

NO: R122

COUNCIL DATE: July 27, 2020

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 23, 2020**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report - Second Quarter - 2020**

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## 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 second quarter of 2020 and to compare this activity with the 2020 Financial Plan and the same period in 2019.

## DISCUSSION

Based on the Five-Year (2020-2024) Financial Plan which was adopted by Council on December 16, 2019, the following discussion provides a summary of the current economic environment including key economic factors globally, nationally, provincially, and within the City, including the financial impact of COVID-19, followed by an outline of Surrey's financial performance through the second quarter of 2020.

### **Economic Environment and Key Economic Factors**

#### International Overview

COVID-19 has claimed over 600,000 lives and infected almost 15 million people worldwide over the last six months. The spread of COVID-19 has accelerated with large numbers of cases reported in the United States ("US"), Brazil, India, and Russia. Countries around the world implemented lockdowns and other measures to stem the alarming spread of the virus. The restrictions placed on travel and businesses caused economies around the world to grind to a halt. The shock from COVID-19 simultaneously drove down both supply and demand. The path and length of economic recovery will be dependent on the availability of a vaccine and whether there will be further lockdown measures in response to future waves of the virus.

In recent weeks, many countries have slowly eased restrictions in an attempt to restart economic activity. As nations reopen, it has become apparent that recovery will be slow and uneven as consumers and businesses are still wary of resuming normal routines. Consumer consumption and

business investment are expected to be muted this year. Productivity will be adversely impacted as businesses introduce new workplace safety measures.

The International Monetary Fund (“IMF”) downgraded the global economic forecast with an expected drop in Gross Domestic Product (“GDP”) of 4.9% this year. Advanced and emerging/developing economies are forecasted to shrink by 8% and 3%, respectively. The IMF is forecasting an economic contraction of 8.4% in Canada, 8% in the US, and 10.2% in the Eurozone and United Kingdom (“UK”). China is forecasted to grow at 1% this year. Central banks and governments around the world continue to implement monetary and fiscal policies to support economies and bolster liquidity.

After a marathon summit, Eurozone leaders finally agreed on an unprecedented €1.8 trillion budget and coronavirus recovery fund. The COVID-19 economic rescue plan will help member countries recover from recession through a €750 billion aid package in the form of grants and loans. The ratio of loans to grants was controversial as the more fiscally conservative nations were calling for funding to predominantly be in the form of loans. Negotiations brought the amount of grants down to €390 billion with the remaining €360 billion to be administered as low-interest loans, the biggest joint borrowing ever agreed to by the European Union (“EU”). Safeguards against misuse of funds will be implemented. Aid recipients will have to submit spending plans to the European Commission, and a majority of states will be able to block projects.

China has implemented a second round of lock down measures in select cities where new cases of COVID-19 were detected. To combat sagging international and domestic demand, China has introduced a new \$500 billion fiscal package. The Chinese government is implementing measures aimed at employment, basic livelihood, operation of market entities, food and energy security, supply chain stability, and smooth operation of government.

### United States Overview

To date the US has reported 3.8 million infections and 140,000 deaths attributable to COVID-19. The country makes up 4% of the world’s population, yet accounts for over 26% of the world’s COVID-19 cases. Many states implemented lock down measures in March to contain the virus and then began to ease off restrictions in May. Different states reopened their economies with varying degrees of limitations. The recent surge in the number of cases has caused at least 21 states to pause or delay their restart plans. In July, the US surpassed the unenviable milestone of close to 75,000 COVID-19 cases reported in a single day. Health officials are now warning that a daily case count of 100,000 is possible if citizens do not follow social distancing and mask-wearing recommendations.

Over the last 14 weeks, 47 million Americans have filed for unemployment benefits. Claims for unemployment have fallen as many states have reopened or relaxed quarantine measures. The US unemployment rate dropped to 11.1% in June, improving from an all-time high of 14.7% in April. Prior to the pandemic, unemployment was at a record low of 3.5%.

Inflation in the US fell for three straight months starting in March with a slight uptick reported in June. The Federal Reserve (“Fed”) is forecasting inflation to be muted this year due to weakness in the economy, a struggling labour force, and decreased consumption. The Fed held their key interest rate range at 0% - 0.25% in June and continues to reiterate that current accommodative monetary policy is needed to support the economy. The central bank is continuing with its purchases of bonds and lending programs to provide liquidity to the market.

The US dollar has appreciated against other currencies as global investors view the currency as a safe-haven instrument in times of economic uncertainty. The American dollar faces a risk of depreciation as other major economies successfully reopen while avoiding a large resurgence in COVID-19 cases.

The US federal government has provided various aid packages to individuals and businesses to support the economy. Income support and enhanced unemployment benefits were provided to individuals and families. Businesses are receiving support through loan programs. The Trump administration has signalled that it is willing to provide further stimulus in the coming months.

### Canadian Overview

Canada has recorded more than 113,000 cases of COVID-19 and over 8,900 deaths with Ontario and Quebec being the hardest-hit provinces. Most non-essential businesses were closed starting in mid-March with all levels of governments urging people to stay home to contain the spread of the virus. After two months of restrictions, many provinces began to slowly re-open with workers returning to their jobs and households resuming some of their normal activities.

Canada's unemployment rate rose to 13.7% in May, the highest level in over 40 years. Over three million jobs were lost, and many Canadians had their hours-worked slashed. Inflation fell to -0.4% as spending patterns shifted during the pandemic. Consumers spent more on groceries and less on travel and gasoline. Plunging fuel prices, along with less consumption, resulted in two consecutive months of negative inflation readings.

The Bank of Canada ("BOC") held their key interest rate at 0.25% during the June meeting and indicated rates will not be lowered further. The central bank will continue with bond purchases to ensure sufficient liquidity in financial markets. Economic growth is expected in the third quarter as some business activities resume. Due to ongoing physical distancing requirements, workplaces are not expected to have the same level of productivity. The BOC governor warned that the economic recovery will be prolonged and bumpy. The pandemic has affected a wide range of industries and some businesses that were temporarily closed may close permanently.

The Federal government continues to provide income support to Canadians. The Canada Emergency Response Benefit ("CERB") which provides a weekly payment of \$500 to workers impacted by COVID-19 has been extended for another eight weeks, bringing total coverage to 24 weeks. Post secondary students who do not qualify for CERB or Employment Insurance will be supported through the Canada Emergency Student Benefit ("CESB"). From May to August, eligible students will receive, for each four-week period, \$1,250 or \$2,000 if they have a disability or dependents. The federal government also introduced the Canada Student Service Grant. A grant of \$1,000 will be offered to students for every hundred volunteer hours completed, to a maximum of \$5,000. The program is available to recent graduates and post-secondary students.

The government is providing qualifying businesses and non-profits loans of up to \$40,000 and a wage subsidy program to help eligible employers keep staff on their payroll. The Canada Emergency Wage Subsidy ("CEWS") provides a weekly subsidy of up to \$847 per employee. As of June 15, over 353,000 applications have been approved.

Finance Minister Morneau presented a fiscal snapshot which laid out the effect of pandemic-related support programs. The 2020-21 federal deficit is expected to rise to \$343 billion with net federal debt at \$1.2 trillion. The federal debt-to-GDP ratio is forecasted at 49% for this fiscal year with GDP projected to shrink by 6.8%. The Finance Minister said that without government pandemic

programs, the GDP would have contracted by more than 10% and unemployment would have risen by another 2%.

### British Columbia Overview

British Columbia (“BC”) could face extreme economic impacts as a result of the COVID-19 pandemic, with a possible deficit in the billions. Revenue losses, combined with increased spending associated with relief measures, could result in a deficit of approximately \$12.5 billion. BC’s unemployment rate climbed to 13.4% with youth unemployment soaring to 28.7% in May. Since February, BC has shed over 353,000 jobs. The retail, food services, accommodation, and hospitality sectors accounted for the majority of jobs lost. Lower wage earners and youths were most impacted by the economic fallout.

After two months of shutdown, the BC government lifted restrictions on several businesses in mid-May. Retailers, restaurants, pubs, personal care establishments, and medically related services were allowed to resume operations, subject to enhanced safety protocols and restrictions on capacity.

BC also entered Phase 3 of its Restart Plan during the last week of June with the reopening of hotels, resorts, and select entertainment venues. Many operators in the accommodation industry closed even though it was not mandated by a public health order. The province is now encouraging wider inter-province travel; however, international, and out-of-province tourism is strongly discouraged. With more British Columbians vacationing close to home, it is hoped that the service industry will soon be on the path to recovery. The film and television production sector is preparing to resume with a new set of health and safety measures in place.

The provincial government earmarked \$5 billion for their pandemic relief plan in March with \$1.5 billion set aside for economic recovery. The BC Emergency Benefit for Workers provides a \$1,000 tax-free payment to the unemployed. To date, more than 600,000 applications have been approved. The government has extended their Temporary Rental Supplement (“TRS”) of up to \$500 per month until August of this year. So far, 82,500 TRS applications have been approved. The province is also extending the temporary ban on rent increases and evictions for non-payment of rent.

The BC government changed its balanced budget legislation to allow the province to maintain deficit budgets for the next three years. The legislative change is to ensure funding is available as the province continues to recover from COVID-19.

### City of Surrey Overview

In response to the financial impacts of COVID-19 on the City, its businesses, and residents, in May 2020, City Council approved the Surrey Economic Action and Recovery Plan (the “Plan”). The objective of the Plan was to help facilitate Surrey’s economic recovery from COVID-19 through a series of initiatives centered on encouraging and supporting residents, businesses, investments, and job creation opportunities in the City. Some of the key areas included in this Plan were:

- 50% reduction of many fees relating to the development for new and in-stream projects with a construction value of greater than \$25 million;
- 90-day extension on late payment penalties for all property tax payments;
- 90-day extension on annual flat water and sewer payments;
- deferral of business license late payment penalties to provide relief to businesses that are late in paying their business license fees due to the financial impact of COVID-19; and

- process improvements to help the development and construction sectors citywide by expediting and streamlining permitting process. This collaborative approach will allow qualifying projects to move quickly through the application and approvals process, thus ensuring these important investments can move towards the construction phase rapidly and help the economic recovery.

Furthermore, Council supported the implementation of the Parking to Patios program in order to facilitate the safe economic recovery for the restaurant and bar sector. This program allows seating establishments within the City to easily add or expand outdoor seating areas and creates a simple and flexible process allowing eating establishment to provide increased physical distancing opportunities in outdoor spaces adjacent to their businesses, while maintaining a minimum level of safety and regulatory approval through a streamlined municipal process.

To proactively stimulate the local economy and create local jobs, Council has placed a priority on private sector projects that are advanced in the development approval process. Council is also moving ahead with Engineering Capital projects that upgrade or improve water, drainage, and sewage services. Not only are these services of an essential nature to the City, their approval will positively impact the local economy in the short-term and will create jobs at a time when many people are looking for meaningful work.

As a result of the economic stimulus initiatives supported by the Mayor and Council to Surrey residents and businesses, the City has seen a noted economic recovery in this quarter, as compared to the financial impacts of the COVID-19 pandemic forecasted in late Quarter 1. The forecast in this report incorporates the latest available information, including the Provincial Restart Plan which is currently at Phase 3.

The following discussion relates to key areas that represent notable variances relative to the previous Quarter 1 forecast and in relation to the annual adopted budget.

#### *Property Taxation*

While the property tax payment due date remained unchanged as July 2, 2020, property owners were provided a 90-day extension until September 30, 2020 to pay their taxes without penalty. Thanks to the support from the taxpayers, 60% of 2020 property taxation revenues have been received by the due date and as at the date of this report, the City has collected 66% of property taxation revenues for 2020.

The forecasted property tax revenues are approximately \$1.35 million higher than budgeted due to a higher than anticipated physical growth, which results in additional parcel and assessment value taxation revenues. This information was finalized as part of the 2020 Property Tax Levy process which occurs in May of each year.

#### *Investment Interest*

Due to COVID-19, the Bank of Canada key interest rate dropped to a record low rate of 0.25%. Given the steep decline in interest rates, investment income is currently forecasted to be \$3.98 million below budget, however this is higher than the Quarter 1 forecast due primarily to a combination of higher than forecasted investment income return and the availability of funds for investments.

### *Provincial Casino Revenue Sharing*

Due to COVID-19, and the unlikely reopening of Casinos in the near future, it is expected that gaming revenue will have an unfavourable variance of \$3.5 million at year end.

### *Corporate Leases*

Due to COVID-19, it is expected that lease revenue on City owned properties will be requested to be deferred by tenants, resulting in an unfavourable variance of \$1.8 million at year-end. The City has been co-operating with tenants, and on a case by case basis, has come to agreements on deferral plans to provide relief from the financial impacts of COVID-19. Overall, staff have amended the current forecast for leasing revenue favorably relative to Quarter 1 forecast.

### *Other Revenues*

Due to COVID-19, there were uncertainties that Surrey City Development Corporation (“SCDC”) would not be able to pay a dividend payment of \$4.5 million to the City, however after the first two quarters of 2020, it has been confirmed that SCDC will be able to make the dividend payment and accordingly there will be no variance for this revenue at year end.

### *Program Revenues*

The unfavourable variance in Program Revenues is currently forecasted to be \$29.6 million at year end, this is favourable relative to the Quarter 1 forecast which forecasted a \$42.1 million unfavourable variance. The difference of \$12.5 million in forecasted revenues is primarily made up of the following departments:

*Policing Transition Department:* \$1 million in higher than budgeted revenues from traffic fine revenue sharing from the Province for fiscal 2020.

*Engineering Services- General Operating:* \$2.9 million in higher than expected revenues as compared to first quarter forecast due to better than expected application fees and permit revenues resulting from stronger than forecasted development activity relative to Quarter 1.

*Parks, Recreation & Culture Department:* Forecasting \$3 million in higher than expected revenues as compared to first quarter forecast. The City of Surrey is taking a safe and phased approach to the re-opening of Parks, Recreation & Culture facilities. Re-openings are approved based on health and safety considerations, programming demand and financial viability. Based on the City’s re-opening plan and revenue projections, it is expected that the combined revenue from programs prior to COVID-19 related facility closures and from the programs that will be offered once the facilities start to open will be significantly below budget but higher than the Quarter 1 forecast.

*Planning and Department:* \$2.5 million in higher than expected revenues as compared to first quarter forecast as a result of better than expected permit, inspection and application revenues due to increased development activity resulting in part from incentives to the development community as a part of Surrey Economic Action and Recovery Plan.

*Corporate Services Department:* \$2.2 million in higher than forecasted revenues as compared to the forecast at the end of the first quarter due to stronger revenues from business licenses.

### *Program Expenditures, Net of Transfers*

Favourable variance in Program Expenditures, net of Transfers is forecasted to be \$26.18 million at the end of this quarter as compared to \$22.7 million forecasted at the end of the first quarter. This difference of \$3.48 million in forecasted favourable expenditures is primarily made up of the following departments:

*Surrey Public Libraries:* This department is forecasted to have a favourable variance of \$3.6 million as compared to a favourable variance of \$320,000 forecasted at the end of first quarter. This difference in the forecasted variance is due to cost avoidance savings from the library facility closures in response to the public health risks posed by the COVID-19 pandemic.

*Finance:* This department is forecasted to have a favourable variance of \$1.5 million as compared to a favourable variance of \$213,000 forecasted at the end of the first quarter. This difference in variance is due primarily to higher than expected external reimbursements related to settlements of claims in the Risk Management Division.

*Corporate Services Department:* This department is forecasted to have an unfavourable variance of \$1.5 million as compared to a favourable variance of \$91,000 forecasted at the end of the first quarter. This difference in variance is due primarily to increased staff costs, including overtime, to ensure enforcement of Provincial Health Office orders during the Provincial State of Emergency due to the COVID-19 pandemic.

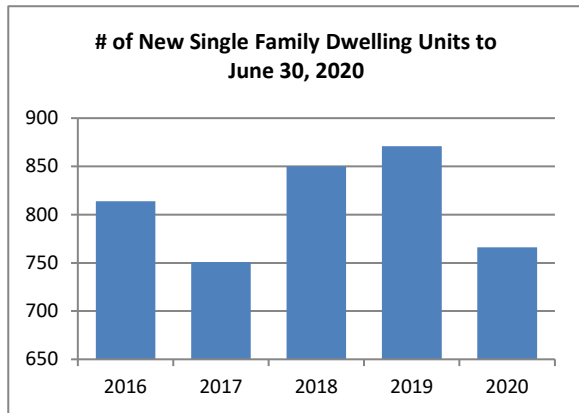
### *Corporate Transfers*

Favourable variance in Corporate Transfers is forecasted to be \$14.9 million at the end of this quarter as compared to the \$2.5 million unfavourable variance forecasted at the end of the first quarter. The significant portion of this difference is due to 2020 Capital Program Elimination/Deferral of \$12.3 million, as supported by Council. This utilization of general funding is an important mitigating measure to minimize the forecasted budget shortfall and to balance the budget in 2020.

### **City of Surrey's Financial Performance**

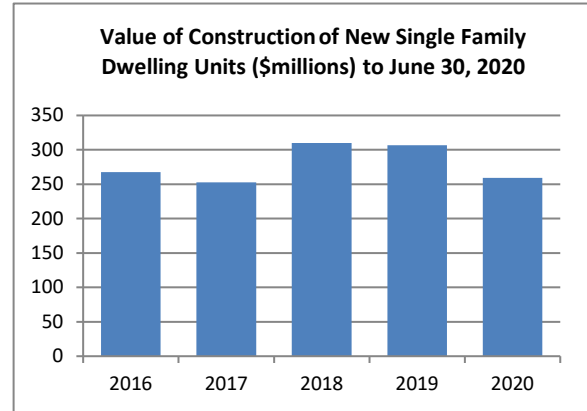
The City has seen a 50% drop in overall value of construction in all categories combined, residential and non-residential, in the first six months of 2020 as compared to the same period in 2019. However, relative to the five-year average prior to 2019, construction value is actually on par during the first six months of this year. Due to social distancing measures in place due to COVID-19, both the construction activity and the real estate sales activity have been impacted. As a result, overall development activity has slowed down and developers are waiting for some signs of economic recovery before continuing on with their existing projects or start working on the projects that they were planning to undertake during the late spring/early summer months, when the number of development applications are generally higher, as compared to other months in the year. Although there is a drop in development activity due to COVID-19 as compared to the same period in 2019, the City has seen an increase in permits being applied for and issued after the City's COVID-19 Surrey Economic Action and Recovery Plan was implemented in May of this year.

The following graphs show data for the first six months of 2020 compared to previous years.



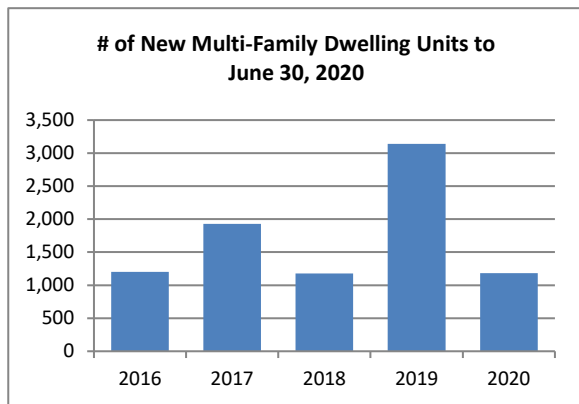
Graph 1

Similar to the trend for single-family home sales in Metro Vancouver due to COVID-19, number of new single-family dwellings, including single family dwelling units with secondary suites, has dropped by 12% year over year.



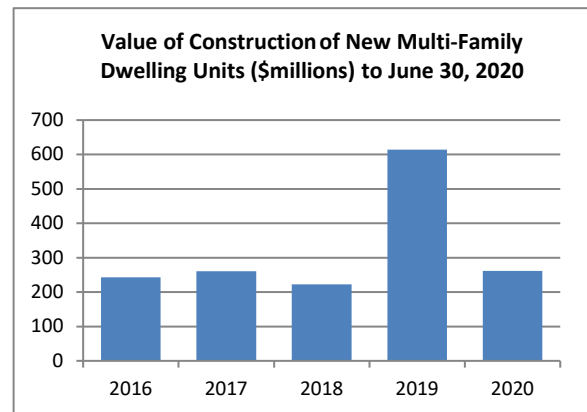
Graph 2

Consistent with the decline in the number of dwelling units issued permits in this six-month period as compared to the same period last year, the value of construction has decreased by 16% when compared to the same period last year.



Graph 3

Compared to the decline in single-family dwelling units, multi-family dwelling units in townhouses, low-rise and high-rise apartments have declined significantly. Due in part to COVID-19, the development community has taken a cautious approach, and as a result, activity in this dwelling type has dropped by 62% year over year. Although there is a drop in the number of these units compared to the same period in 2019, the City has seen an increase in permits issued for these units after the City's COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year.



Graph 4

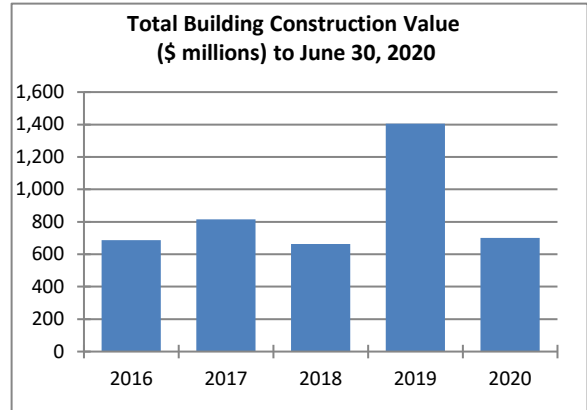
Consistent with the drop in the number of permits for multi-family dwelling units in this quarter as compared to the same quarter last year, the value of construction has decreased by 57% when compared to the same period last year. Similar to the increase in the number of dwelling units in June this year, the City has seen an increase in value of construction of these units after the City's COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year.





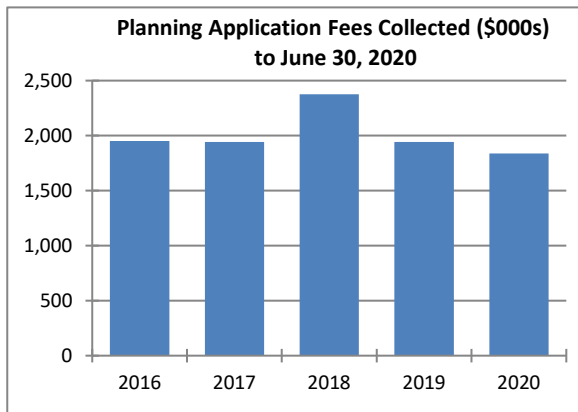
Graph 5

Construction value of Industrial, Commercial Institutional (“ICI”) permits for the first six months of 2020 is significantly lower as compared to the same period in 2019. This is primarily due to the impact of COVID-19 on the construction activity. Compared to 2019, the value of construction in the ICI sector is down by 62% year over year. After the City’s COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year, there has been slight recovery in the construction value of ICI permits.



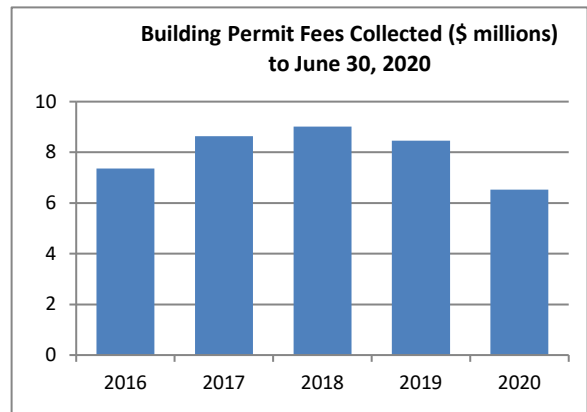
Graph 6

Consistent with the ICI sector, total building construction in the City for the first six months of the year is significantly lower when compared to the same period last year. Compared to 2019, total building construction value is down by 50% year over year. Consistent with overall improvement in construction activity after the City’s COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year, the overall building construction values in have started showing some signs of recovery throughout all permit types.



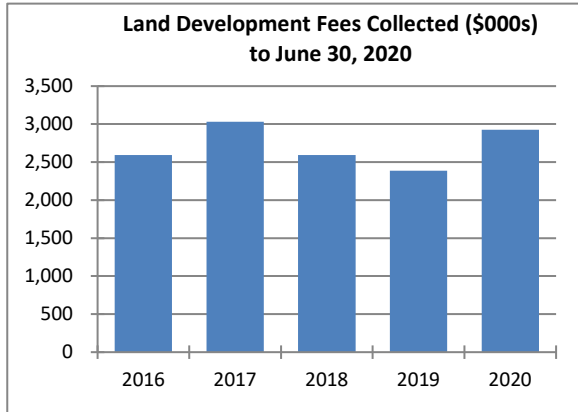
Graph 7

Planning application fees collected in the first six months of the year are 5% lower than those collected in the same period last year. Although there is a drop in the application fees collected as compared to the same period in 2019, due primarily to COVID-19, the City has seen an increase in applications in the latter half of the second quarter, especially after the City’s COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year.



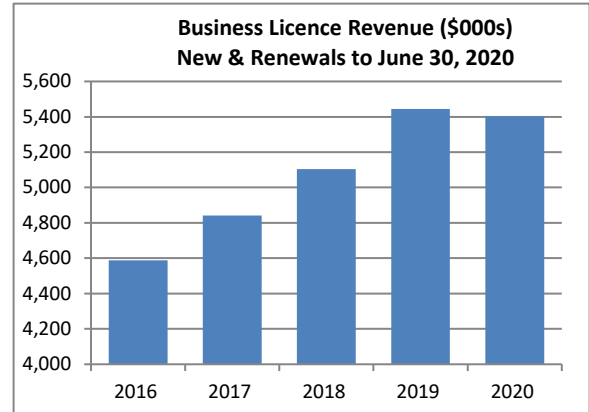
Graph 8

Due primarily to COVID-19, building permit fees collected for the first six months of this year are 23% lower than those collected in the same period last year. Similar to the planning application fees, the City has seen an increase in applications in the latter half of the second quarter, especially after the City’s COVID-19 Surrey Economic Action and Recovery Plan was implemented in May this year.



Graph 9

Due to three large projects that accounted for approximately \$1.1M out of the \$3M in Engineering Land Development fees collected in the first six months of the year, this fees collection is 23% higher in the first six months of 2020 than the same period in 2019.

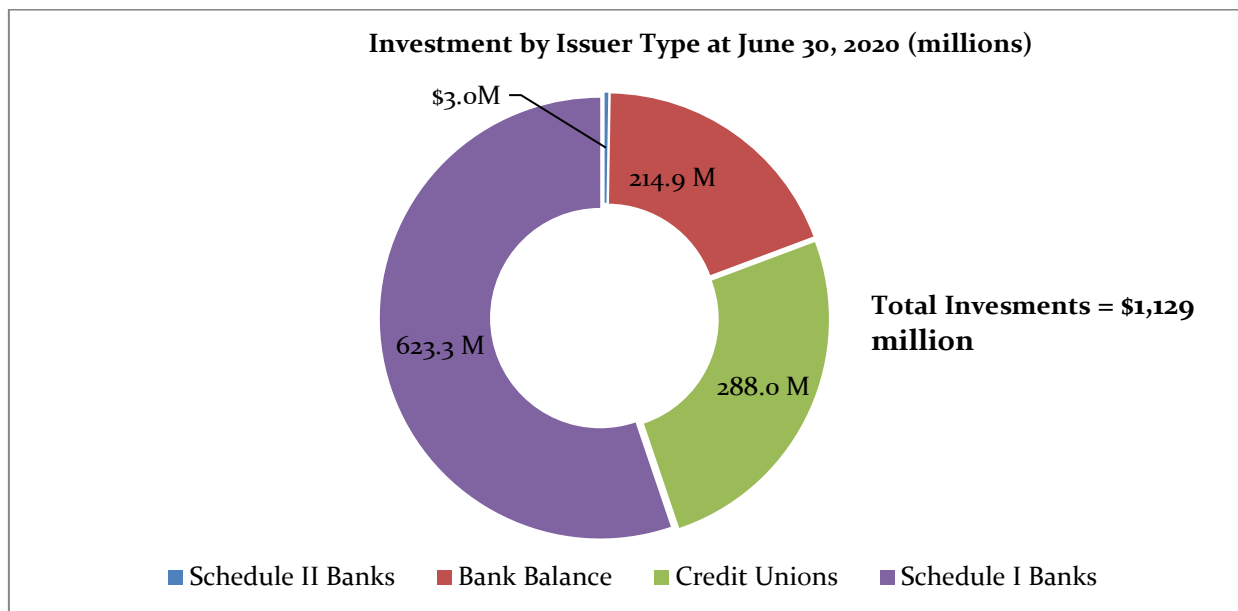


Graph 10

Business Licence Revenue has decreased by 1% as compared to the same period last year, primarily due to a reduction in business licenses issued and renewed due to COVID-19.

### 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 \$1,129 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.

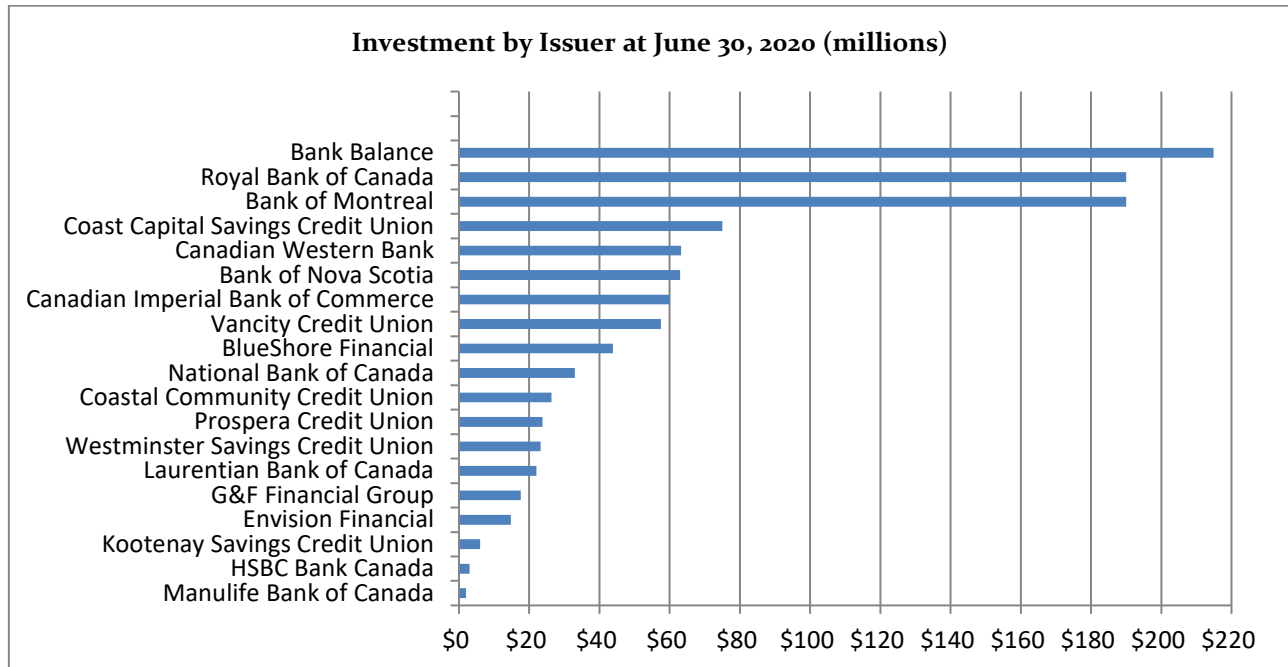


Graph 11

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

### Diversification

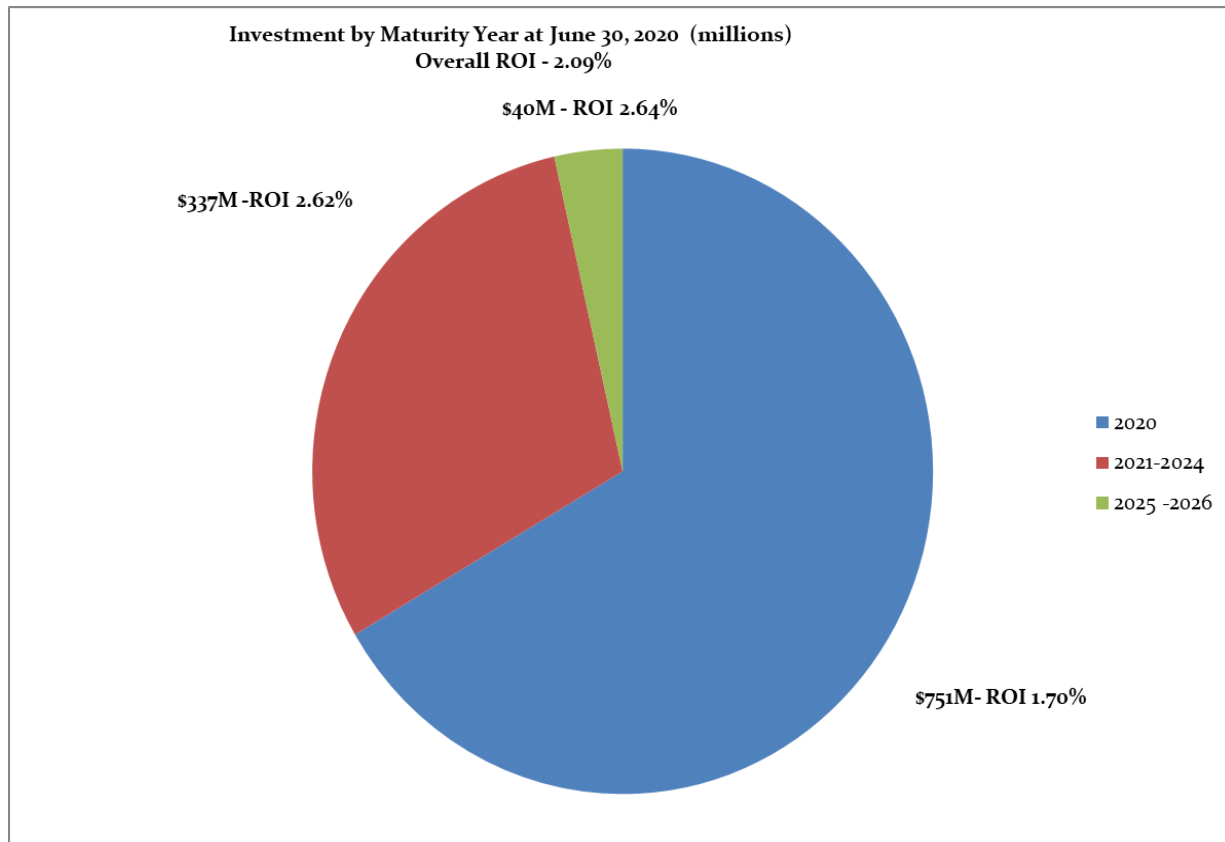
In order to reduce overall portfolio risk, the City diversifies its investment holdings across a range of security types and financial institutions. Graph 12 shows a listing of the City's portfolio by Financial Institution.



Graph 12

### Liquidity

In response to COVID-19, cashflow modeling is being undertaken to consider various scenarios and the corresponding effect on liquidity. Efforts are being made to ensure that the investment portfolio remains sufficiently liquid in order to meet all reasonably anticipated operating and capital cash flow requirements. The investment portfolio is managed through the laddering of investment maturities to account for the timing of cashflow demands. The City's forecasted cash balances are currently in a healthy position with efforts ongoing to remain prepared as new information is incorporated into the cashflow forecast. In the event the City's cash flow requirements change drastically, we are well positioned to add liquidity as necessary. Graph 13 shows the portfolio by maturity terms.



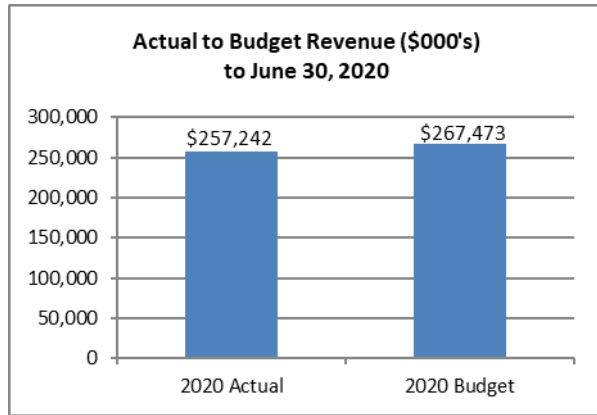
Graph 13

### Return on Investment

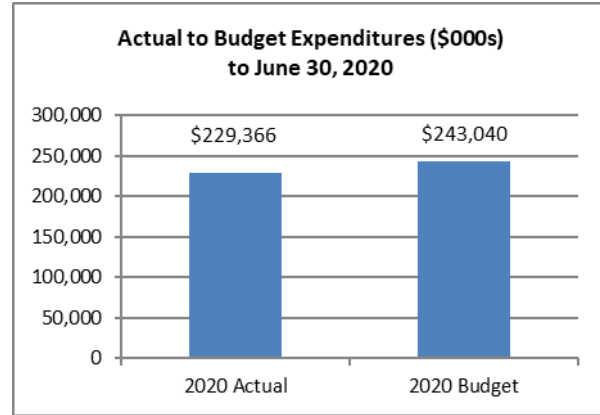
During the six-month period ending June 30, 2020, the City's investment portfolio earned a combined rate of approximately 2.09% (during the six-month period ending June 30, 2019 – 2.61%) while maintaining investment security as outlined in the City's investment policy. Due to COVID-19, BOC's key interest rate is now at a record low rate of 0.25%. Given the steep decline in interest rates, interest revenue is expected to be below budget for the year 2020. 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 2020 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 2020.



Graph 14



Graph 15

Appendix “I” documents the General Operating Fund’s revenues and expenditures for the second quarter of 2020 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 2020 Financial Plan; and as shown in Appendix “II”.

Policing Transition currently has a favourable variance of \$780,000; and is forecasted to have a favourable variance of \$1,105,000 at year-end, due to higher than budgeted traffic revenue fine sharing grant from the Province.

RCMP Contract currently has a favourable variance of \$614,000 primarily due to savings from vacancies and is forecasted to have a favourable variance of \$400,000 at year-end.

Fire Department currently has a favourable variance of \$250,000 resulting from the timing of revenues and expenditures; and is forecasted to meet budget at year end.

Engineering Services-General Operating currently has a favourable variance of \$101,000, primarily due to the timing of revenue recognition, staff vacancies and the timing of expenditures; and is forecasted to have an unfavourable variance at year-end of \$1,277,000 due to reduction in application fees and permit revenues, as a direct result of COVID-19.

Parks, Recreation & Culture Department currently has a favourable variance of \$1,848,000; and is forecasted to have an unfavourable variance at year-end of \$2,982,000. The favourable variance at the end of second quarter is a result of cost avoidance realized in salaries and benefits along with operating costs due to the facility closures since March 16, 2020 to comply with physical distancing restrictions in BC. Unfavourable variances at year-end are a direct result of overall decline in revenues due to Parks, Recreation & Culture facility closures.

Surrey Public Library currently has a favourable variance of \$2,319,000, due to the savings from salaries and operating costs due to closure of facilities due to COVID-19 and is forecasted to have a favourable variance at year-end of \$3,434,000. Favourable variances are a direct result of operating

cost and salaries and benefits expenditure savings due to the facility closures, including deferral of opening of Clayton Community Centre to 2021.

Planning & Development Department which also includes Civic Facilities, currently has a favourable variance of \$1,378,000; and is forecasted to have an unfavourable variance at year-end of \$1,913,000. Since the Planning & Development revenues are recognized up to a two-year period, permit, inspection and application revenues after the first six months of this year are favourable due in part to strong revenues in 2019. The unfavourable variance at year-end is a direct result of overall decline in permit, inspection and application revenues due to COVID-19.

Mayor and Council has a favourable variance of \$112,000, resulting from timing of expenditures; and is forecasted to be on budget at year-end.

City Grants is currently on budget; and is forecasted to be on budget at year-end.

City Manager's Department has a favourable variance of \$94,000 primarily due to the timing of expenditures; and is forecasted to have a favourable variance of \$95,000 at year-end.

Investment & Intergovernmental Relations Department currently has a favourable variance of \$34,000, primarily due to the timing of expenditures; and is forecasted to be on budget at year-end.

Finance Department currently has an unfavorable variance of 402,000; and is forecasted to have a favourable variance at year-end of \$1,059,000. Unfavourable variances are a direct result of decline in tax certificate inquiries revenues due to a slowdown in real-estate transactions due to COVID-19 and favourable variance are primarily due to higher than expected external recoveries from settlement of claims.

Corporate Services Department currently has an unfavourable variance of \$1,970,000; and is forecasted to have an unfavourable variance at year-end of \$3,326,000. Unfavourable variances are in part a result of a decline in revenue due to COVID-19 and increased salaries expenditure due to increased staff costs, including overtime, to ensure enforcement of Provincial Health Office orders during the Provincial State of Emergency due to COVID-19 pandemic.

## CONCLUSION

Given that local governments are legislatively prohibited from running annual deficits, it was imperative that a proactive approach to mitigating the \$40M forecasted shortfall in Quarter 1 was taken. Council's support of staff recommendations that included difficult but important decisions to mitigate the Quarter 1 forecasted shortfall of \$40.0M have proven successful in Quarter 2. Based on stronger than originally forecasted revenues and mandated departmental savings, cautious reopening of major civil facilities, vacancy gapping, and the elimination/deferral of part of the 2020 Capital Program, staff are optimistic that the City will be able to manage the budgetary shortfall without utilizing any non-statutory reserves funding as was previously proposed and approved by Council. It is important to note that COVID-19 has resulted in significant actual budgetary shortfalls that will require continued sustained commitment to the proactive mitigating strategies for the remainder of the year in order to balance the budget for fiscal 2020.

Staff are keenly awaiting more details in relation to the Federal and Provincial government's recent announcement of \$2.2 billion and \$1 billion respectively, to assist municipalities in British Columbia to cover revenue shortfalls. Staff will assess to what level this funding can directly assist in mitigating the fiscal hardship caused by COVID-19 for this year.

The fiscal hardship caused by the COVID-19 pandemic is continuing to impact the City's financial health. In 2020, the City has prepared mitigating strategies and continues to manage any shortfall, but the impact is going to continue in 2021 and likely in future years. Accordingly, staff will need to incorporate these impacts as we develop the 2021-2025 Financial Plan for Council consideration later this year.

Finally, in the event that a significant resurgence of COVID-19 occurs that requires the Province and the City to revert to Phase 2 or even Phase 1 level protocols, staff will re-evaluate the financial impacts and report to Council with updated information.

Kam Grewal, CPA, CMA  
General Manager, Finance

Appendix "I": 2020 Second Quarter Council Report, Executive Summary - Revenues & Expenditures  
Appendix "II": 2020 Second Quarter Council Report, Departmental Detail

## Appendix "I"

### 2020 2nd QUARTER COUNCIL REPORT EXECUTIVE SUMMARY - REVENUES & EXPENDITURES

\$ 000's

REVENUE SUMMARY	2020: 2nd Qtr YTD Actual	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
<b>Net Taxation</b>	194,598	193,243	1,355	387,846	386,491	1,355
Secondary Suite Infrastructure Fee	11,274	11,274	-	22,228	22,546	(318)
Other Corporate Fees	1,063	1,610	(547)	2,203	2,750	(547)
Investment Interest	7,201	7,727	(526)	12,507	16,488	(3,981)
Provincial Casino Revenue Sharing	708	2,100	(1,392)	708	4,200	(3,492)
Carbon Tax Rebate	284	324	(40)	650	650	-
Other Trsf from Government	803	803	-	1,605	1,605	-
Penalties & Interest on Taxes	209	205	4	926	3,640	(2,714)
Corporate Leases	2,979	3,528	(548)	5,392	7,198	(1,806)
Other Revenues	2,250	2,250	-	4,500	4,500	-
<b>Non-Tax Revenues</b>	26,772	29,820	(3,048)	50,719	63,577	(12,858)
Program Revenues	35,872	44,411	(8,538)	60,889	90,471	(29,582)
<b>TOTAL REVENUES</b>	257,242	267,473	(10,231)	499,454	540,539	(41,085)
EXPENDITURE SUMMARY	2020: 2nd Qtr YTD Actual	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
Program Expenditures, net of transfers	221,980	235,677	13,698	447,903	474,080	26,177
Council Priorities	132	132	-	260	260	-
Fiscal Services	156	129	(27)	282	255	(27)
Debt Interest & Principal	6,435	6,439	4	12,790	12,790	-
Other	663	663	-	1,326	1,326	-
<b>TOTAL EXPENDITURES</b>	229,366	243,040	13,675	462,561	488,711	26,150
CORPORATE TRANSFER SUMMARY	2020: 2nd Qtr YTD Actual	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
Transfer to /(from) Operating Sources	(4,353)	(4,614)	(261)	(9,228)	(9,228)	-
Transfer to /(from) Capital Sources	1,764	1,764	-	3,529	3,529	-
Transfer to /(from) Surplus	27,829	28,762	933	42,592	57,527	14,935
<b>TOTAL TRANSFERS</b>	25,240	25,912	672	36,893	51,828	14,935
<b>Surplus (Deficit)</b>	2,637	(1,479)	4,116	-	-	-
<b>Trsf (To)From Unapprop Surplus</b>	(2,637)	1,479	(4,116)	-	-	-
<b>BALANCED BUDGET</b>	-	-	-	-	-	-
PROJECTED SURPLUS (DEFICIT)					\$	-
BUDGETED TRANSFER FROM SURPLUS						-
<b>ANTICIPATED SURPLUS (DEFICIT) AT YEAR END</b>					\$	-



## Appendix "II"

<b>2020 2nd QUARTER COUNCIL REPORT</b>						
<b>DEPARTMENTAL DETAIL</b>						
<b>\$ 000's</b>						

	2020: 2nd Qtr YTD ACTUAL	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 Projected ACTUAL	2020 ANNUAL BUDGET	2020 Projected Variance
<b>PROGRAM REVENUES</b>						
Policing Transitioning	4,765	4,085	680	9,271	8,170	1,101
RCMP Contract	-	-	-	-	-	-
Fire	433	233	200	2,494	2,347	147
Engineering Services	4,517	4,217	300	5,805	8,190	(2,385)
Parks, Recreation & Culture	8,189	17,293	(9,103)	11,214	34,585	(23,371)
Surrey Public Library	757	804	(46)	1,111	1,621	(510)
Planning & Development	12,129	12,136	(7)	22,021	24,272	(2,251)
Mayor & Council	-	-	-	-	-	-
City Grants	-	-	-	-	-	-
City Manager	-	1	(1)	2	2	-
Invest. & Intergovernmental Relations	-	-	-	-	-	-
Finance	557	735	(178)	988	1,470	(482)
Corporate Services	4,524	4,907	(383)	7,983	9,814	(1,831)
<b>TOTAL PROGRAM REVENUES</b>	<b>35,872</b>	<b>44,411</b>	<b>(8,538)</b>	<b>60,889</b>	<b>90,471</b>	<b>(29,582)</b>

	2020: 2nd Qtr YTD ACTUAL	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 Projected ACTUAL	2020 ANNUAL BUDGET	2020 Projected Variance
<b>PROGRAM EXPENDITURES NET OF TRANSFERS</b>						
Policing Transitioning	16,166	16,266	100	33,180	33,184	4
RCMP Contract	70,340	70,953	614	141,507	141,907	400
Fire	32,727	32,778	50	67,578	67,431	(147)
Engineering Services	6,633	6,434	(199)	9,893	11,001	1,108
Parks, Recreation & Culture	39,654	50,606	10,952	82,300	102,689	20,389
Surrey Public Library	7,563	9,929	2,366	16,318	20,262	3,944
Planning & Development	15,183	16,568	1,385	32,876	33,214	338
Mayor & Council	733	845	112	1,760	1,760	-
City Grants	920	920	-	1,839	1,839	-
City Manager	612	707	95	1,325	1,420	95
Invest. & Intergovernmental Relations	767	801	34	1,608	1,608	-
Finance	5,966	5,742	(224)	9,978	11,520	1,542
Corporate Services	24,716	23,129	(1,587)	47,740	46,245	(1,495)
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>221,980</b>	<b>235,677</b>	<b>13,698</b>	<b>447,903</b>	<b>474,080</b>	<b>26,177</b>

	2020: 2nd Qtr YTD ACTUAL	2020 YTD BUDGET	2020: 2nd Qtr YTD Variance	2020 Projected ACTUAL	2020 ANNUAL BUDGET	2020 Projected Variance
<b>NET PROGRAM</b>						
Policing Transitioning	11,401	12,181	780	23,909	25,014	1,105
RCMP Contract	70,340	70,953	614	141,507	141,907	400
Fire	32,294	32,545	250	65,084	65,084	()
Engineering Services	2,116	2,217	101	4,088	2,811	(1,277)
Parks, Recreation & Culture	31,465	33,314	1,848	71,086	68,104	(2,982)
Surrey Public Library	6,806	9,125	2,319	15,207	18,641	3,434
Planning & Development	3,054	4,432	1,378	10,855	8,942	(1,913)
Mayor & Council	733	845	112	1,760	1,760	-
City Grants	920	920	-	1,839	1,839	-
City Manager	611	706	94	1,323	1,418	95
Invest. & Intergovernmental Relations	767	801	34	1,608	1,608	-
Finance	5,409	5,007	(402)	8,991	10,050	1,059
Corporate Services	20,192	18,222	(1,970)	39,757	36,431	(3,326)
<b>NET PROGRAM TOTAL</b>	<b>186,108</b>	<b>191,267</b>	<b>5,159</b>	<b>387,014</b>	<b>383,609</b>	<b>(3,405)</b>