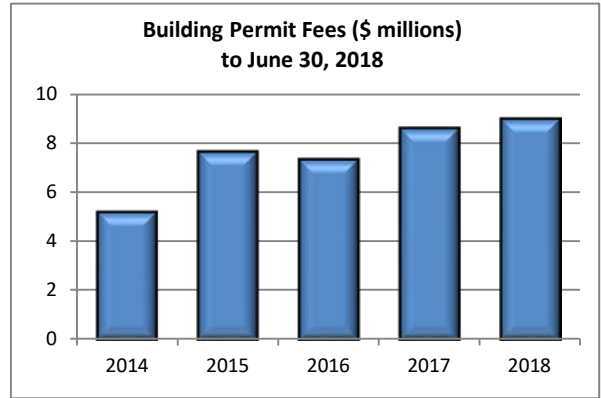
Graph 6

Overall, the value of total building construction in the City through the second quarter of the year is 18% lower when compared to the same period last year. Pace of construction activity is expected to increase in the remaining two quarters of 2018.



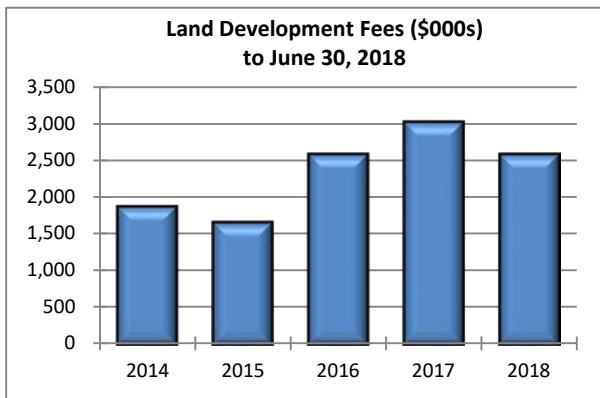
Graph 7

Planning application fees collected through the second quarter of the year are 22% higher than those collected in the same period last year.



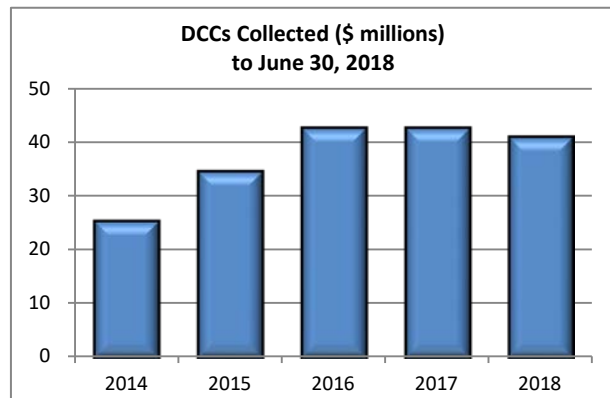
Graph 8

Building permit fees collected through the second quarter of this year are 4% higher than those collected in the same period last year. These fees are indicative of permits issued by the City for new build projects, farm permits, sign permits, demolition permits etc.



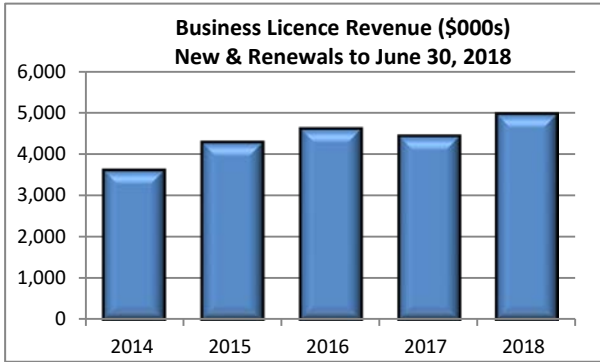
Graph 9

Engineering Land Development fees collected through the second quarter of the year are 14% lower than the same period in 2017.



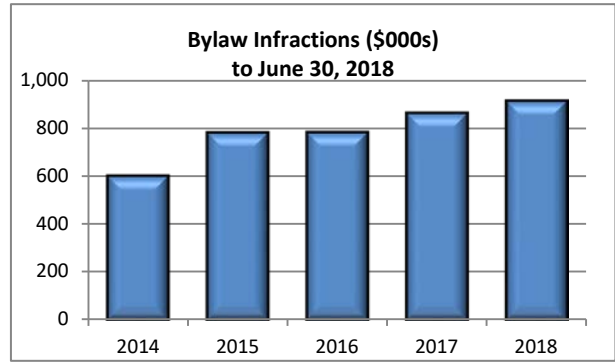
Graph 10

Development Cost Charges (DCCs) that have been collected through the second quarter of the year are 4% lower than those collected in the same period in 2017.



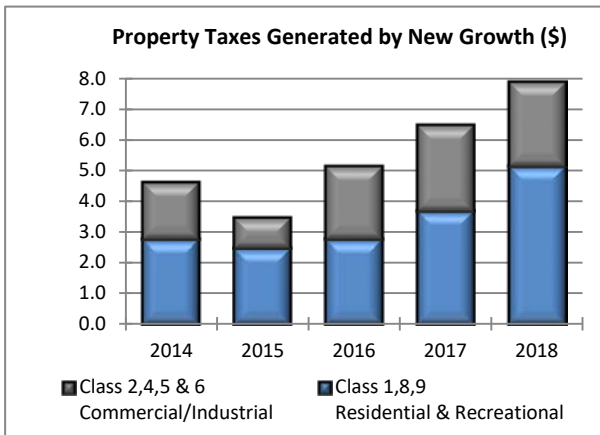
Graph 11

Business Licence Revenue has increased by 12% as compared to the same period last year due to an increase in business activity in the City.



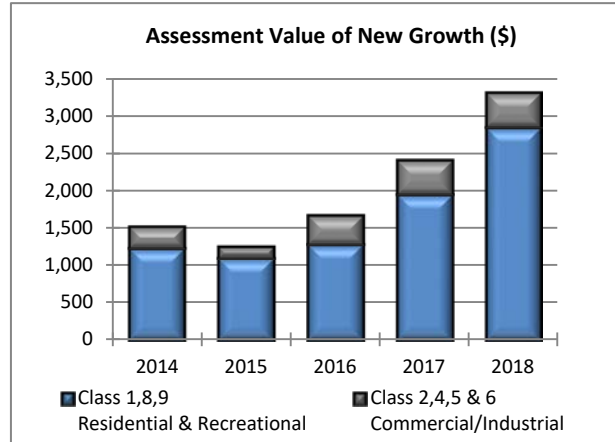
Graph 12

Bylaw Infractions Revenue has increased by 6% as compared to the same period last year.



Graph 13

The property taxes generated by new growth for 2018 are 39% higher in the Residential and Recreational classes and 2% lower in the Commercial and Industrial classes as compared with the same period last year.

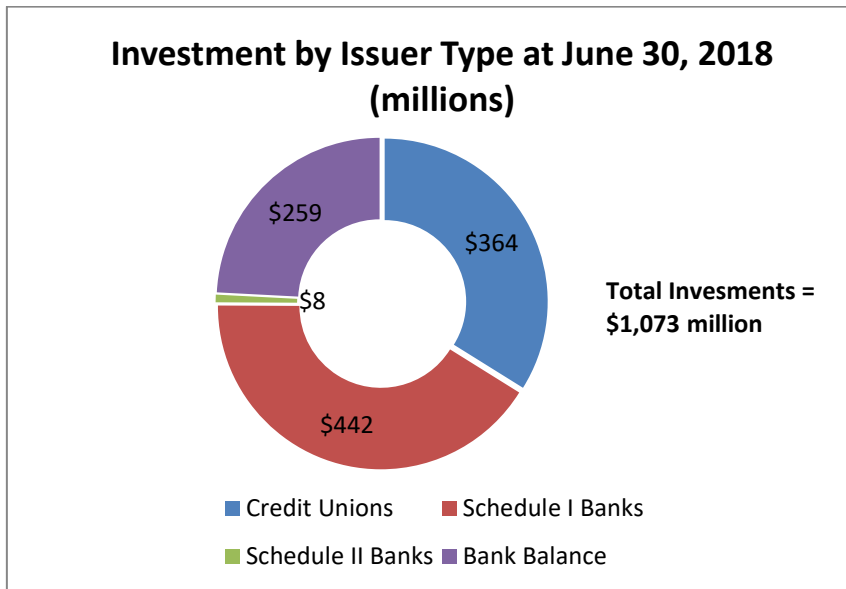


Graph 14

The assessment value of new property growth for 2018 is 37% higher than 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 \$1,073 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.

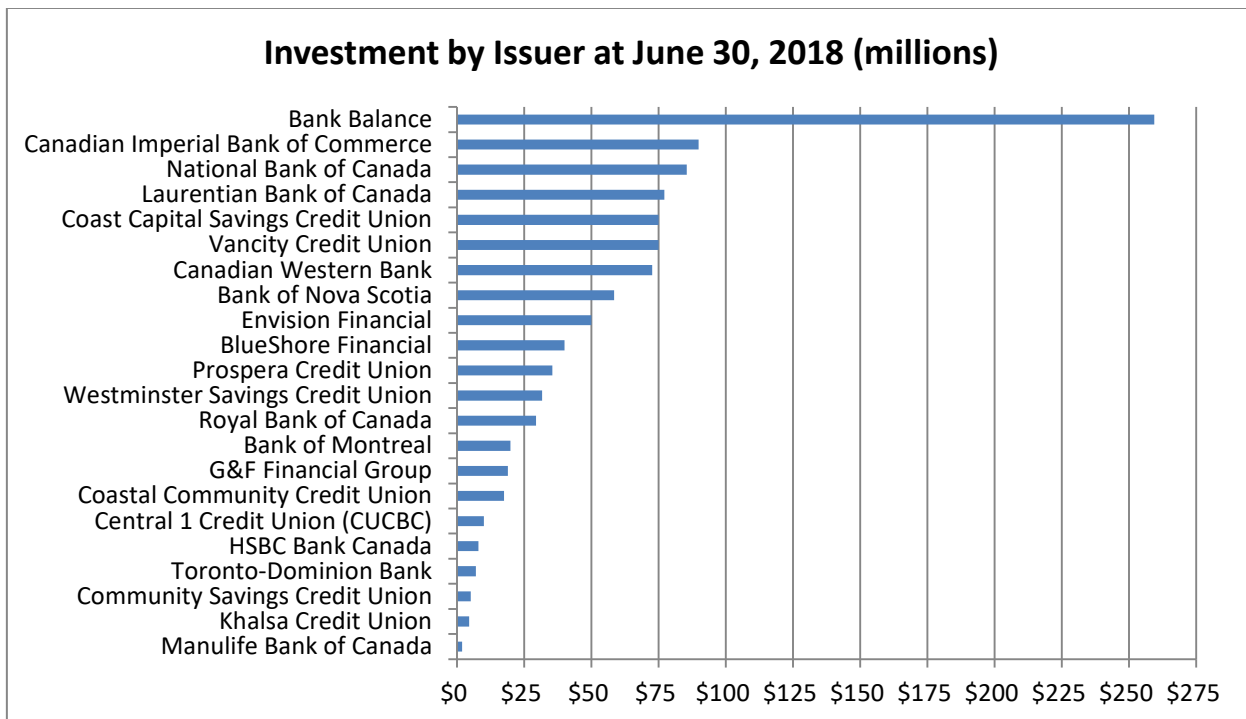


Graph 15

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

Diversification

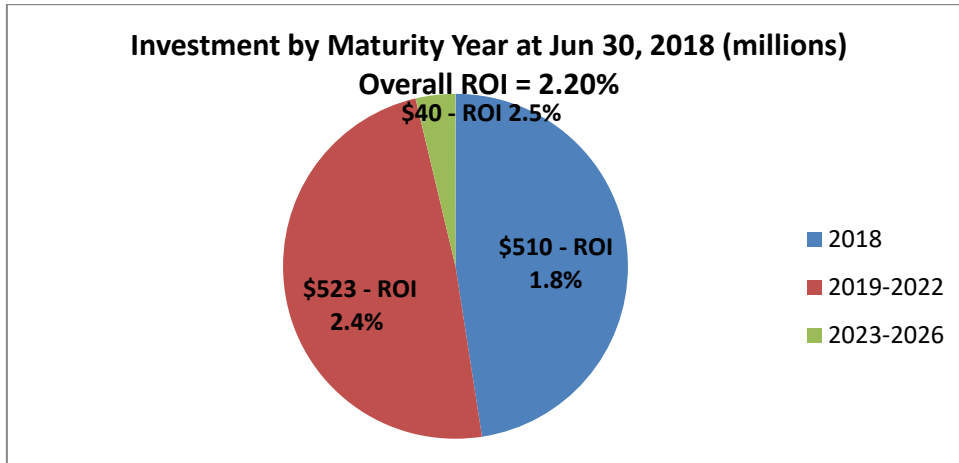
In order to reduce overall portfolio risk, the City diversifies its investment holdings across a range of security types and financial institutions. Graph 16 shows a listing of the City’s portfolio by Financial Institution.



Graph 16

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 17 shows the portfolio by maturity terms.



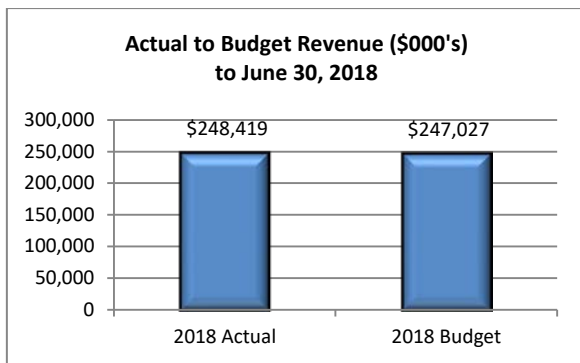
Graph 17

Return on Investment

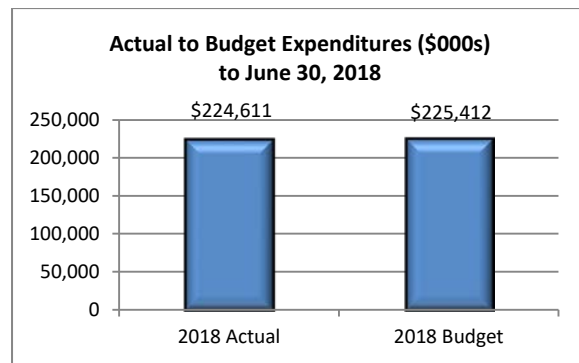
The City's investment portfolio is currently earning a combined rate of approximately 2.20% while maintaining investment security as outlined in the City's investment policy. Interest revenue is currently expected to meet budget by year end. The City strives to earn a reasonable rate of return on the 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 second quarter of 2018.



Graph 18



Graph 19

Appendix "I" documents the General Operating Fund's revenues and expenditures through the second 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 \$258,000, resulting from vacancies and timing of expenditures.

Fire Services has a favourable variance of \$155,000, resulting from vacancies and timing of expenditures.

Engineering Services Department currently has a favourable variance of \$92,000, primarily due to staff vacancies and the timing of expenditures.

Parks, Recreation & Culture Department is showing an unfavourable departmental variance of \$273,000, which is primarily due to the timing of revenue received for programming and the timing of various expenditures. It is forecast that PRC will meet budget by year end.

Library Services currently has a favorable variance of \$116,000, primarily due to the timing of expenditures relative to budget and staff vacancies.

Planning and Development Department, which also includes Civic Facilities, is reporting a positive variance of \$1,250,00 due to staff vacancies and the timing of maintenance costs for civic facilities and revenues being higher than budgeted for the first six months of the year.

Mayor and Council currently have a small favorable variance of \$30,000.

City Grants is currently on budget.

City Manager's Department is currently showing a \$39,000 favorable variance; this is primarily due to the timing of expenditures.

Public Safety Department is currently showing a favorable variance of \$361,000 this is due primarily to staff vacancies and the timing of expenditures. Public Safety is forecasted to be slightly over budget by year end, primarily due to unbudgeted costs associated with the 135A Street tent city transition to modular housing.

Investment & Intergovernmental Relations Department currently has a favorable variance of \$127,000, primarily due to the timing of expenditures.

Finance Department currently has a favourable variance of \$279,000. This is primarily due to staff vacancies and timing of expenditures.

Corporate Services Department has a favourable variance of \$200,000 due to staff vacancies and timing of expenditures, however due to costs associated with the 2018 Election project; Corporate Services may come in slightly over budget at year end.

CONCLUSION

Overall, in relation to the 2018 adopted budget, there has been no material concerns noted through the second 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 Second Quarter Council Report, Executive Summary - Revenues & Expenditures
Appendix "II": 2018 Second Quarter Council Report, Departmental Detail

APPENDIX "I"

2018 Q2 QUARTER COUNCIL REPORT
EXECUTIVE SUMMARY - REVENUES & EXPENDITURES
\$ 000's

	2018: Q2 Qtr YTD Actual	2018 YTD BUDGET	2018: Q2 Qtr YTD Variance	2018 ANNUAL FORECAST	2018 ANNUAL BUDGET	2018 Projected Variance
REVENUE SUMMARY						
Net Taxation	175,362	175,761	(399)	351,123	351,521	(398)
Investment Interest	7,419	7,447	(29)	17,051	17,316	(265)
Secondary Suite Infrastructure Fee	8,764	8,864	(100)	17,628	17,728	(100)
Contribution from SCDC	2,250	2,250	-	4,500	4,500	-
Provincial Casino Revenue Sharing	2,250	2,250	-	4,500	4,500	-
Penalties & Interest on Taxes	228	218	10	3,679	3,869	(190)
Corporate Leases	3,464	3,464	-	7,074	7,074	-
Carbon Tax Rebate	250	250	-	500	500	-
Other Revenues	1,474	1,453	22	3,022	3,000	22
Non-Tax Revenues	26,099	26,196	(97)	57,954	58,487	(533)
Program Revenues	46,958	45,070	1,888	87,469	85,471	1,998
TOTAL REVENUES	248,419	247,027	1,392	496,546	495,479	1,067
EXPENDITURE SUMMARY						
Program Expenditures	217,156	217,903	748	445,599	444,876	(723)
Council Priorities	115	130	15	260	260	-
Fiscal Services	243	282	39	525	564	39
MFA Principal	6,435	6,434	(1)	12,824	12,779	(45)
Other	663	663	-	1,326	1,326	-
TOTAL EXPENDITURES	224,611	225,412	802	460,534	459,805	(729)
TRANSFER SUMMARY						
Carbon Emission Offsets	250	250	-	500	500	-
Transfer to Capital Program	9,400	9,400	-	18,800	18,800	-
Contributions to Road & Trans. Fund	8,296	8,296	-	16,592	16,592	-
Transfers To(From) Own Sources	(497)	(157)	340	(559)	(218)	341
TOTAL TRANSFERS	17,449	17,789	340	35,333	35,674	341
Surplus (Deficit)	6,359	3,826	2,534	679	-	679
Transfer (To)From Surplus	(6,359)	(3,826)	(2,534)	(679)	-	(679)
BALANCED BUDGET	-	-	-	-	-	-

PROJECTED SURPLUS (DEFICIT) \$ 679

APPENDIX "II"

2018 Q2 QUARTER COUNCIL REPORT							
DEPARTMENTAL DETAIL							
\$ 000's							

PROGRAM REVENUES	2017: Q2 Qtr YTD ACTUAL	2018: Q2 Qtr YTD ACTUAL	2018 YTD BUDGET	2018: Q2 Qtr YTD Variance	2018 Projected ACTUAL	2018 ANNUAL BUDGET	2018 Projected Variance
R.C.M.P.	3,999	4,162	4,044	118	8,206	8,088	118
Fire	1,645	1,735	1,639	97	1,952	1,752	201
Engineering Services	3,677	4,198	3,914	284	8,076	7,559	517
Parks, Recreation & Culture	17,345	18,933	18,580	352	33,322	34,234	(912)
Surrey Public Library	812	854	790	64	1,644	1,573	71
Planning & Development	10,947	11,643	10,833	809	23,482	21,668	1,814
Mayor & Council	-	-	-	-	-	-	-
City Grants	-	-	-	-	-	-	-
City Manager	-	-	1	(1)	1	2	(1)
Public Safety	4,293	4,762	4,572	190	9,357	9,200	157
Invest. & Intergovernmental Relations	47	-	-	-	-	-	-
Finance	659	665	696	(31)	1,421	1,392	29
Corporate Services	9	6	1	5	7	2	5
TOTAL PROGRAM REVENUES	43,433	46,958	45,070	1,888	87,469	85,471	1,998

PROGRAM EXPENDITURES NET OF INTERNAL TRANSFERS	2017: Q2 Qtr YTD ACTUAL	2018: Q2 Qtr YTD ACTUAL	2018 YTD BUDGET	2018: Q2 Qtr YTD Variance	2018 Projected ACTUAL	2018 ANNUAL BUDGET	2018 Projected Variance
R.C.M.P.	78,929	81,791	81,930	140	164,300	164,437	137
Fire	30,413	31,084	31,142	58	64,207	64,006	(200)
Engineering Services	4,572	5,960	5,768	(192)	10,880	10,531	(350)
Parks, Recreation & Culture	43,304	44,720	44,095	(625)	95,068	96,276	1,208
Surrey Public Library	8,837	9,180	9,232	52	18,100	18,060	(40)
Planning & Development	14,856	14,794	15,235	441	31,837	30,534	(1,303)
Mayor & Council	719	792	822	30	1,682	1,683	1
City Grants	841	879	879	-	1,758	1,758	-
City Manager	546	591	631	40	1,211	1,243	32
Public Safety	4,192	4,748	4,920	172	10,174	9,862	(312)
Invest. & Intergovernmental Relations	791	639	766	127	1,417	1,531	114
Finance	5,250	4,988	5,298	309	10,382	10,598	216
Corporate Services	16,313	16,990	17,185	195	34,583	34,357	(226)
TOTAL PROGRAM EXPENDITURES	209,561	217,156	217,903	748	445,599	444,876	(723)

NET PROGRAM	2017: Q2 Qtr YTD ACTUAL	2018: Q2 Qtr YTD ACTUAL	2018 YTD BUDGET	2018: Q2 Qtr YTD Variance	2018 Projected ACTUAL	2018 ANNUAL BUDGET	2018 Projected Variance
R.C.M.P.	74,930	77,629	77,886	258	156,094	156,349	255
Fire	28,768	29,349	29,504	155	62,254	62,255	-
Engineering Services	895	1,763	1,855	92	2,804	2,972	168
Parks, Recreation & Culture	25,959	25,787	25,514	(273)	61,746	62,042	296
Surrey Public Library	8,024	8,326	8,442	116	16,456	16,487	31
Planning & Development	3,909	3,151	4,402	1,250	8,355	8,866	511
Mayor & Council	719	792	822	30	1,682	1,683	1
City Grants	841	879	879	-	1,758	1,758	-
City Manager	546	591	630	39	1,210	1,241	31
Public Safety	(101)	(14)	348	361	816	661	(155)
Invest. & Intergovernmental Relations	745	639	766	127	1,417	1,531	114
Finance	4,591	4,323	4,602	279	8,961	9,206	245
Corporate Services	16,304	16,984	17,184	200	34,576	34,355	(221)
NET PROGRAM TOTAL	166,129	170,198	172,833	2,636	358,130	359,405	1,276