



Corporate NO: R075

Report COUNCIL DATE: April 22, 2002_

REGULAR COUNCIL

TO: Mayor & Council **DATE: April 15, 2002**

FROM: General Manager, Finance, **FILE: 1880-20**
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 2002 Financial Plan.

Economic Summary

There is a general upswing in the global economy for the first quarter of 2002. Except for Japan, world markets are looking brighter. Germany and France are experiencing upsurge in production. Korean production is up 10% over last year and Chinese exports are up 14% in the first two months of 2002 from the same period a year earlier. The US industrial output has climbed two straight months. There are clear signs the factory recession is over as purchasing managers are ready to replenish depleted inventories.

United States

A recovering US economy increased import demand in the start of 2002 while exports remained flat. Residential housing starts have been climbing for four months, reaching their highest level since 1978. In previous recessions consumers took a break and reduced borrowing even faster than spending. This time around consumers credit is still rising at an annual pace of 8% due to the easing of interest rates. This will not last, since the debt-to-income ratio is approaching the 100% threshold.

Capital investments, manufacturing production and exports will need to continue to increase in order to offset the effect of this expected reduction in consumer spending. Should this happen, a sustainable recovery may take hold and interest rates will be headed higher.



Graph 1 Source: Canada/USA Nesbitt Burns - Focus April/02

Graph 2 Source: Canada/USA Nesbitt Burns - Focus April/02

BC - CUCBC Economic Analysis Feb/02

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Canada

Canada is currently benefiting from the increased industrial activity in the US. With commodity prices more stable, Canadian imports, manufacturing shipments and retail sales rose in the first quarter of 2002. These signs are good news, but the recovery is still likely to be uneven. Consumer spending is bound to cool later this year if the predicted higher interest rates become a reality.

Firming prices for industrials and energy should easily offset any lag resulting from the US duties on Canada's softwood lumber industry since it represents little more than 1% of Canada's employment.

British Columbia

Recovery of the US and Canadian economies along with increased business confidence due to decreased provincial spending has resulted in GDP growth in BC for the first quarter of 2002.

British Columbia, however, has the most to lose of all the provinces due to the softwood lumber duties. One half of the \$9.5 billion Canada ships to the US comes from BC. Despite the softwood lumber countervailing duties, BC's economy is expected to begin recovery by mid 2002. As growth in the province's key trading partners picks up so should growth in BC.

Surrey's Financial Performance

The level of development activity remains relatively stable. Overall, the revenue collected from development is comparative to that collected in 2001.



Graph 3

Graph 3 indicates that the revenue generated from planning application fees is in line with those collected for the same time in previous years. These fees are expected to be consistent with 2001 fees generated and in-line with our 2002 budget.



Graph 4

Graph 4 shows that activity has increased considerably in the first quarter of 2002, this is primarily due to developers attempting to submit their projects prior to the new School DDC being implemented. It is expected that we will meet the level of Land Development Fees as experienced in 2001. Although DCC activity, shown in Graph 5, indicates that collections are slightly behind 2001 figures, the second quarter results should be considerably higher due to the increased land development activity.



Graph 5



Graph 6

The value of residential building permits issued by Surrey for the first quarter of the year is higher than those issued in 2001. This is due to increased activity in the housing market. We expect to meet our budget for 2002.

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 of the year is slightly lower than previous years. Overall, the 2002 commercial/industrial permit values are expected to be less than the 2001 values. This is mainly due to several larger projects such as Tech BC beginning in 2001. However, this will be partially offset by increased residential permit values. Overall, we expect our growth to be similar to that experienced in 2001.

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 has continued to increase in 2002. Graph 10 shows the results when the tax rates are applied to these assessed values. 2002 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 this year. 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 during of 2001.



Graph 11

Graph 12

In 2002 we have continued to increase our licencing revenues by renewing existing licences and also by actively pursuing new ones (Graph 11). Business licences are due and payable at various times of the year depending upon when they were first issued. This year, we are beginning to see the impact of the penalty for those who do not pay their licence on or before their due date. Therefore, our licencing revenue is much higher in the first quarter. On a quarter-to-quarter comparison though, we expect that the revenues will be much lower in the remaining quarters of 2002. Overall, we expect that our licencing revenue will meet our budgeted expectations. The bylaw infraction revenue figures (Graph 12) continue to reflect 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 2001 actuals, 2002 actuals and 2002 budget. Through cost cutting initiatives, as directed by the Senior Management Team, it is anticipated that the budgeted transfer

from surplus will be considerably reduced by the end of the year.



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. Following are explanations of significant variances from the Adopted 2002 Financial Plan:

City Manager's Department is currently reporting a favourable variance of about \$229,000. This is primarily due to departmental vacancies. The vacancies in By-law Enforcement are seasonal, and Legislative Services will temporarily increase their staffing levels closer to the election date.

Engineering is reporting a \$451,000 favourable variance for this quarter, which is largely due to overall departmental vacancies, many of which are seasonal.

Finance, Technology & HR is under budget by approximately \$249,000. This is primarily due to temporary vacancy gapping and other savings in operating costs.

Fire Services continues to see savings due to improved use of the staffing pool and policy revisions, as well as through staff vacancies. Currently, the Fire Department has a \$461,000 favourable variance for the first quarter.

Library Services currently shows a small favourable variance of \$73,000. This is mainly due to timing issues such as, the provincial operating grant not yet received, part time staffing costs to be used later in the year, and slower than anticipated receipt of new materials.

Parks, Recreation & Culture is showing a favourable departmental variance. Spring registration is well under way, however, associated program costs will not be incurred until the programs begin. Variations shown in this quarterly report are temporary due to seasonal fluctuations.

Planning and Development is reporting a favourable variance this quarter of \$336,000. This is primarily due to

departmental staffing vacancies, however several of these positions are in the process of being filled.

RCMP is currently showing a favourable variance of \$251,000. This has been achieved largely due to the delay in implementing the E-Comm radio system, along with some minor salary savings.

Council Projects: As additional information, we have also included an updated view the allocations that have been made by Council to date in 2002. The details of allocations to date are located in Appendix 2.

There are also temporary variances in non-departmental revenues and expenditures that are mainly due to timing issues. It is also estimated that the 2002 cost for the City's portion of increased medical insurance premiums will be \$300,000 more than was originally budgeted. However, it is estimated that the first quarter financial performance will contribute approximately \$800,000 towards the reduction of our 2002 budgeted transfer from surplus of \$2.9 Million.

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 January through March. Schedule 2 is a detailed listing of securities as at March 31, 2002 sub-totaled by issuer type.

The performance of the City's investment portfolio is measured against comparative MFA and Scotia McLeod indices. Once again in the first quarter of 2002 Surrey has outperformed these benchmarks.

When projecting the investment interest revenues included in our 2002 Financial Plan, we anticipated that interest rates would begin to rise by mid-year. Although current interest rates have not yet met our forecasted increases, we project investment interest revenue to meet our 2002 budgeted forecast.

CONCLUSION

The First quarter results as documented in this report, indicate that the City is on track in relation to meeting budget objectives for the year 2002.

Vivienne Wilke, CGA

General Manager,

Finance, Technology & HR