



Corporate NO: C100

Report COUNCIL DATE: April 20, 2001

REGULAR COUNCIL

TO: Mayor & Council **DATE: April 20, 2001**

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

SUBJECT: Quarterly Financial Report

RECOMMENDATION

That Council receives 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 2001 Financial Plan.

Economic Summary

Even though the United States is showing signs of weakness, their dollar still remains strong internationally. The strong dollar is clearly a reflection of the mounting concern regarding the stability of the rest of the world's markets and economies and may be the beginning of a widespread slowdown.

United States

More than half of the US industries cut jobs over the last three months, showing signs that the weakened economy is effecting a broader range of industries. The GDP growth however, managed to remain positive for the first quarter (Graph 1) but is expected to drop closer to 0% in the next quarter. It is predicted to rebound slightly by the end of the

year. Consumer spending is unlikely to maintain the resilience seen in the opening months of the year. The upshot is that the CPI figures are expected to hover around the 2.5% to 2.9% range for the year (Graph 2), thus reducing any inflation pressures. This will allow borrowing rates to be reduced in the hope of spurring growth.



Graph 1 Source: Nesbitt Burns - Focus April 6, 2001 Graph 2 Source: Nesbitt Burns - Focus April 6, 2001

Canada

Canadian manufacturers have been hit by the global economic slowdown. Although the first quarter GDP reached 1.3% (Graph 1), it is predicted to drop to 0% for the next quarter. Inflation will likely fluctuate around the 2.0% - 2.9% levels for most of the year (Graph 2). History has shown that in an economic downturn, Canada will slow more than the US. So, the Bank of Canada will have to take quick action minimize the effects of the proposed slowdown.

The Canadian Dollar is hovering around an all-time low and is currently trading in the \$1.55 - \$1.56 range. The Bank of Canada has already reduced the prime-lending rate this year. Any further reductions in interest rates could have an adverse effect on the dollar. The need for further reductions will have to be carefully balanced with the need to maintain the Canadian dollar at a reasonable level.

British Columbia

The easing of the Canadian and US economies is expected to impact BC's recent improved growth patterns. We will therefore, expect moderate growth for this year (see Graph 1). The residential housing sector is one area of the provincial economy that continues to show weakness, when compared to previous years. However, housing starts are forecast to rise by about 15% this year, which is the result of recent improvements in the re-sale markets.

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 a slight improvement over what was collected in the first quarter for the last three years.



Graph 3

Graph 3 indicates that the revenue generated from planning application fees has increased over those collected for the same quarter in the last three years. It is expected that, at minimum, 2000 levels will be maintained for 2001.



Graph 4

Graph 5

Graph 4 shows that activity in the first quarter of 2001 was higher than the same quarter for 2000. It is expected that we will collect the same level of Land Development Fees as experienced in 2000. Graph 5 shows that the activity in the first quarter of 2001 was substantially higher than the first quarter of 2000. This is partly due to several large projects and partly due to an overall increase in activity. It is expected that we will meet out budgeted targets for 2001.



Graph 6

The value of residential building permits issued by Surrey for the first quarter of the year is slightly higher than those issued in 2000. This is reflective of Surrey's increased housing sales in the first quarter of the year.

The value of new construction is converted 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 7 Graph 8

Graph 7 shows that the value of commercial/industrial permits for the first quarter is in line with 1999 and 2000. Overall, the 2001 permit values are expected to exceed the 2000 values. This is mainly due to several larger projects such as Tech BC. This should be reflected in increased commercial/industrial property tax growth in the near future.

Graph 8 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.

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 9

Graph 10

Graph 9, on the previous page, shows that the overall assessed value of new growth began to drop off in 1999 but has begun to rebound in 2001. Graph 10 shows the results when the tax rates are applied to these assessed values. 2001 shows an increase in the amount of taxes that we will be collecting for Commercial/Industrial properties. We should expect further increases to our Class 5/6 assessments for the year 2002. 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 at various times of the year depending upon when they were first issued. This year, for the first time, we have initiated a penalty for those who do not pay their licence on or before their due date. In 2001 we have continued to increase our licencing revenues by renewing existing licences and also by actively pursuing new ones (Graph 11). The bylaw infraction revenue figures (Graph 12) continue to reflect the results of continued proactive bylaw enforcement.



Graph 11

Graph 12

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 2000 actuals, 2001 actuals and 2001 budget. There is no significant variance to report for the first quarter.



Graph 13

Graph 14

Appendix 1 shows these revenues and expenditures at a more detailed level. Departments are closely monitoring their actual results on a monthly basis. Departments have also been asked to project their revenues and expenditures to the end of the year. Following are explanations of significant variances from the 2001 budget:

City Manager's Department is currently under budget by about \$130,000. They are expected to meet their revenue projections for the year. They have also several vacant positions, which are expected to be filled in the near future.

Engineering is expected to meet their budget. Operations budgeted to receive \$1,440,000 in GVTA funding for uploaded roads for this year. They will, however, receive only \$1,084,000. This shortfall will be met through decreased expenditures in maintenance of these roads.

Finance, Technology and HR is currently under budget by approximately \$130,000. This is solely due to temporary vacancy gapping. It is expected that these positions will be filled in the near future.

Fire Services is expected to meet their budget at the end of the year. There are currently temporary vacancies that will be filled in the near future.

Parks, Recreation & Culture is on target to meet their budget at the end of the year. Variations shown in this quarterly report are temporary due to seasonal fluctuations and are expected to be eliminated at year-end.

Planning and Development is expected to meet their revenue projections for the year. They have also experienced some expenditures savings in the first quarter due to temporary vacancies. Most of these vacant positions are expected to be filled in the near future.

RCMP is projected to meet their budget. This year the Provincial Ticketing Revenue was budgeted at \$960,000 and was included as part of the RCMP budget. We have recently been informed that this figure will only be \$780,000 for 2001. The final payment of the 2000/2001 RCMP contract will be due in mid-June and includes a reconciliation of the entire contract period (April 2000 – March 2001). We expect that, since at the beginning of the contract period (March-June 2000), the actual number of members was well below our authorized complement, our final billing will be less than originally budgeted. This anticipated savings could be used to offset the \$180,000 shortfall in ticketing revenue.

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 30, 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.



Graph 15

Graph 16



Graph 17

Graph 18

Interest rates are currently at the level forecasted in our 2001 budget process. We project investment interest revenue to meet our 2001 budget.

SUMMARY

Surrey's development has shown signs of improvement over the last several months. This 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. Departments continue to analyze and resolve monthly variances on a regular basis.

In summary, we project that we will meet our budgeted transfer from surplus of \$2.8 Million by the end of the year.

Vivienne Wilke, CGA
Acting General Manager,
Finance, Technology & HR

cc - Acting City Clerk