



# **Corporate** NO: R186

# **Report** COUNCIL DATE: July 24, 2000

## **REGULAR COUNCIL**

**TO: Mayor & Council**    **DATE: July 20, 2000**

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

**SUBJECT: Quarterly Financial Report**

## **RECOMMENDATION**

It is recommended that Council receive this report for information.

## **DISCUSSION**

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

### **Economic Summary**

The international economy is improving. Globally we are experiencing low inflation rates and increased growth rates.

#### **United States**

The US inflation rate is poised to hit 4% this summer (Graph 2). Most of this increase can be directly attributed to the price of gasoline. The Federal Government has already increased interest rates six times over the last year. There will be pressure to increase rates further if inflation continues to rise as expected. The GDP growth downshifted in the first quarter, but is still expected to average a more conservative level of 4% for the current year (see Graph 1). Employment figures continue to remain high when compared to the rest of the world. Jobs are still easy to get and a fully employed labour force still has buoyant expectations for the future.



*Graph 1 Source: Nesbitt Burns - Focus July 14, 2000*



*Graph 2 Source: Nesbitt Burns - Focus July 14, 2000*

## **Canada**

Economic growth in Canada is beginning to ease somewhat. However, it is still expected to remain in the range of 2.5% - 3.0% for the next two years (see Graph 1). Consumer spending is increasing mainly due to the growth in after tax income. 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.

Although rising energy prices pushed the rate of inflation to its highest since mid 1995 (2.9% year over year increase), 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 continues to improve due to the stronger global economy and solid North American expansion. It is anticipated that increased commodity prices and the rebounding Asian economy will contribute to the

turnaround in BC's economy this year. Consumers continue to gain 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.



*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.

Graphs 4 and 5 show that activity in 1997 was very high when compared to 1998, 1999 and the first two quarters 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.



*Graph 4*



*Graph 5*



*Graph 6*

The majority of building permits for single family dwellings are traditionally issued in the second and third quarters of the year. The number of permits issued for the first two quarters of 2000 was slightly less than the number issued in previous years. There are, however, 125 permit applications in queue waiting to be processed. This is equivalent to approximately one month's work.

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 7 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 8*

Graph 8 shows that the value of commercial/industrial permits for the second quarter has substantially increased. This is mainly due to several larger projects such as Grosvenor Shopping Centre and Tech BC. We are expecting to reach our budgeted projections for 2000.

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 shows that the overall assessed value of new growth began to drop off in 1999. This trend has continued for 2000. Graph 10 shows the results when the tax rates are applied to these assessed values. Council's initiative to increase commercial/industrial development in Surrey should help increase the tax dollars attributable to growth.

## **Licencing and Bylaw Enforcement**

The two graphs below show that our 2000 revenues are in line with the revenue collected in 1999. We continue to take a pro-active approach in these areas of 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 second quarter of 1999 actuals, 2000 actuals and 2000 budget. There is no significant variance to report for the second 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. The following departments have projected significant variances from the 2000 Adopted Budget:

RCMP: The net expenditures at the end of the year are projected to be less than the adopted budget by approximately \$156,000. This is mainly due to the savings created from temporary vacancies.

Fire Services: The net projected year end expenditures are expected to exceed the adopted budget by approximately \$709,000. The department will be reviewing their services to develop a plan to reduce this shortfall by year end.

Engineering Services: The net expenditures at the end of the year are expected to be less than the adopted budget by approximately \$321,000. This is partly due to savings in the operations area and partly due to a temporary increase in the revenues from the sale of our recyclable goods.

Parks, Recreation & Culture: By the end of the year, the net expenditures are projected to exceed the adopted budget by approximately \$347,000. This is mainly due to decreased activity at the North Surrey Recreation Centre and Newton Wave Pool because of the Surrey Sport and Leisure Complex. Parks, Recreation & Culture are currently reviewing all programs to identify potential savings which will reduce this shortfall.

Planning & Development: Projected revenues are less than budgeted by \$542,000. However, this has been correspondingly offset by a matching reduction in expenditures.

City Manager: The net expenditures at the end of the year are projected to exceed the adopted budget by approximately \$141,000. The budgeted license revenue was \$3.7 Million, which is shared with Planning & Development. The projected revenue for 2000 is \$3.2 Million, which leaves a shortfall of \$500,000. This has been partially offset by the reduction of other expenditures. The department will continue to closely monitor expenditures for the rest of the year.

Finance, Technology & HR: The net expenditures are projected to be less than the adopted budget by approximately \$239,000. This is due to temporary staff vacancies within the department.



Fire Services, Parks, Recreation & Culture and the City Manager's Departments will be pro-actively managing their expenditures for the remainder of the year to ensure that any projected shortfalls will be minimized. Our goal is to manage such that the projected transfer of \$2.1 Million will be further reduced to \$1.0 Million by year end.

## 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 April through June. Schedule 2 is a detailed listing of securities as at June 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 below show how Surrey has consistently outperformed these benchmarks.



*Graph 15*



*Graph 17*



*Graph 16*



*Graph 18*

Interest rates are currently slightly higher than the level forecasted in our 2000 budget process. We project investment interest revenue to exceed our 2000 budget by about \$300,000.

## **SUMMARY**

The BC economy continues to show signs of recovery for the first half of 2000. Consumer confidence continues to increase. 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 second quarter results show that we project to reduce our budgeted transfer from surplus from \$2.9 Million to \$2.1 Million. Those departments currently projecting budget shortfalls will be expected to closely monitor their expenditures so that this transfer from surplus is targeted as no more than \$1.0 Million by the end of the year.

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

cc - City Manager

- City Clerk