

R211 : Quarterly Financial Report



# **Corporate** NO: R211

# **Report** COUNCIL DATE: *October 28, 2002\_*

## **REGULAR COUNCIL**

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

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

**SUBJECT: Quarterly Financial Report**

## **RECOMMENDATION**

That Council:

- a) Receive this report, and
- b) Approve the re-allocation recommendations related to 2002 one-time savings.

## **INTENT**

To provide Council with the third quarter update of the City's financial activity compared to the 2002 Financial Plan, complete with projections to the end of the year, and to receive Council's direction on the use of the anticipated one-time surplus that will be generated by the end of the year.

## **DISCUSSION**

### **United States**

There is a weakening in the US economy mainly due to the uncertainty surrounding the risk of a US attack on Iraq. These signs of weakness include a rise in initial unemployment insurance claims, softening weekly chain store data and falling industrial production. Household net worth relative to income has dropped and home foreclosure rates are at historical highs.

The US has implemented cost cutting, streamlining and easing of bank rates to help its ailing economy. However, depending upon whether the US attacks Iraq, the economy is not expected to begin turning around until the middle of 2003.

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

*BC – Business Council of BC Oct/02*

Graph 2 Source: Canada/USA Nesbitt Burns

*BC – Statistics Canada Sept/02*

## Canada

The Canadian economy is growing faster than the US. With commodity prices and output growth increases along with an employment growth of 2.7% in the past year, household purchases should continue to outpace spending trends south of the border.

US demand for many of Canada's major exports has remained quite strong, buoyed by shipments of oil & natural gas, motor vehicles, construction related products and selected technology equipment. Canadian production facilities are very efficient and cost-effective, particularly with the weak Canadian dollar adding to our competitiveness.

Canada's ongoing commitment to pay down our outstanding international liabilities recently resulted in Moody's re-establishing our AAA credit rating. It is still uncertain though, whether or not the Bank of Canada will raise rates. In recent comments, the Bank of Canada Governor David Dodge strongly indicated that rates are headed higher, but left the door open to the exact timing of the next increase. Market trends indicate interest rates are expected to remain low for the next year and increase gradually by late 2003.

## British Columbia

British Columbia's economic growth continued to flourish in the third quarter. The biggest reason for this upward movement was robust job growth. This job growth is mainly attributable to the continued rise in single-family housing starts, particularly in the Lower Mainland. Increased retail sales also helped to push the economy higher.

Growth in BC is expected to grow at a moderate rate throughout the rest of 2002 and into the most of 2003. Although the consumer sector remains strong, the implementation of the US

lumber duties continues to create a negative impact.

## **Surrey's Financial Performance**

The level of development activity continues to increase, consistent with the steady growth in the residential housing market. Overall, the revenue collected from development will exceed that collected in 2001.

*Graph 3*

Graph 3 indicates that the revenue generated from planning application fees shows a significant increase from those collected for the same time in previous years. These fees are expected to exceed both the 2001 fees as well as our 2002 budget figures.

*Graph 4*

*Graph 5*

Graph 4 shows that activity has increased considerably in the third quarter of 2002, this is due to a strong housing market. 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 half of this year. This increase should carry over into the first quarter of next year; overall DCC's are expected to exceed the 2001 levels as well.

*Graph 6*

The value of residential building permits issued by Surrey for the third quarter of the year is significantly 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 third 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 comparative with 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 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. The increased building activity in 2002 should help increase the tax dollars attributable to growth in 2003. Based on this year's building permit activity, most of next year's tax related growth would occur in the Residential Class.

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. Overall, we expect that our licencing revenue will slightly exceed our budgeted expectations.

## **Comparison of Actuals versus Budget**

The graphs on the next page illustrate the variances between the actual and the budgeted revenues and expenditures for the third quarter of 2001 actuals, 2002 actuals and 2002 budget. At this point, we are projecting a surplus that is partially due to increased revenues resulting from higher development activity, and also due to expenditure savings in all City departments. The RCMP in particular, have projected savings in excess of \$5.5 Million as a result of temporary member vacancies. Since the City's projected surplus is the result of one-time activity, we are requesting that this surplus be directed towards capital initiatives.

*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 \$610,000. This is primarily due to temporary departmental vacancies. The seasonal effects of vacancies in By-law Enforcement and Legislative Services have been absorbed, therefore it is anticipated that 2003 savings will be about \$700,000.

Engineering is reporting a \$641,000 favourable variance for this quarter, which is largely due to an increase in Land Development activities and to favourable commodity prices for recycled goods in the Solid Waste area. Overall, the annual savings for Engineering Department is expected to be about \$700,000.

Finance, Technology & HR is under budget by approximately \$1,020,000. This is partly due to increased activity in the real estate market (tax inquiry fees) and also due to temporary vacancies and other operating savings. Overall the savings are expected to be about \$1,100,000 by year-end.

Fire Services continues to save due to improved use of the staffing pool and policy revisions, as well as through some staff vacancies that have been recently filled. Currently, the Fire Department has a \$980,000 favourable variance for this quarter and is anticipated to see \$900,000 in savings at year-end.

Library Services currently is on target for this quarter as many of the timing issues seen earlier this year have been resolved. The Library plans to meet budget at year-end.

Parks, Recreation & Culture is showing a favourable departmental variance of \$272,000. Fall programs are well under way, however, some associated program costs will not be incurred until the last quarter of the year. Variations shown in this quarterly report are temporary due to seasonal fluctuations. Savings are anticipated to be \$190,000 at year-end.

Planning and Development is reporting a favourable variance this quarter of \$1,032,000. This is primarily due to increased development activity. Annual savings are expected to be \$1,600,000.

RCMP is currently showing a favourable variance of \$5.9 Million, which is largely due to temporary delays in filling new positions as well as vacancies due to normal turnover for both RCMP and City staff. It is anticipated that savings at year-end will be about \$6.0 Million.

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

## Re-Allocation Recommendations

It is projected that our 2002 budgeted transfer from surplus of \$2.9 Million will not be required. In addition we anticipate that shall have generated an additional \$8.5 Million one-time surplus by year-end. According to the Reserve and Surplus Policy (Q-25) adopted by Council in December 1998, this surplus should be transferred to the Legacy Statutory Reserve Fund. However, it should be noted that this year's one-time savings of \$8.5 Million is unique and is the result of extra ordinary growth revenues as well as cost savings. This has not occurred in the past ten years, and we do not expect it to happen to this extent in the future.

In view of this unusual situation, we recommend the following re-allocations of this one-time savings:

- 1.** RCMP estimated one-time savings of \$6.0 Million should be re-allocated and invested in support of the RCMP needs. For example, the Acting OIC has requested \$800,000 for 2002 computer, vehicles and overtime issues. The remaining savings should be re-allocated to capital needs at the Main Detachment and District Offices.
- 2.** The remaining \$2.5 Million should be re-allocated to the South Surrey Library Building. The total cost for the project is \$8.2 Million. Although \$4.4 Million was approved in the 2002 Capital Program, funding for the remaining \$3.8 Million still needed to be identified. This will now leave \$1.3 Million to be funded in the 2003 Capital Program.

## 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, 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 third quarter of 2002 Surrey has outperformed these benchmarks. When projecting the investment interest revenues in our 2002 Financial Plan, we anticipated that interest rates would rise before mid-year 2002. Although current interest rates have not yet met our forecasted increases, we project investment interest revenue to meet our 2002 budgeted forecast.

## **CONCLUSION**

The third quarter results indicate that the City has significantly exceeded its budget objectives for 2002. The \$2.9 Million budgeted transfer from surplus will not be required and it is expected that one-time savings of approximately \$8.5 Million will be available. We recommend that these savings be re-allocated as outlined in this report.

Vivienne Wilke, CGA

General Manager,

Finance, Technology & HR

# **Appendix 1**

# Appendix 2



# Appendix 3

