

NO: **R068**

COUNCIL DATE: **May 4, 2020**

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 30, 2020**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report - First Quarter - 2020**

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## RECOMMENDATION

The Finance Department recommends that Council receive this report for information.

## INTENT

The purpose of this report is to provide Council with an update on the City's financial activity for the first quarter of 2020 and to compare this activity with the 2020 Financial Plan and the same period in 2019.

## DISCUSSION

Based on the Five Year (2020-2024) Financial Plan which was adopted by Council on December 16, 2019, the following discussion provides a summary of the current economic environment including key economic factors globally, nationally, provincially and within the City, including the financial impact of COVID-19, followed by an outline of Surrey's financial performance through the first quarter of 2020.

### **Economic Environment and Key Economic Factors**

#### International Overview

Increased spread of the COVID-19 virus has brought on a global recession. According to the International Monetary Fund ("IMF"), this is the first time since the Great Depression of the 1930's that advanced economies and emerging market and developing economies are in recession. Current projections show economic activity to still be below pre-virus levels even in 2021. The IMF is forecasting the global economy to shrink by 3% and expects economic contractions this year of 7.5% in the Eurozone, 6.5% in the United Kingdom ("UK"), 6.2% in Canada, 5.9% in the United States ("US") and 5.2% in Japan. China is forecasted to grow at 1.2% this year.

Global economic activity has slowed down significantly with many countries in various states of lock-down. Stock markets around the world suffered their biggest losses since the 2008 financial crisis. Finance Ministers from G7 countries announced that they are taking action to support price stability and economic growth. Central banks around the world cut their key interest rates and

committed to providing liquidity to financial markets. The IMF, along with the World Bank, announced that emergency funding has been set aside to help nations so that no country will be short of funds in the fight against the virus.

The spread of the COVID-19 virus in China appears to be stabilizing, allowing companies to return to work. Chinese factories have slowly resumed operations after mandatory shutdowns in February. At the end of March, more than 400,000 Chinese businesses were estimated to have dissolved or suspended operations. With the rapid spread of the virus in Europe and the US, weakening demand from abroad will have an adverse effect on China's economic growth prospects.

Emergency measures imposed by the European Union ("EU") and member states to tackle the pandemic are starting to take shape. EU Finance Ministers agreed to a plan calling for more than €500 billion worth of new measures to support their economies.

The worst crisis-hit countries in Europe, Italy and Spain, are urgently demanding the issuance of "corona-bonds", which would see the euro-area raise new debt for which all 19 members of the currency union would be jointly and severally liable. Countries suffering the most from the coronavirus would get cheaper access to the money needed to recover. Presently, only nine members of the euro area support "corona-bonds", leaving 10 countries unconvinced. Germany, the Netherlands and Austria say this type of debt issuance would breach the EU's no-bailout clause, which stipulates that the EU and individual member states cannot be held liable for the debts of other member states. It remains to be seen whether EU members can see past their differences to mount a united response against impending economic threats.

### United States Overview

Worldwide COVID-19 cases have surpassed three million with the United States ("US") leading the way by a significant margin with the highest number of confirmed cases and deaths in a country. Roughly 80% of the country's population is under some form of quarantine or lockdown. Estimates indicate that approximately 22 million Americans have filed for unemployment in the last four weeks. Analysts predict that the US economy could see an unemployment rate as high as 20%.

The Federal Reserve ("Fed") cut its key interest rate by 1.50% in March, effectively taking its policy rate down to zero. The central bank also announced unlimited purchases of bonds, including corporate and municipal issues, as well as various emergency lending programs to support the economy.

President Trump signed a \$2.2 trillion stimulus package to help stabilize and boost the American economy. The package includes a \$500 billion loan program for big businesses, \$377 billion in small business loans, \$150 billion in aid to state and local governments and \$150 billion for hospitals and medical equipment. Unemployment insurance benefits were also increased to \$600 per week for four months. The federal government announced a one-time direct payment of up to \$1,200 for qualifying adults and \$500 per child.

The earliest that the new Canada-USA-Mexico ("CUSMA") trade agreement could go into effect is July 1 of this year. The Mexican automotive industry, along with a group of US Senators, is urging the Trump administration to delay implementation in the face of the ongoing pandemic. The Senators contend that the current health-crisis and supply chain disruptions have left little time and resources to prepare for a smooth transition to the new trade deal.

Global investors have taken shelter in the US dollar as prospects of a global recession increase. The dollar, seen globally as a safe haven, appreciated in March as companies and banks bought more of the currency to pay their creditors and suppliers. Analysts expect further strengthening in the currency's value as global financial market volatility continues.

### Canadian Overview

The Bank of Canada ("BOC"), with unprecedented speed and frequency, cut interest rates three times in March resulting in a total reduction of 1.50%. The central bank's key interest rate is now at a record low of 0.25%. The economic fallout from the pandemic, as well as plunging oil prices, have led the BOC to provide emergency rate cuts to offer support to the economy. Starting in April of this year, the central bank will begin weekly purchases of \$5 billion worth of Government of Canada bonds until the economic recovery is underway to ensure proper financial market functioning and liquidity. The BOC also announced a new \$50 billion Provincial Bond Purchase Program along with a similar \$10 billion program to purchase investment grade corporate bonds.

In addition to monetary stimulus, there are also numerous fiscal measures introduced by the federal government to battle the economic downturn. To supplement lost income, the Trudeau government introduced the Canada Emergency Response Benefit ("CERB") which will provide \$500 a week for up to 16 weeks starting in April. The Canada Child Benefit will be increased by an extra \$300 per child starting in May. The Goods and Services Tax ("GST") credit for low and modest-income families will also be boosted through a one-time payment. Additionally, a six-month interest-free moratorium on the repayment of Canada Student Loans has been implemented. To further support post-secondary students, the federal government is providing a monthly benefit of \$1,250 from May to August. The Canada Emergency Student Benefit is aimed at students who do not qualify for CERB. The benefit will increase to \$1,750 monthly for students with disabilities.

To support businesses struggling due to the pandemic, the federal government is providing a 75% wage subsidy to eligible employers for up to 12 weeks, retroactive to March 15, 2020. The program is available to non-profits as well as businesses of all sizes and pays a maximum benefit of up to \$847 per week per employee, however this program is not available to local governments. To be eligible, the business must have suffered at least a 15% decline in revenue in March 2020 and 30% for the following months. The federal government will also be providing qualifying small businesses and non-profits with interest free loans up to \$40,000.

The Canada Revenue Agency ("CRA") has extended the income tax filing deadline for individuals and corporations to June 1 and deadline for payment of income taxes owing to September 1. The federal government is expected to announce more aid packages as the pandemic unfolds.

Canadian oil producers are once again fighting for survival just five years after the previous oil price crash from which the industry just recovered. With demand for oil crashing due to COVID-19, a glut of supply and a lack of storage capacity, the price of Western Canadian Select ("WCS"), the benchmark price of oil from Canada's oil sands, recently traded at a record low of less than USD\$3 per barrel. Prices also dipped into negative territory due to market volatility. Canada's oil sands face the threat of becoming sidelined on the market, where lower-cost producers have the economic advantage to continue supplying the world with oil.

## British Columbia Overview

To combat the spread of COVID-19, sweeping restrictions were placed on travel, businesses, and gatherings in British Columbia (“BC”) over the second half of March. These restrictions are likely to be extended as BC’s provincial health officer is advising that the Province will need to continue with social distancing measures to keep the spread of COVID-19 under control.

The provincial government introduced a \$5 billion relief package with \$2.8 billion targeted for residents and \$2.2 billion for businesses. The government has allocated \$1.1 billion to boost British Columbians’ income and \$1.7 billion to fund critical services such as housing and health. Individuals whose employment is affected by the pandemic will be eligible for a one-time payment of \$1,000. The government is also providing renters with a rent supplement of \$500 a month for the next three months. The Province has introduced a moratorium on evictions to ensure renters have housing security. A rent freeze is also set to go into effect starting in April.

To support businesses, the provincial government is allowing deferral of remittances for the Employer Health Tax (“EHT”), Provincial Sales Tax (“PST”) and Hotel Tax to September of this year. Scheduled increases to the Carbon Tax, Motor Fuel Tax, Tobacco Tax, and tax on sweetened carbonated drinks have also been delayed until this September. The School Tax levied on businesses and light and major industry property classes will be cut in half, which amounts to a \$500 million reduction. The Province allocated \$1.5 billion to an economic stimulus plan aimed at helping hard-hit areas of the economy, such as, the tourism and hospitality sectors.

The economic impact of the COVID-19 virus is difficult to estimate due to rapidly changing conditions and the unprecedented scale of business interruption. Analysts continue to consider multiple scenarios of economic hardship on the province. Varying estimates show BC’s Gross Domestic Product (“GDP”) contracting by anywhere from 6% to over 11% in 2020, well beyond anything the province has experienced in recent times. Containment of the virus and resumption of business activity will ultimately drive the depth of the economic fallout of COVID-19.

## Surrey Overview

The financial impacts to the City resulting from the COVID-19 pandemic will be substantial, in particular, the City’s non-taxation revenue. The most significant negative impacts expected on the City’s immediate financial health are as follows:

- loss of City revenues due to the closure of City facilities;
- loss of Provincial gaming revenues resulting from the closure of the Elements Casino;
- lower returns of investment income;
- deferral of lease revenues; and
- reduction in application fee, permit fee and penalty revenues.

The loss of direct revenues is not the only contributing factor to the financial impact. Other factors include the adverse impact to our citizens, businesses, and development sector. In some cases, revenue loss will be permanent as is the case with closed facilities, in other instances the revenue loss may be deferred to the future, for example development driven revenues, but it is very difficult to gauge with certainty the time required for the local, national and global economy to fully recover from COVID-19.

Staff have modeled a cautiously optimistic fiscal scenario that assumes by the end of July, physical distancing restrictions are lifted, and services begin to reopen, with full economic recovery taking the remainder of the year to materialize. The City has focused on providing services and remaining open for business as usual as a mechanism to facilitate quicker economic recovery. By investing in our City through significant construction contracts and continued development, new jobs will be created and this, in turn, will provide families and individuals with a stable income source and will ultimately result in the local economy recovering quicker.

The following provides an estimate of the forecasted financial impacts of COVID-19 to the 2020 City budget categorized by revenues and expenditures:

### *Revenues*

Parks, Recreation & Culture facilities and City libraries have been closed effective March 16, 2020 to comply with physical distancing restrictions. With the closure of City recreation centres, arenas, pools and libraries, all revenues associated with these facilities will be lost permanently. This loss in revenues translates to an estimate of \$2.7 million for each month they are closed. Utilizing these assumptions, staff are forecasting that lost revenues from City facilities will equate to between \$24 to \$25 million dollars in revenues for fiscal 2020.

Currently the City receives a portion of Provincial gaming revenues from gaming at Elements Casino. Municipalities that host gaming facilities receive a 10% share of gaming income, net of operating expenses, at respective gaming facilities in their municipality. With the closure of the Elements Casino, it is estimated there will be a \$0.5 million reduction in this revenue for each month they are closed. This results in an estimated reduction to these revenues of between \$4.0 to \$4.5 million for the year.

Due to COVID-19, Bank of Canada key interest rate is now at a record low rate of 0.25%. Given the steep decline in interest rates, investment income is currently expected to be \$4.5 million below budget.

With many citizens and businesses dealing with the financial strain, it is expected that lease revenue on City owned properties will be requested to be delayed or deferred by tenants. This may result in deferral of \$5 to \$6 million in revenues in 2020 to future periods.

There is also an anticipated impact to other departments, such as bylaw revenues, land development permits, various licenses and departmental fees. It is estimated this may have an estimated negative impact of between \$22.5 to \$25 million in revenues for 2020.

### *Expenditures*

The City continues to provide essential public services while exploring ways to mitigate the potential operating shortfall through reduction of expenses. Tied to the closures of City facilities and the cancellation of City run special events is the potential to avoid costs from operating them. Avoidance of costs such as the purchase of supplies and materials, hiring of temporary staff to meet program demands, utility costs to heat and operate facilities and other operating costs will result in a reduction of expenses relative to budget.

These avoided costs are estimated to amount to approximately \$23 million for the remainder of 2020.

### *Summary of COVID-19 Financial Impact*

In summary, it is estimated that under cautiously optimistic fiscal assumptions, the financial impact to the City of the current COVID-19 pandemic will equate to potentially a \$37 to \$42 million budgetary shortfall to the City for 2020.

<b>Item</b>	<b>Estimated Value</b>
City Facilities Revenues Reductions	\$24.0 to 25.0 million
Gaming Revenues Reductions	\$4.0 to 4.5 million
Investment Income Reductions	\$4.5 million
Lease Revenue Deferrals	\$5.0 to 6.0 million
Departmental Fee Reductions	\$22.5 to 25.0 million
<b><i>TOTAL Revenue Reductions</i></b>	<b><i>\$60.0 to \$65 million</i></b>
City Facilities Avoided Costs	\$23.0 million
<b><i>TOTAL Avoided Costs</i></b>	<b><i>\$23.0 million</i></b>
<b>TOTAL Estimated Budgetary Shortfall</b>	<b>\$37.0 to 42.0 million</b>

Given that local governments are legislatively prohibited from running annual deficits, staff will in due time, bring options and recommendations to Council to balance the budget as appropriate. Staff are actively contemplating other scenarios which may involve a longer economic recovery and thus may require different strategic mechanisms to mitigate potential shortfalls.

### *Financial Relief for Residents and Businesses*

Financial relief has already been provided to annual water and sewer rate payers through the extension of the due date for annual utilities by 90 days. Furthermore, staff will also be taking bylaw amendments to Council for consideration that will provide more time for taxpayers to pay their property taxes before attracting a penalty, providing for another mechanism of financial relief to our taxpayers during these fiscally challenging times.

Staff are also working collaboratively with staff from other Metro Vancouver member municipalities in discussions with the Provincial Government in relation to advocating for an expansion of the Provincial Property Tax Deferral Program with a view to further supporting residential and business property owners who are experiencing significant financial stress as a result of Covid-19.

### *Measures Announced by the Province for Local Governments*

On April 16, the Province announced the following measures for local governments in BC:

- authorize local governments to borrow, interest-free, from their existing capital reserves to help pay for operating expenses. Such internal borrowing is required to be re-paid to the capital reserves within five years. This measure will only assist local governments with appropriate capital reserves;
- whether or not a local government has fully collected taxes, the payments to Metro Vancouver, TransLink, British Columbia Assessment and Municipal Finance Authority

- must be paid in full in August 2020 (whether fully collected or not). This accelerates a final payment to TransLink from the previous date of December 31, 2020; and places all tax collection risks on municipalities, while other taxing authorities do not share in that risk;
- delay in making provincial school tax remittances until the end of the year. This will provide cash flow relief to local governments facing cash flow issues;
- school tax relief for property classes 4, 5, 6, 7 and 8 only and a corresponding extension of statutory penalty date from July 2 to October 1. This measure will only help certain classes of taxpayers and will not help residential taxpayers; and
- the Province has not announced any extension of its Property Tax Deferral Program at the time of writing this report.

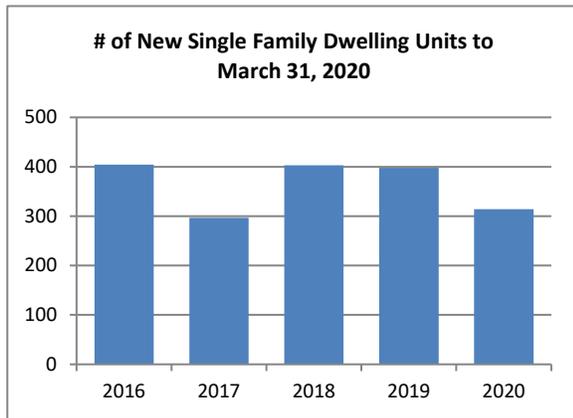
### *Property Taxes*

It is imperative to note that as with virtually all local governments in the Metro Vancouver region and BC, Property Taxes are the single most significant revenue stream for the City, in fact for 2020 72% of our budgeted general revenues are derived from Property Taxes. At this point, staff are not forecasting that the delinquency levels for Property Tax payments to be significantly higher than past years. However, given the significant materiality of this revenue stream and the unprecedented financial environment we find ourselves in, if new information is attained that indicates otherwise staff will need to update forecasts and report back to Council. Staff will be actively promoting individuals and businesses to pay their taxes as soon as possible in efforts to strengthen the City's cash flow position.

### **Surrey's Financial Performance**

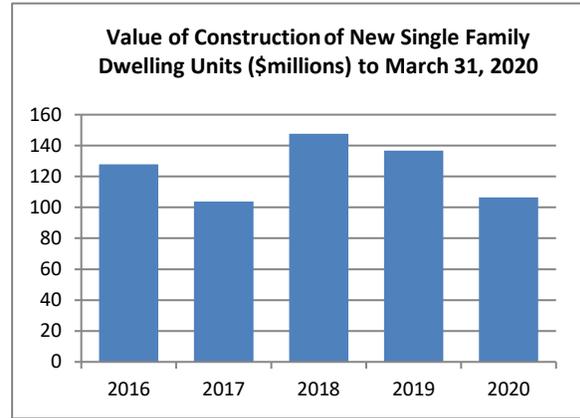
Overall, the financial performance in this quarter has sharply declined due to a combination of the continuing trend of cooling market conditions before COVID-19, and a significant drop in market activity due to COVID-19 since early March. All sectors, residential and commercial, have seen a significant drop in number of dwelling units, value of constructions, and collection of building permit fees and planning application fees.

The following graphs show data for the first three months of 2020 compared to previous years.



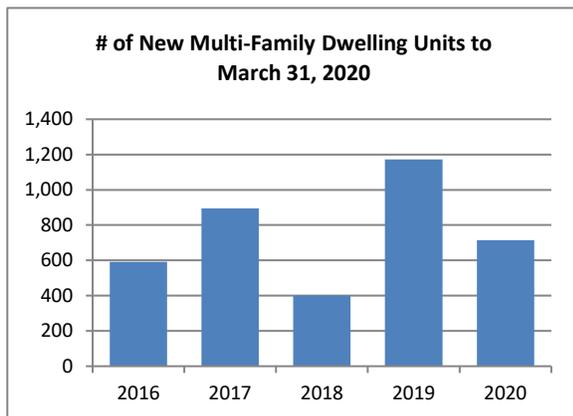
Graph 1

Similar to the trend for single-family home sales in Metro Vancouver before and due to COVID-19, permits issued in this dwelling type has dropped by 21% year over year.



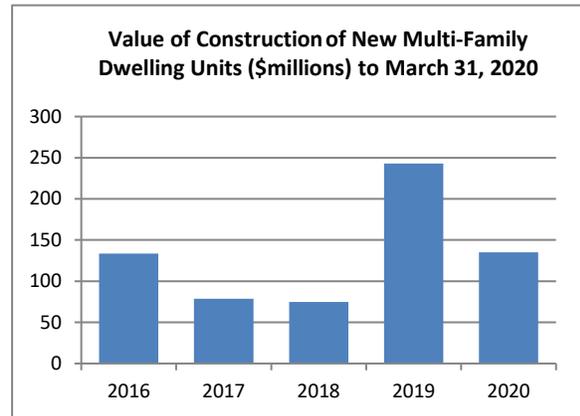
Graph 2

Consistent with the decline in the number of permits issued for single-family dwelling units in this quarter as compared to the same quarter last year, the value of construction has decreased by 22% when compared to the same period last year.



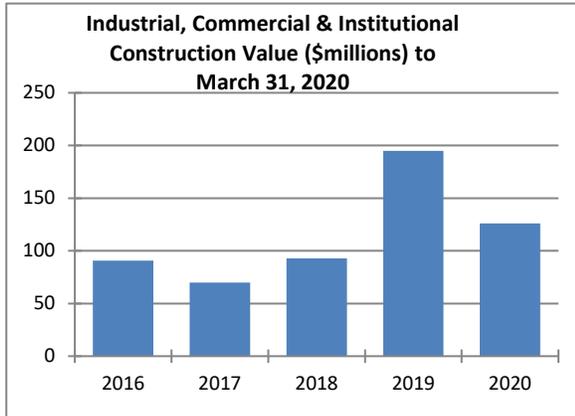
Graph 3

Similar to the decline in single family dwelling units, multi-family dwelling units in townhouses, low-rise and high-rise apartments have declined significantly. Building activity in this dwelling type has dropped by 39% year over year.



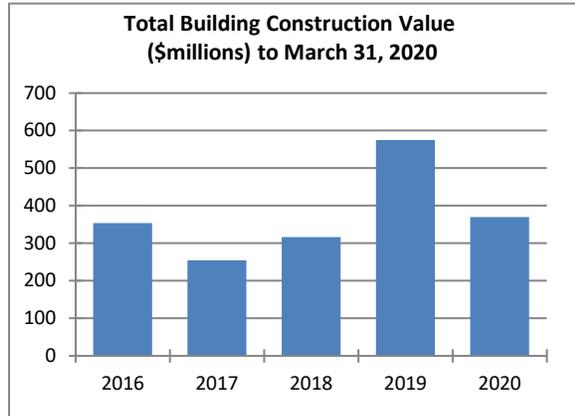
Graph 4

Consistent with the number of permits for multi-family dwelling units in this quarter as compared to the same quarter last year, the value of construction has decreased significantly by 44% when compared to the same period last year.



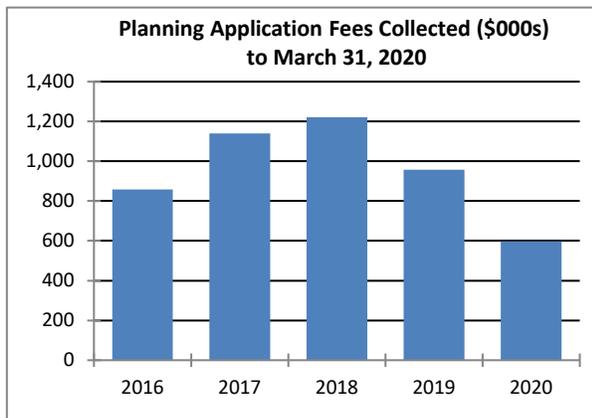
Graph 5

Construction value of Industrial, Commercial Institutional (“ICI”) permits for the first quarter of 2020 is significantly lower as compared to the same period in 2019. This is primarily due to the impact of COVID-19 since construction activity that picks up in spring months, starting in March, did not materialize this year. Compared to 2019, the value of construction in the ICI sector is down by 35% year over year.



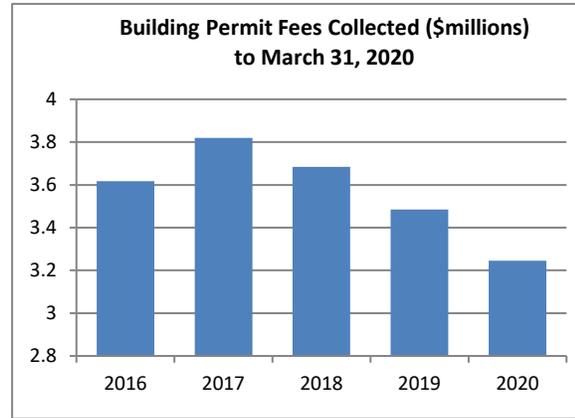
Graph 6

Consistent with the ICI sector, total building construction in the City for the first three months of the year is significantly lower when compared to the same period last year. Compared to 2019, total building construction value is down by 36% year over year.



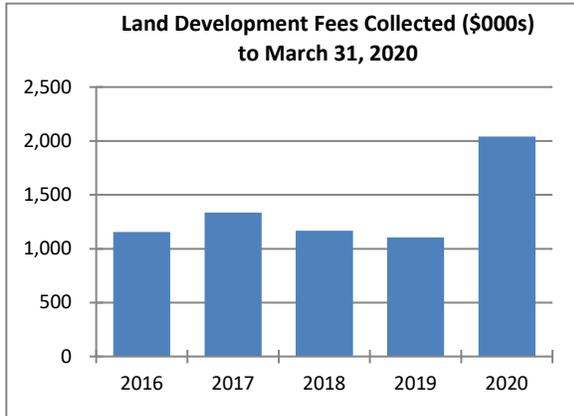
Graph 7

Planning application fees collected in the first quarter of the year are 38% lower than those collected in the same period last year. Declining real estate sales likely had an impact on applications being received by the City for new build projects.



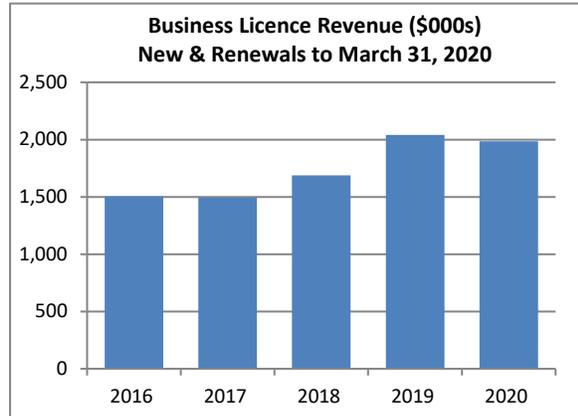
Graph 8

Building permit fees collected for the first three months of this year are 7% lower than those collected in the same period last year. These fees are indicative of a drop in building Permits issued by the City in this quarter as compared to the same quarter in 2019.



Graph 9

Due to three large projects that accounted for approximately \$1.1M out of the \$2M in Engineering Land Development fees collected in the first three months of the year, this fees collection is 85% higher in this quarter than the same period in 2019.



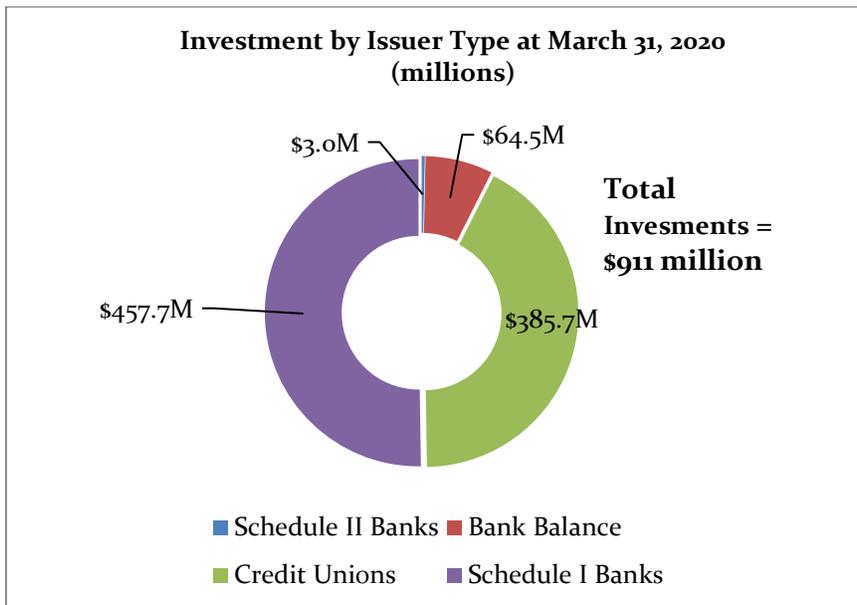
Graph 10

Business Licence Revenue has decreased by 3% as compared to the same period last year, primarily due to a reduction in business licenses issued and renewed in the month of March 2020 due to COVID-19.

Under a separate corporate report, staff will be bringing forward to Council and presenting an economic action recovery plan.

### City Investment Portfolio

The City invests public funds in a prudent manner, providing investment return and long-term security while meeting daily cash flow needs. The investment portfolio is currently valued at \$911 million. Most of these funds have either been committed to specific capital projects or are funds that have been invested until they are needed to pay current operating expenses. The graph below shows the City’s Investment Portfolio by issuer type.

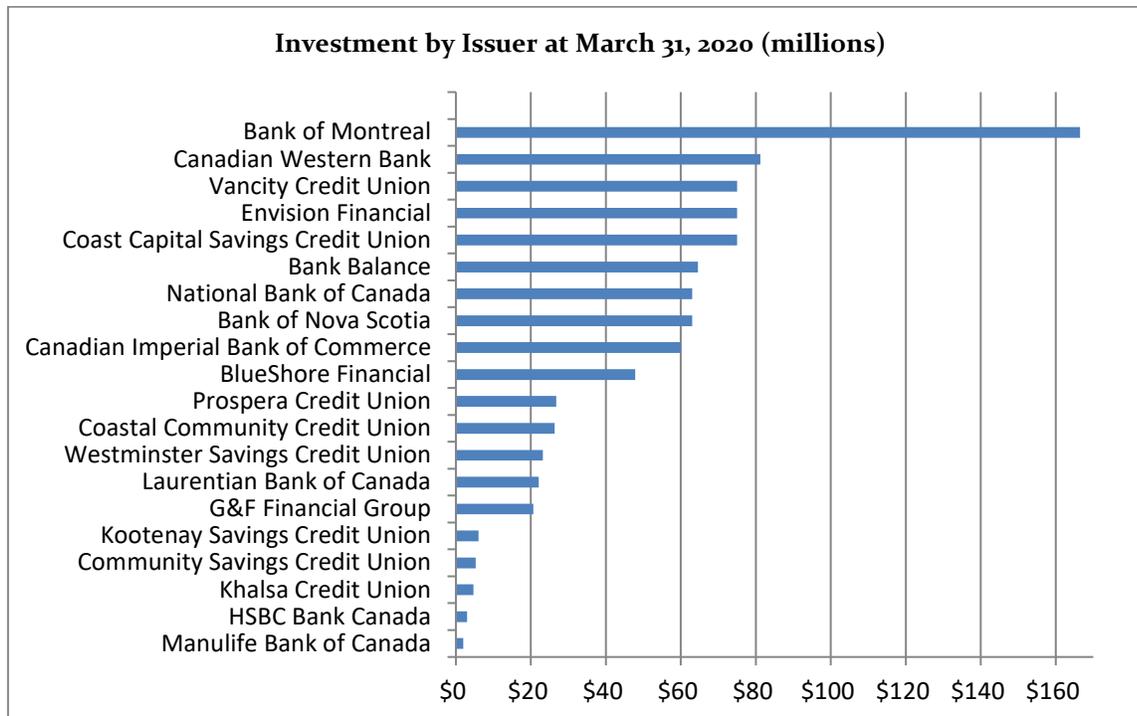


Graph 11

Investments within the portfolio are managed within the framework of the City's Investment Policy. Objectives of the Policy include:

### Diversification

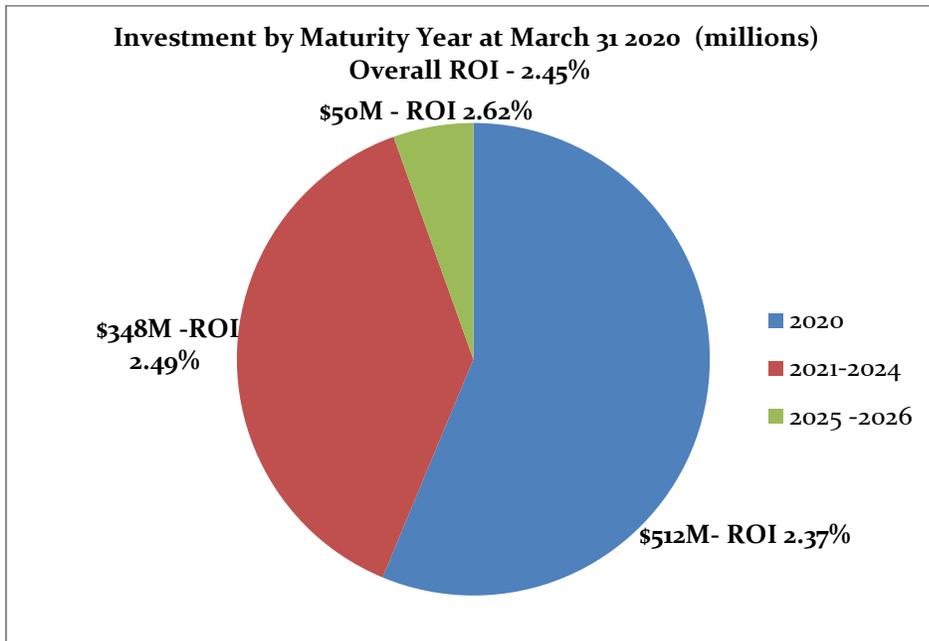
In order to reduce overall portfolio risk, the City diversifies its investment holdings across a range of security types and financial institutions. Graph 12 shows a listing of the City's portfolio by Financial Institution.



Graph 12

### Liquidity

In response to COVID-19, cashflow modeling is being undertaken to consider various scenarios and the corresponding effect on liquidity. Efforts are being made to ensure that the investment portfolio remains sufficiently liquid in order to meet all reasonably anticipated operating and capital cash flow requirements. The investment portfolio is managed through the laddering of investment maturities to account for the timing of cashflow demands. The City's forecasted cash balances are currently in a healthy position with efforts ongoing to remain prepared as new information is incorporated into the cashflow forecast. In the event the City's cash flow requirements change drastically, we are well positioned to add liquidity as necessary. Graph 13 shows the portfolio by maturity terms.



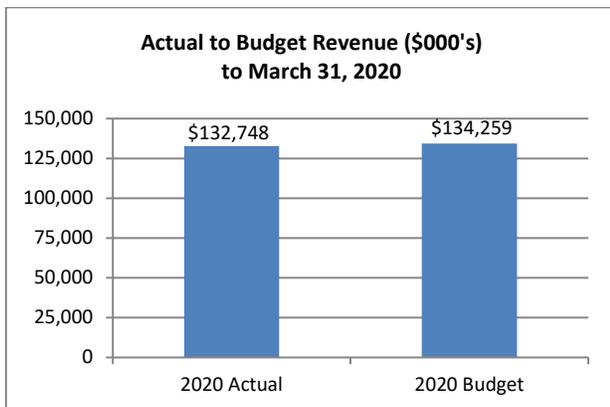
Graph 13

**Return on Investment**

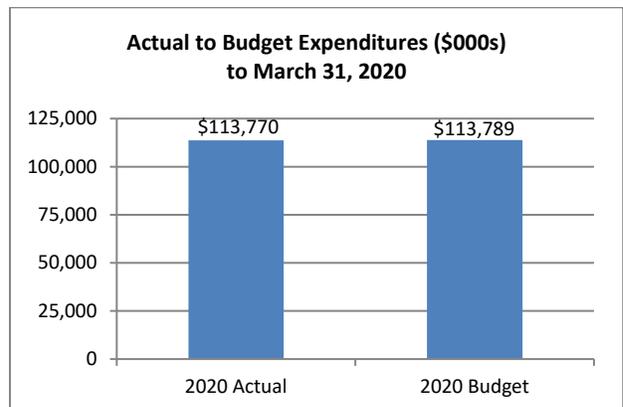
During the three-month period ending March 31, 2020, the City’s investment portfolio earned a combined rate of approximately 2.45% (during the quarter ending March 31, 2019 – 2.61%) while maintaining investment security as outlined in the City’s investment policy. Due to COVID-19, BOC’s key interest rate is now at a record low rate of 0.25%. Given the steep decline in interest rates, interest revenue is expected to be \$4.5M below budget for the year 2020. The City strives to earn a reasonable rate of return on the investment portfolio throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

**Actual Revenues and Expenditures Relative to the 2019 Budget (Financial Plan)**

The following graphs illustrate the variances between the actual and the budgeted operating revenues and expenditures respectively, excluding transfers to reserves, for the first quarter of 2020.



Graph 14



Graph 15

Appendix “I” documents the General Operating Fund’s revenues and expenditures for the first quarter of 2020 at a more detailed level. Departments are proactively monitoring their actual results on a monthly basis. The following section provides an explanation on a Department-by-Department

basis of year-to-date variances and forecasted variances in relation to the 2020 Financial Plan; and as shown in Appendix "II".

Policing Transition currently has a favourable variance of \$15,000; and is forecasted to be on budget at year-end.

RCMP Contract currently has a favourable variance of \$232,000 primarily due to savings from vacancies and higher expense recoveries; and is forecasted to be on budget at year-end.

Fire Department currently has a favourable variance of \$155,000, resulting from higher than budgeted revenues; and is forecasted to have an unfavorable variance at year-end of \$447,000 due to less than budgeted revenues from fire inspections, as a direct result of COVID-19.

Engineering Department currently has a favourable variance of \$455,000, primarily due to the timing of revenue recognition, staff vacancies and the timing of expenditures; and is forecasted to have an unfavorable variance at year-end of \$4,386,000 due to reduction in application fees and permit revenues, as a direct result of COVID-19.

Parks, Recreation & Culture Department currently has an unfavorable variance of \$422,000; and is forecasted to have an unfavorable variance at year-end of \$5,915,000. Unfavorable variances are a direct result of decline in revenues due to Parks, Recreation & Culture facility closures, effective March 16, 2020 to comply with physical distancing restrictions in BC.

Surrey Public Library currently has a favorable variance of \$149,000, due to the timing of expenditures, and is forecasted to have an unfavorable variance at year-end of \$112,000. Unfavorable variances are a direct result of decline in revenues due to Library facility closures, effective March 16, 2020 to comply with physical distancing restrictions in BC.

Planning & Development Department which also includes Civic Facilities, currently has an unfavorable variance of \$867,000; and is forecasted to have an unfavorable variance at year-end of \$4,048,000. Unfavorable variances are a direct result of decline in permit, inspection and application revenues due to COVID-19. Since the Planning & Development revenues are recognized up to a two-year period, permit, inspection and application revenues will continue to be impacted by COVID-19 in 2021 and 2022.

Mayor and Council has a favourable variance of \$37,000, resulting from timing of expenditures; and is forecasted to be on budget at year-end.

City Grants is currently on budget; and is forecasted to be on budget at year-end.

City Manager's Department has a favorable variance of \$56,000 primarily due to the timing of expenditures; and is forecasted to be on budget at year-end.

Investment & Intergovernmental Relations Department currently has a favourable variance of \$132,000, primarily due to the timing of expenditures; and is forecasted to be on budget at year-end.

Finance Department currently has an unfavorable variance of \$80,000; and is forecasted to have an unfavorable variance at year-end of \$546,000. Unfavorable variances are a direct result of decline in tax certificate inquiries revenues due to a slowdown in real-estate transactions due to COVID-19.

Corporate Services Department currently has an unfavorable variance of \$209,000; and is forecasted to have an unfavorable variance at year-end of \$3,935,000. Unfavorable variances are a direct result of decline in business licenses and bylaw infractions revenue due to COVID-19.

It is important to note that the aforementioned actual results for Quarter 1 do not substantially reflect the impact of COVID-19 for each department. Quarter 2 will be more representative.

In addition to the departmental forecasted variances, COVID-19 has impacted other corporate revenues and expenditure that are not included above. These are included in Appendix "I".

Corporate Lease Revenue: Due to COVID-19, it is expected that lease revenue on City owned properties will be requested to be deferred by tenants, resulting in an unfavourable variance of \$5,240,000 at year-end.

Investment Interest: Due to COVID-19, Bank of Canada key interest rate is now at a record low rate of 0.25%. Given the steep decline in interest rates, investment income will have an unfavourable variance of \$4,616,000 at year-end.

Gaming Revenues: Due to COVID-19, it is expected that gaming revenue due to the closure of Elements Casino will be impacted, resulting in an unfavourable variance of \$3,462,000.

Penalties and Interest on taxes: Due to COVID-19, it is expected that penalties and interest revenues due to late payments will not meet their budget, resulting in an unfavourable variance of \$2,714,000 at year-end.

Tree Replacement Revenues: Due to COVID-19, it is expected that other tree replacement and revenues will not meet their budget, resulting in an unfavourable variance of \$1,514,000 at year-end.

Other Revenues and Corporate Transfers: Due to COVID-19, other revenues and corporate transfers will be negatively impacted, resulting in an unfavourable variance of \$3,116,000 at year-end.

### **Mitigating Efforts**

The Senior Management Team ("SMT") is fully cognizant of the forecasted deficit presented in this report and are actively monitoring each respective department to seek opportunities to reduce costs, this includes reviewing all discretionary spending, reviewing significant operating and capital expenditures with a view to postponing where practical and filling vacant positions only if deemed critical at this time. The aforementioned steps, are above and beyond actions already taken, most significant the necessary layoffs that occurred last month.

### **CONCLUSION**

Overall, in relation to the 2020 adopted budget, it is imperative to emphasize that the first quarter results do not show the full impact of COVID-19 since its financial impact materialized very late in the quarter. It is expected that the second quarter actual results will be more reflective of the true fiscal impact of COVID-19 on the City's fiscal health for this year. In the event that the assumptions and modelling in this report changes materially due to new information, staff will bring a report to Council with updated forecasts.

Staff are continuously conducting financial analysis and modelling to understand and gauge the potential impact to the City for fiscal 2020. It is important to note that this modelling is based on several assumptions, which due to the unprecedented global nature of the COVID-19 pandemic are very difficult, if not impossible to predict with certain accuracy. Based on the information currently available, it is estimated that the financial impact (non-taxation, non-utilities) to the City of the COVID-19 pandemic, with our stated course of action, will equate to potentially a \$37 to \$42 million budgetary shortfall to the City for 2020.

Kam Grewal, CPA, CMA  
General Manager, Finance

Appendix "I": 2020 First Quarter Council Report, Executive Summary - Revenues & Expenditures

Appendix "II": 2020 First Quarter Council Report, Departmental Detail

## Appendix "I"

### 2020 1st QUARTER COUNCIL REPORT EXECUTIVE SUMMARY - REVENUES & EXPENDITURES \$ 000's

REVENUE SUMMARY	2020: 1st Qtr YTD Actual	2020 YTD BUDGET	2020: 1st Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
Net Taxation	96,622	96,621		386,491	386,491	
Secondary Suite Infrastructure Fee	5,637	5,637	-	22,228	22,546	(318)
Other Corporate Fees	626	924	(298)	938	2,750	(1,812)
Investment Interest	3,934	3,934	-	11,872	16,488	(4,616)
Contribution from SCDC	-	-	-	-	-	-
Provincial Casino Revenue Sharing	738	1,050	(312)	738	4,200	(3,462)
Carbon Tax Rebate	122	162	(41)	390	650	(261)
Other Trsf from Government	401	401	-	1,545	1,605	(60)
Penalties & Interest on Taxes	53	42	11	926	3,640	(2,714)
Corporate Leases	1,794	2,033	(239)	4,320	7,198	(2,878)
Other Revenues	535	1,125	(590)	2,138	4,500	(2,363)
<b>Non-Tax Revenues</b>	<b>13,839</b>	<b>15,308</b>	<b>(1,468)</b>	<b>45,094</b>	<b>63,577</b>	<b>(18,483)</b>
Program Revenues	22,287	22,330	(43)	48,381	90,471	(42,090)
<b>TOTAL REVENUES</b>	<b>132,748</b>	<b>134,259</b>	<b>(1,511)</b>	<b>479,966</b>	<b>540,539</b>	<b>(60,573)</b>
EXPENDITURE SUMMARY	2020: 1st Qtr YTD Actual	2020 YTD BUDGET	2020: 1st Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
Program Expenditures, net of transfers	111,622	111,319	(302)	451,378	474,080	22,702
Council Priorities	66	66	-	260	260	-
Fiscal Services	57	65	7	255	255	-
Debt Interest & Principal	2,022	2,008	(14)	12,804	12,790	(14)
Other	3	332	329	974	1,326	353
<b>TOTAL EXPENDITURES</b>	<b>113,770</b>	<b>113,789</b>	<b>19</b>	<b>465,670</b>	<b>488,711</b>	<b>23,041</b>
CORPORATE TRANSFER SUMMARY	2020: 1st Qtr YTD Actual	2020 YTD BUDGET	2020: 1st Qtr YTD Variance	2020 ANNUAL FORECAST	2020 ANNUAL BUDGET	2020 Projected Variance
Transfer to /(from) Operating Sources	(2,046)	(2,307)	(261)	(6,358)	(9,228)	(2,870)
Transfer to /(from) Capital Sources	882	882	-	3,529	3,529	-
Transfer to /(from) Surplus	14,028	14,381	353	57,174	57,527	353
<b>TOTAL TRANSFERS</b>	<b>12,864</b>	<b>12,956</b>	<b>92</b>	<b>54,345</b>	<b>51,828</b>	<b>(2,517)</b>
<b>Surplus (Deficit)</b>	<b>6,114</b>	<b>7,513</b>	<b>(1,400)</b>	<b>(40,050)</b>	<b>-</b>	<b>(40,050)</b>
Trsf (To)From Unapprop Surplus	(6,114)	(7,513)	1,400	40,050	-	40,050
<b>BALANCED BUDGET</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
PROJECTED SURPLUS (DEFICIT)						\$ (40,050)
BUDGETED TRANSFER FROM SURPLUS						-
<b>ANTICIPATED SURPLUS (DEFICIT) AT YEAR END</b>						<b>\$ (40,050)</b>

## Appendix "II"

2020 1st QUARTER COUNCIL REPORT							
DEPARTMENTAL DETAIL							
\$ 000's							

	2019: 1st Qtr	2020: 1st Qtr	2020	2020: 1st Qtr	2020	2020	2020
	YTD	YTD	YTD	YTD	Projected	ANNUAL	2020
PROGRAM REVENUES	ACTUAL	ACTUAL	BUDGET	Variance	ACTUAL	BUDGET	Projected
							Variance
Policing Transition	2,072	2,302	2,042	259	8,170	8,170	-
RCMP Contract	-	-	-	-	-	-	-
Fire	108	273	118	155	1,900	2,347	(447)
Engineering Services	2,308	2,302	2,230	72	2,950	8,190	(5,240)
Parks, Recreation & Culture	9,842	8,297	8,646	(350)	8,179	34,585	(26,406)
Surrey Public Library	451	418	403	15	1,190	1,621	(431)
Planning & Development	5,895	6,068	6,068	-	19,491	24,272	(4,781)
Mayor & Council	-	-	-	-	-	-	-
City Grants	-	-	-	-	-	-	-
City Manager	-	-	1	(0)	2	2	-
Invest. & Intergovernmental Relations	10	-	-	-	-	-	-
Finance	201	288	368	(80)	711	1,470	(759)
Corporate Services	2,645	2,339	2,454	(115)	5,788	9,814	(4,026)
<b>TOTAL PROGRAM REVENUES</b>	<b>23,533</b>	<b>22,287</b>	<b>22,330</b>	<b>(43)</b>	<b>48,381</b>	<b>90,471</b>	<b>(42,090)</b>

	2019: 1st Qtr	2020: 1st Qtr	2020	2020: 1st Qtr	2020	2020	2020
	YTD	YTD	YTD	YTD	Projected	ANNUAL	2020
PROGRAM EXPENDITURES	ACTUAL	ACTUAL	BUDGET	Variance	ACTUAL	BUDGET	Projected
NET OF TRANSFERS							Variance
Policing Transition	7,379	7,724	7,480	(244)	33,184	33,184	-
RCMP Contract	34,404	35,245	35,477	232	141,907	141,907	-
Fire	14,637	14,834	14,834	(0)	67,431	67,431	(0)
Engineering Services	2,339	2,105	2,488	383	10,147	11,001	854
Parks, Recreation & Culture	20,843	23,087	23,015	(72)	82,198	102,689	20,491
Surrey Public Library	4,602	4,469	4,602	134	19,942	20,262	320
Planning & Development	7,345	8,718	7,851	(867)	32,480	33,214	734
Mayor & Council	338	357	395	37	1,760	1,760	-
City Grants	440	460	460	-	1,839	1,839	-
City Manager	239	276	332	56	1,420	1,420	-
Invest. & Intergovernmental Relations	273	246	378	132	1,608	1,608	-
Finance	2,380	3,053	3,053	-	11,307	11,520	213
Corporate Services	10,515	11,050	10,957	(93)	46,154	46,245	91
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>105,733</b>	<b>111,622</b>	<b>111,319</b>	<b>(302)</b>	<b>451,378</b>	<b>474,080</b>	<b>22,702</b>

	2019: 1st Qtr	2020: 1st Qtr	2020	2020: 1st Qtr	2020	2020	2020
	YTD	YTD	YTD	YTD	Projected	ANNUAL	2020
NET PROGRAM	ACTUAL	ACTUAL	BUDGET	Variance	ACTUAL	BUDGET	Projected
							Variance
Policing Transition	5,307	5,422	5,437	15	25,014	25,014	-
RCMP Contract	34,404	35,245	35,477	232	141,907	141,907	-
Fire	14,529	14,560	14,716	155	65,531	65,084	(447)
Engineering Services	31	(198)	257	455	7,197	2,811	(4,386)
Parks, Recreation & Culture	11,000	14,790	14,368	(422)	74,019	68,104	(5,915)
Surrey Public Library	4,150	4,050	4,199	149	18,753	18,641	(112)
Planning & Development	1,449	2,650	1,783	(867)	12,990	8,942	(4,048)
Mayor & Council	338	357	395	37	1,760	1,760	-
City Grants	440	460	460	-	1,839	1,839	-
City Manager	239	276	332	56	1,418	1,418	-
Invest. & Intergovernmental Relations	263	246	378	132	1,608	1,608	-
Finance	2,179	2,765	2,685	(80)	10,596	10,050	(546)
Corporate Services	7,870	8,712	8,503	(209)	40,366	36,431	(3,935)
<b>NET PROGRAM TOTAL</b>	<b>82,201</b>	<b>89,335</b>	<b>88,990</b>	<b>(346)</b>	<b>402,997</b>	<b>383,609</b>	<b>(19,388)</b>