





Graph 1 Source: Canada/USA Nesbitt Burns - Focus June/03

*BC – Credit Union Central BC March/03*



Graph 2 Source: Canada/USA Nesbitt Burns – Focus June/03

*BC - Credit Union Central BC March/03*

## Canada – Economic Summary

The weaker US economy, SARS, Mad Cow Disease and threats of the West Nile Virus have all contributed to a downturn in Canadian economic activity.

Canadian workers will need to brace for tougher times. Last year's hiring boom has created higher inventory levels than needed. With the higher Canadian dollar, labour costs in Canada are no longer equivalent to those of the US. This has reduced the level of our exports. Layoffs are beginning to occur in some industries.

On July 15<sup>th</sup>, The Bank of Canada announced a reduction in interest rates of 0.25% in order to preserve our competitive position in the global economy.

## British Columbia – Economic Summary

British Columbia is expected to have modest economic growth for 2003 with continued improvement in 2004. Higher export prices and higher unemployment has contributed to a weaker economy in the second quarter.

Exports of lumber, natural gas, industrial goods and materials dropped in value in the second quarter as a result of the stronger Canadian Dollar. This is due to a combination of price reductions and falling export levels of industrial goods and materials.

## Surrey's Financial Performance

The level of development in the first half of the year continues to exceed expectations. This is consistent with the steady growth in the residential housing market. It is expected that this pace will begin to drop off in the second part of the year. Overall, it is expected that the revenue collected from development will be comparable to that collected in 2002.

The following graphs show how the first half of the year compares to previous years' results for the same time period.

**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. It is expected that we will exceed our 2003 budget figures.

**Graph 4**



**Graph 5**

Graph 4 shows that activity has increased considerably in the first half of 2003. It is expected that we will meet the level of Land Development Fees experienced in 2002. The DCC activity shown in Graph 5 reflects the increases that were seen in Land Development in the latter part of last year. Overall DCC's are expected to meet those levels experienced in 2002.

**Graph 6**

Building permit fees collected for the first half of the year are higher than expected due to the continued increased activity in the housing market. Even if this activity slows down in the latter half of the year, we still expect to meet our projected targets.

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 almost 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 construction value of commercial/industrial building permits for the first half of the year is slightly above our last year's experience. Overall, the value of new construction in the City for the first half of the year is the highest that it has been for the same time period over the last five years.

The following set of graphs show how the mix of property classes determines the value of the growth component of property tax revenues for a full year.



## Graph 9 Graph 10

Graph 9 shows that the overall assessed value of new growth has continued to increase in 2003. Graph 10 shows the results when the tax rates are applied to these assessed values. 2003 shows an increase in the amount of taxes that we will be collecting for Commercial/Industrial properties. The increased building activity in 2003 should help increase the tax dollars attributable to growth in 2004.



# Graph 11 Graph 12

In 2003 we have continued to increase our licencing revenues by renewing existing licences and also by actively pursuing new ones (Graph 11). Since 2001, business licences have been due and payable at various times of the year depending upon when they were first issued. Therefore, for this graph, we have included only those years that are directly comparable. Overall, we expect that our licencing revenue will meet our budgeted expectations.

## 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 2002 actuals, 2003 actuals and 2003 budget. At this point, we are projecting that we will exceed our budgeted expectations consistent with the 2002 financial results.



*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 2003 Financial Plan:

City Manager's Department is currently reporting a favourable variance of \$415,000. This is primarily due to departmental seasonal vacancies within By-law Enforcement, temporary departmental vacancies in Legislative Services and administration and revenue increases from property clean-ups. This department is projected to be \$800,000 under budget by the end of the year.

Engineering is reporting a \$2,277,000 favourable variance as at June 30th, which is due to increased Land Development activities, greater number than anticipated of Solid Waste residential customers and expenditure savings in Operations and Facilities Maintenance. It is expected that this favourable variance of \$2,200,000 will continue through to year-end.

Finance, Technology & HR is under budget by \$466,000. This is primarily due to temporary departmental vacancies and other operating savings. It is projected that the savings at year-end will be about \$800,000.

Fire Services have savings of \$203,000 due to improved use of the staffing pool and policy revisions. There is also temporary savings due to the fact that E-Comm radio services will not begin until September. It is projected that Fire Services will have one-time savings this year of about \$600,000.

Library Services is currently showing a surplus of \$250,000, which is due to the timing of collection and materials acquisitions. It is expected that this department will meet budget by the end of the year.

Parks, Recreation & Culture is showing a favourable departmental variance of \$497,000. Administrative vacancies along with the summer program registration have contributed to this variance. However, associated program costs will not be incurred until the programs begin. It is projected that

PRC will have one-time savings at year-end of about \$400,000.

Planning and Development is reporting a favourable variance for the first half of the year of \$1,945,000. This is primarily due to increased development activity with some savings resulting from temporary staff vacancies. It is expected that Planning and Development will show a favourable variance of \$2,000,000 by year-end.

RCMP is currently showing a favourable variance of \$3,552,000, which is largely due to temporary delays in filling officer positions as well as vacancies due to normal turnover within the RCMP. By year-end, it is expected that this department will have one-time savings of approximately \$4,600,000.

Mayor and Council is currently showing a favourable variance of \$72,000. This is mainly due to a vacant position that is not expected to be filled this year. This will result in savings by year-end of approximately \$140,000.

Council Projects: As additional information, we have also included an update of allocations that have been made by Council to date in 2003. The details of those allocations are located in Appendix 2.

Overall, the City continues to experience higher rates of development activity than originally expected. These extraordinary revenues, when combined with some expenditure reductions, have already produced over \$9 Million in one-time savings for this year.

Staff is requesting that this savings be re-allocated as follows:

- a) \$8 Million to support the recommendations in the Corporate Report titled "Additional Office Space at City Hall."
- b) \$1 Million to support the recommendations outlined in the Corporate Report titled "Capital Projects to Meet Urgent Community Needs."

### **City Investment Portfolio**

The schedules in Appendix 3 include a summary of our investment portfolio. Schedule 1 is a summary of investments by issuer type, with comparative totals for each month-end from April through June. Schedule 2 is a detailed listing of securities as at June 30, 2003 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 2003 Surrey has outperformed these benchmarks. When projecting the investment interest revenues in our 2003 Financial Plan, we anticipated interest rates would rise in the first quarter. This did not happen until the second quarter and then dropped again. At this point, our interest revenues are slightly under what was budgeted. [However, we expect to meet our budgeted expectations by the end of the year.](#)

### **CONCLUSION**

The City continues to experience higher rates of development activity than originally expected. These extraordinary revenues, as well as some expenditure reductions, have already resulted in one-time savings of about \$9 Million. Staff is seeking re-allocation of these unexpected savings through two Corporate Reports which are being presented at this Council Meeting.

We have projected that development activity will begin to slow down for the rest of the year. However, now that the interest rates have been lowered, activity could continue at the current high levels for several more months. If this happens, our projections for the October Quarterly Report should reflect further one-time revenue increases.

Vivienne Wilke, CGA  
General Manager,  
Finance, Technology & HR

# Appendix 1

# Appendix 2

# Appendix 3

