

R221 : Quarterly Financial Report



# **Corporate** NO: R221

# **Report** COUNCIL DATE: October 22, 2001\_

## **REGULAR COUNCIL**

**TO: Mayor & Council**    **DATE: October 15, 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 third quarter update of the City's financial activity compared to the 2001 Financial Plan.

### **Economic Summary**

The latest data shows that the U.S. economy was laboring even before the terrorist attacks. Spending, output and profits are expected to fall heavily in the next quarter but there is optimism for the second quarter in 2002. The Canadian picture remains considerably healthier than the U.S. picture, which will help, pull the Canadian dollar back from near record lows.

The deepening slowdown continues to fan out across the globe to include Japan, Argentina, Europe and Australia.

### **United States**

The struggling U.S. economy shows non-farm losses doubled expectations with another tumble in manufacturing. Total hours worked fell at a

3.1% annual rate in the third quarter pointing to a decline in GDP (Graph 1) last quarter. The jobless rate managed to hold steady at 4.9% however, a record slate of layoff announcements in the past month point to expected weaker results in the fourth quarter this year.

Consumers are remaining cautious due to rising layoffs and anxiety over possible future terrorist attacks. Investors however, seem willing to look beyond this deep valley to the prospect of a firm recovery by the second half of next year.



*Graph 1 Source: Nesbitt Burns - Focus Oct 12, 2001*

*Graph 2 Source: Nesbitt Burns - Focus Oct 12, 2001*

## **Canada**

Canada's employment report for September stunned the consensus with a job gain breaking a three-month string of losses and holding the jobless rate at 7.2%. While employment growth continues to decelerate sharply on a year over year basis, it remains considerably healthier than the U.S. picture. Consumer confidence remains cautious due to a considerable decrease in auto sales and recent announcements by Nortel Networks, Air Canada and Bombardier on expected layoffs.

Canada's economic recovery prospects will be quite similar to the U.S. outlook. Weak business investment and exports, coupled with subdued commodity prices and inflation will see the Bank of Canada continue to cut rates into 2002.

The Bank of Canada rate is currently at 3.75% down from 4.50% at the end of the last quarter.

## **British Columbia**

The provincial government's recently announced spending cuts will not have much impact this year, but there will be fewer jobs in the public service next year. Along with a steep drop in employment figures in the third quarter there is a clear indication the job market in B.C. is weakening.

B.C.'s international commodity exports fell this quarter, following a much larger decline the previous quarter. The downturn has occurred because natural gas and electricity exports are no longer registering the huge increases that pulled up total exports in the past. Lumber sales along with pulp and paper are falling in response to higher duties, uncertain demand and lower prices

Widespread anticipation of recession in the U.S. and Canada has impacted consumer confidence in B.C. and is expected to drag down retail spending, which had held up well in the first seven months of the year.

B.C.'s economy will follow the bleak performances of the U.S. and Canadian economies. Although there isn't a one-to-one monthly correlation between the economies, there is a strong correlation over a longer period.

Weakness in B.C.'s economic forecast is expected to carry into the first half of next year but altogether 2002 should see modest improvements.

## **Surrey's Financial Performance**

The level of development activity continues to show signs of improving. Overall, the revenue collected from development is slightly above that collected in 2000.



*Graph 3*

Graph 3 indicates that the revenue generated from planning application fees is in line with 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 up to the third quarter of 2001 is in line with the collections for 2000. It is expected that we will meet the level of Land Development Fees as experienced in 2000. Graph 5 shows that the activity in the first three quarters of 2001 is substantially higher than the same period in 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 three quarters of the year is substantially 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 three quarters of the year is exceeding all previous years. Overall, the 2001 permit values are expected to well 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 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). However, at this point, Business Licence Revenue is slightly lagging that collected in 2000. It is not expected to reach the level anticipated in our 2001 Financial Plan. 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 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 Adopted 2001 Financial Plan:

City Manager's Department is expected to be under budget by about \$580,000 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. In addition, vacancies in Administration and Legislative Services, along with expense reductions will result in this anticipated surplus.

Engineering is expected to contribute a surplus of \$450,000 towards reducing the corporate deficit despite a reduction of \$356,000 in GVTA funding for uploaded roads. These savings are being achieved through increased revenues, stringent cost controls and departmental vacancies. Variances reported in the 3<sup>rd</sup> quarter are largely due to the timing of major expenditures.

Finance, Technology & HR is projecting to be under budget by approximately \$795,000. This is primarily due to temporary vacancy gapping and other savings in operating costs.

Fire Services has achieved savings in their staffing pool with policy revisions, as well as through vacancies, and changes in WCB calculations. These efforts are anticipated to produce a savings of \$525,000 by the end of the year.

Parks, Recreation & Culture is on target to meet their budget at the end of the year despite revenue shortfalls. These revenue shortfalls have been offset by expenditure reductions. Variations shown in this quarterly report are temporary due to seasonal fluctuations and are expected to be eliminated by year-end.

Planning and Development is not expected to meet their revenue budget for the year. This is largely due to declines in business license revenue. They have managed their expenditures and experienced some 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 \$535,000 towards the reduction of the corporate transfer from surplus.

RCMP has projected to meet their budget, despite shortfalls from the Provincial Traffic Revenue Sharing Program and the addition of 12 new officers in the last quarter. This has been achieved largely due to the delay in implementing the E-Comm radio system.

Council Projects: As additional information, we have also included an updated view the allocations that have been made by Council to date in 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 July through September. Schedule 2 is a detailed listing of securities as at September 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 Financial Plan.

## **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.

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 1<sup>st</sup>, 2001.

Surrey's development activity remains positive, but will have to be closely monitored in order that shortfalls may be counteracted with adjustments to variable costs. In summary, Council approved a budgeted transfer from surplus of \$2.8 Million for 2001. The current estimate for the 'Use of Surplus' is at \$0.2 Million. However, the target is to be as close to zero as possible by yearend.

Vivienne Wilke, CGA

Acting General Manager,

Finance, Technology & HR