



Corporate NO: R098

Report COUNCIL DATE: May 1, 2000

REGULAR COUNCIL

TO: Mayor & Council **DATE: April 19, 2000**

FROM: General Manager, Finance, Technology & HR **FILE: 0202-001**

SUBJECT: Quarterly Financial Report

RECOMMENDATION

That Council receive this report for information.

DISCUSSION

The intent of this report is to provide Council with the first quarter update of the City's financial activity compared to the 2000 Financial Plan.

Economic Summary

The international economy is expected to improve this year. Japan's February market indicators were more positive than expected, showing signs that their economy is turning around.

United States

The US economy continues to remain buoyant even though there have been recent fluctuations in the stock market. The GDP growth for the fourth quarter of 1999 hit a fifteen year high of 7.3%. A more conservative level of 4% is expected to be sustained for the current year (see Graph 1). Employment figures continue to remain high when compared to the rest of the world. There is virtually no unemployment in the country. The surge in gas prices and the more turbulent equity market has caused consumer confidence to recede somewhat from January's record highs. The Federal Government has increased interest rates already this year. There will be pressure to increase rates further if

inflation continues to rise (See Graph 2).



Graph 1 Source: Nesbitt Burns - Focus April 7, 2000



Graph 2 Source: Nesbitt Burns - Focus April. 7, 2000

Canada

Economic growth in Canada is expected to remain high (2.5% - 3.0%) for the next two years (See Graph 1). The strong growth of full time employment, complemented by stronger growth in after tax incomes should increase consumer spending. At the same time, the positive outlook for the United States and the improved prospects for Asia should ensure that trade exports will play a large part in continued growth for 2000 and 2001. Canada chalked up a record trade surplus in the first quarter of 2000.

Although rising energy prices pushed the rate of inflation to its highest since mid 1995, there are no additional pressures in sight (See Graph 2). As long as the Canadian dollar is able to maintain its current levels and inflation continues to hover around its projected rate, Canada will be able to maintain its current interest rates. Any increase in the US interest rates however, may pressure Canada to follow suit.

British Columbia

The outlook for British Columbia has improved, mainly due to the stronger global economy and solid North American expansion. However, BC continues to lag most other provinces in growth of output, GDP, real incomes, productivity, exports and manufacturing shipments.

It is anticipated that increased commodity prices and the rebounding Asian economy will contribute to the turnaround in BC's economy this year. Consumers are slowly gaining confidence as the economy is expected to grow faster than the pace set in 1999 (See Graph 1).

Surrey's Financial Performance

The level of development activity is showing signs of improving. Overall, the revenue collected from development is in-line with the adopted budget. It is also comparable with what was collected in 1999.

Surrey's Business Cycle

Growth in Surrey can be measured at several key steps in the development process. We can look at each of the following steps to monitor the progress of development related revenues:

- Collecting Planning Application Fees;
- Collecting Land Development Service Agreement Fees;
- Creating new lots;
- Collecting Development Cost Charges;
- Building Permit construction values;
- Assessments for new Surrey properties, and
- Levying property taxes.

The entire cycle typically takes about one to two years, but this is very dependent upon the size and type of the

development, the market conditions and the assessment cycle. Assessments are valued annually. New construction is added to the tax roll according to its physical condition as at October 31st in any year. These assessment figures are used to calculate the property tax levy for the following year. Therefore, if construction has not started by the valuation date in October, no new property taxes are generated for the following year.

Graph 3

Graph 3 indicates that the revenue generated from planning application fees are slightly higher than those collected in 1999. It is expected that, at minimum, 1999 levels will be maintained for 2000.

Graph 4

Graph 5

Graphs 4 and 5 above, represent the next stages of the cycle. The activity in 1997 was very high when compared to 1998, 1999 and the first quarter of 2000. This can be partly attributable to a major development push in 1997 prior to the introduction of a Regional DCC levy in January, 1998. The increase in planning application fees for the third quarter was reflected by a slight fourth quarter increase for Land Development and DCC's.

Graph 6 below, shows the number of single family lots created by quarter. Once these lots are created, they are available for building. Graph 7 shows an estimate of the number of single family lots actually available in the City for which building permits have not yet been issued.

Graph 7

Graph 8

The majority of building permits for single family dwellings are traditionally issued in the second and third quarters of the year which is reflected in this graph. The number of permits issued for the first quarter of 2000 was slightly less than the number issued in previous years. It is anticipated that the number of single family building permits issued this year will be comparable to those issued in 1999.

The final step in the business cycle is the conversion of the construction value into taxable assessed values. This value is considered to be the 'growth' component of our annual property tax levy. The number of permits issued may decline but this does not necessarily mean that our property tax growth will also decline. The tax rate for commercial/industrial properties is three times that of residential property. This means that a commercial property with the same assessed value as a residential property will generate three times the amount in property taxes. It is important to compare the mix of property classes from one year to the next, in order to determine whether or not the actual value of 'growth' is increasing or decreasing.

Graph 9 shows the value of all building permits issued by Surrey. This represents the future growth for the City for all assessment classes. The actual value of this growth is dependent upon the split between the different assessment classes. It is also dependent upon the timing of the actual construction.



Graph 9

Graph 10

Graph 10 shows that the value of commercial/industrial permits has been relatively stable. We are expecting that the remaining part of 2000 will bring stronger growth in the industrial and commercial sector by virtue of some larger projects which are currently being processed for building permits. (i.e. Tech BC, Grosvenor Shopping Centre etc.)

The following set of graphs show how the mix of property classes determines the value of the growth component of the property tax levy.

Graph 11 shows that the overall assessed value of new growth began to drop off in 1999. This trend has continued for 2000. Graph 12 shows the results when the tax rates are applied to these assessed values. The increased value of the commercial/industrial building permits for the third quarter of 1998 has not yet been reflected in our 2000 assessment values. We should expect a significant increase to our Class 5/6 assessments for the year 2001. Council's initiative to increase commercial/industrial development in Surrey should help increase the tax dollars attributable to growth.

Licencing and Bylaw Enforcement

Business licences are due and payable on May 1st. In 2000 we have continued to increase our licencing revenues by renewing existing licences and also by actively pursuing new ones (Graph 13). The first quarter bylaw infraction revenue figures (Graph 14), when compared to 1999, show the results of continued proactive bylaw enforcement.

Comparison of Actuals versus Budget

The graphs below illustrate the variances between the actual and the budgeted revenues and expenditures for the first quarter of 1999 actuals, 2000 actuals and 2000 budget. There is no significant variance to report for the first quarter.



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Appendix 1 shows these revenues and expenditures at a more detailed level. Departments are closely monitoring their actual results on a monthly basis. At this point, we expect no significant variance from our 2000 Adopted Budget.

City Investment Portfolio

The schedules in Appendix 2 include a summary of our investment portfolio. Schedule 1 is a summary of investments by issuer types, with comparative totals for each month-end from January through March. Schedule 2 is a detailed listing of securities as at March 31, 2000 sub-totaled by issuer type.

The performance of the City's investment portfolio is measured against comparative MFA and Scotia McLeod indices. The graphs on the following page show how Surrey has consistently outperformed these benchmarks.



Interest rates are currently at the level forecasted in our 2000 budget process. We project investment interest revenue to meet our 2000 budget.

SUMMARY

The BC economy has shown signs of recovery in the latter part of 1999 and in the first quarter of 2000. Consumer confidence is slowly being restored. The trend in development activity will still have to be closely monitored for the year so that we can counteract any revenue shortfalls with adjustments to our variable costs.

In summary, the first quarter results do not appear to vary significantly from our Adopted Budget. Departments are analyzing and resolving monthly variances on a regular basis. We will have a better assessment of our financial position after the second quarter results are prepared in early July.

Gary D. Guthrie, CA
General Manager,
Finance, Technology & HR

cc - City Manager
- City Clerk