



Corporate NO: R182

Report COUNCIL DATE:

REGULAR COUNCIL

TO: Mayor & Council **DATE: July 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 second quarter update of the City's financial activity compared to the 2001 Financial Plan.

Economic Summary

The United States has continued to show signs of a weakening economy yet their dollar remains strong internationally. The strong dollar reflects concerns regarding stability of the rest of the world's markets and economies and optimism regarding concerted efforts by the US to revive its economy. Both the US and Canadian economies are expected to gain momentum in the second half of 2001 and into 2002.

United States

The bulk of the weakness in both the US and Canadian economies is concentrated in the manufacturing sector with the high-tech/telecom and automobile industries being particularly hard hit. The buildup of excess inventory and excess capacity during the recent years when capital was easily and cheaply attainable contributed to the weakness. Recent data indicates that the excess inventory problem is being corrected although more needs to be done. To the extent the

deterioration in the first quarter growth is due to the inventory correction, the weakness in the first and second quarters of this year should be reviewed as positive, for this sets the stage for a recovery in production.



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

Canada

Canada has clearly been on the receiving end of the US manufacturing and capital investment collapse. In terms of the automobile industry, Canada has some offsetting benefit as a result of increased foreign investment, particularly by Japanese and European automakers.

The Canadian Dollar is currently trading in the \$1.55 - \$1.56 range. Canada continues to have strong economic growth, low inflation, budget surpluses, sizable current account surplus and positive interest rate spreads. However, perceived resource dependence, lower short term interest rates, net outflows due to relaxed foreign content rules in retirement funds, as well as productivity deterioration, has kept the Canadian dollar low in comparison to the US Dollar.

The Bank of Canada has just reduced the prime-lending rate a further 0.25%. There may be further rate cuts later in the year.

British Columbia

After growing an estimated 3.0% in 2000, British Columbia's real GDP is projected to grow about 2.7% in 2001 and 3.0% in 2002. With the recent changes of government, however, and the fact that the new government has already started to act by significantly lowering personal tax rates, the potential to meet or exceed these growth projections is high. Nevertheless, the province's outlook will continue to be strongly influenced by external developments. The outcome of the softwood lumber dispute with the US is perhaps the biggest challenge facing the BC economy.

Recent improvements in the re-sale housing market should have a positive effect on housing starts in the Lower Mainland. The concern still remains though, that more people are leaving BC than those moving into the Province from other areas.

Surrey's Financial Performance

The level of development activity continues to show signs of improving. Overall, the revenue collected from development is slightly above the adopted budget. It is also a slight improvement over what was collected in the first half-year 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 time in the last three years. It is expected that there will be a marginal increase over the 2000 fees generated.



Graph 4

Graph 5

Graph 4 shows that activity in the first half of 2001 was markedly higher than the same time frame for 2000. It is expected that we will surpass the level of Land Development Fees as experienced in 2000. Graph 5 shows that the activity in the first half of 2001 was substantially higher than the first half 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 exceed our budgeted targets for 2001.



Graph 6

The value of residential building permits issued by Surrey for the first half of the year is marginally higher than those issued in 2000. This is reflective of Surrey's increased housing sales in the first half 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 half of the year is exceeding all previous years. 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 increase will represent the future growth for the City for all tax 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 along with the increased building activity that has appeared in the first half of 2001.

Licensing 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 half of 2000 actuals, 2001 actuals and 2001 budget. Even though we anticipate a shortfall in our share of the Provincial Traffic Fine Revenue and GVTA funding, it is anticipated that the budgeted transfer from surplus will be considerably reduced by the end of the year. More detailed explanations follow the graphs below.



Graph 14

Graph 13

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 expected to be under budget by about \$250,000 for the year. The revenue projections for business licenses are not anticipated to meet budget, however expenses have been reduced to offset this anticipated shortfall. Further expense reductions have been implemented along with several vacant positions, to produce the anticipated surplus.

Engineering is expected to contribute a surplus of \$300,000 towards reducing the corporate deficit despite a reduction of \$356,000 in GVTA funding for uploaded roads. This surplus will be achieved through increased revenues, stringent cost controls and departmental vacancies.

Finance, Technology & HR is projecting to be under budget by approximately \$500,000. This is primarily due to temporary vacancy gapping and other savings in operating costs.

Fire Services has achieved savings through some vacancies, changes in WCB calculations and efficiencies in their staffing pool. This is anticipated to result a savings of \$300,000 by the end of the year.

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 exceed their revenue projections for the year. They have also experienced

some expenditures savings in the first half due to temporary vacancies. The savings that have been achieved are expected to be maintained to year-end, while most of their vacant positions are expected to be filled in the near future. They are expected to contribute \$500,000 towards the reduction of the corporate transfer from surplus.

RCMP has projected to exceed their budget by \$580,000, on the assumption that Council approves the separate report (#R176) also being presented. The following information provides a breakdown:

- Anticipated shortfall in Provincial Ticketing Revenue of \$180,000. Even though the Province has indicated that they will increase our share of this revenue to 75%, this will not come into effect until 2002.
- 12 additional officers to begin September 1st, not previously included in the budget (City's share is \$400,000). A more detailed explanation is included as a separate Report to Council (#R176).

Council Projects: As additional information, we have also included an updated view the allocations that have been made by Council for the first half of 2001. The details of allocations to date are located in Appendix 2.

City Investment Portfolio

The schedules in Appendix 3 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, 2001 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

Although current interest rates are below the level forecasted in our 2001 budget process, we project investment interest revenue to meet our 2001 budget.

SUMMARY

At the beginning of the year, each Department was tasked with the responsibility of identifying one-time savings that would contribute to the reduction of the budgeted transfer from surplus. We also became aware in the early part of the year, that funding from senior levels of Government (Traffic Fine Revenue and GVTA funding) was anticipated to be less than budgeted by approximately \$530,000. The Province has indicated that our share of the Traffic Fine Revenue will increase to 75% beginning in 2002.

Most Departments have been able to meet this challenge and have projected significant one-time savings. At this point in time, it looks as if we will not only significantly reduce our transfer from surplus, but also fund an additional 12 officers beginning in September 1st, 2001.

Surrey's development has shown positive signs of improvement over the first half of the year. 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, Council approved a budgeted transfer from surplus of \$2.8 million for 2001. It is projected that we will reduce this transfer by approximately \$1.4 million by the end of the year.

Vivienne Wilke, CGA

Acting General Manager,

Finance, Technology & HR