

R164 : Quarterly Financial Report



Corporate NO: R164

Report COUNCIL DATE: July 22, 2002_

REGULAR COUNCIL

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

FROM: General Manager, Finance, Technology & HR FILE: **1880-20**

SUBJECT: Quarterly Financial Report

RECOMMENDATION

That Council receives this report for information.

INTENT

The intent of this report is to provide Council with the second quarter update of the City's financial activity compared to the 2002 Financial Plan.

DISCUSSION

Economic Summary

The recent lack of confidence in the US equity market has prompted investors to look abroad. This has weakened the US Dollar which in turn, has strengthened the Yen, Euro and Canadian currencies.

United States

For the first three months of the year, the US economy had been on track to yield 6% growth rates for the year. However, the reporting of accounting errors and controversial accounting practices in several publicly traded corporations has resulted in a shaken consumer confidence, particularly in the equity market. Investors are now looking abroad for investment opportunities. When this is coupled with other economic uncertainties and renewed threats of terrorism the growth rate for the second quarter has dipped. The economy is projected to improve during the

second half of the year, resulting in an acceptable annual projected growth rate of around 4.5%.

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

BC - CUCBC Economic Analysis June/02

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

BC - CUCBC Economic Analysis June/02

Canada

The Canadian economy is very strong. Real GDP grew by 6% in the first quarter followed by a 4% increase in the second quarter. A lot of that growth comes from exports in the short run. The rebound in the US industrial area should power Canada's real exports to a 5-7% year/year growth by year-end. That should continue to generate solid employment growth (66,000 jobs in June) and keep consumer spending growth in the 3.5% year/year area. Credit for Canada's performance is due in part to the Canadian equity markets being less concentrated in the tech sector than the US markets. Gold, resources and other old economy sectors have the best opportunity to weather the storm. Short-term interest rates are heading upward. Over the next two years the bank rate is expected to rise by 1.5% to 3.0%.

British Columbia

Housing is currently the main growth driver in BC's economy and it will remain a key growth contributor next year. Other economic sectors need to contribute more to overall growth, especially as mortgage rates begin to rise.

Commercial real estate market prospects are very mixed, but generally sluggish in line with the economy's future growth. Weak labour market conditions are holding back wage and income gains this year. Another restraint on growth is provincial government spending cutbacks.

BC's economy is forecast to remain weak and below average this year, picking up only lightly next year. Real GDP growth is forecast at 1.2% this year increasing to 2.1% next year. This low growth rate is mainly due to the impact of the US lumber duties.

Surrey's Financial Performance

The level of development activity continues to increase, consistent with the increases in the housing market. Overall, the revenue collected from development is expected to exceed that collected in 2001.

Graph 3

Graph 3 indicates that the revenue generated from planning application fees shows a marginal increase from those collected for the same time in previous years. These fees are expected to exceed 2001 fees generated while remaining in-line with our 2002 budget.

Graph 4

Graph 5

Graph 4 shows that activity has increased considerably in the second quarter of 2002, this is due to increases in the housing market, along with increases caused by developers attempting to submit their projects prior to the new School DDC being implemented. It is expected that we will exceed the level of Land Development Fees experienced in 2001. The DCC activity shown in Graph 5 reflects the increases that were seen in Land Development during the first quarter of this year, overall DCC's are expected to exceed the 2001 levels.

Graph 6

The value of residential building permits issued by Surrey for the second quarter of the year is higher than those issued in 2001. This is due to increased activity in the housing market. We expect to exceed 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 second quarter of the year is 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 slightly higher in the second quarter. On a quarter-to-quarter comparison though, we expect that the revenues will be 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 second 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 eliminated 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 \$552,000. 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. Annual departmental vacancies are anticipated to result in \$127,000 in savings by the end of the year.

Engineering is reporting an \$802,000 favourable variance for this quarter, which is largely due to overall departmental vacancies, many of which are seasonal and the timing of operational contracts. Annual savings are expected to be \$404,000.

Finance, Technology & HR is under budget by approximately \$453,000. This is primarily due to temporary vacancy gapping and other savings in operating costs. Overall the annual savings are expected to be \$379,000 by year-end.

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 \$955,000 favourable variance for this quarter and is anticipated to see \$750,000 in savings at year-end.

Library Services currently shows a favourable variance of \$266,000. This is mainly due to timing issues such as, part time staffing costs to be used later in the year and slower than anticipated receipt of new materials. The Library is expecting to meet budget by year-end.

Parks, Recreation & Culture is showing a favourable departmental variance of \$251,000. Summer 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. Savings are anticipated to be \$128,000 at year-end as a result of vacancy management.

Planning and Development is reporting a favourable variance this quarter of \$929,000. This is primarily due to departmental staffing vacancies, however several of these positions are in the process of being filled. Annual savings are expected to be \$986,000.

RCMP is currently showing a favourable variance of \$1,073,000. This is largely due to the delay in identifying contract costs, along with some minor salary savings. Savings at year-end are anticipated to be \$237,000.

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 those allocations 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 second quarter financial performance

along with projected results to year-end will eliminate 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 April through June. Schedule 2 is a detailed listing of securities as at June 30, 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 second 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 Second quarter results as documented in this report, indicate that the City is on track in relation to meeting budget objectives for the year 2002. It is expected that the budgeted transfer from surplus of \$2.9 Million will not be required.

Vivienne Wilke, CGA

General Manager,

Finance, Technology & HR

Appendix 1

Appendix 2

Appendix 3

