



Corporate Report

R265

October 18, 2004

NO:

COUNCIL DATE:

Regular Council

TO: **Mayor & Council** DATE: **Oct 12, 2004**
FROM: **General Manager, Finance, Technology & HR** FILE: **1880-20**
SUBJECT: **Quarterly Financial Report**

RECOMMENDATION

That Council receive this report as information.

INTENT

The intent of this report is to provide Council with the third quarter update of the City's financial activity as compared to the 2004 Financial Plan.

DISCUSSION

World demand and supply pressures have kept commodity prices, especially oil and gas prices elevated for much of the year.

United States – Economic Summary

GDP growth is likely to reach 4% for this year (See Graph #2). Although there is continued concern that inflation is beginning to rise in the United States, higher interest rates previously forecast have not yet materialized.

Canada – Economic Summary

The Canadian economy remains strong. Employment growth and investment spending continue to rise. Trade disputes with the United States still remain a potential risk, although progress is being made in Canada's favour.

The continued strength of the United States and other world economies means that our exports have remained high in spite of the higher Canadian dollar. If the dollar continues to strengthen though, this may begin to negatively affect the country's economy in the longer run as world demand for our products begin to decline.



Graph 1 Source: Nesbitt Burns Focus Sept. 10/04

CUCBC Sept/04



Graph 2 Source: Nesbitt Burns Focus Sept. 10/04

CUCBC Sept/04

The Bank of Canada is expected to increase interest rates over the next several months if there are continued threats of rising inflation.

British Columbia – Economic Summary

BC economy is expected to hold its position as one of the top provincial growth leaders in Canada this year and next. This has a lot to do with the improving economies in the United States and Pacific Rim. Now that the recent NAFTA ruling has prompted the United States to reduce the countervailing duties for softwood lumber, their strong housing boom is leading BC's export surge.

BC is also making good headway at developing its own energy resources. High commodity prices have encouraged greater investments in mineral exploration and stronger drilling activity.

Mortgage rates continue to move higher which will eventually slow the robust levels of housing activity across Canada. There have already been early signs of house sales tailing off to more manageable levels over the past several months. British Columbia however, is expected to remain stronger than the rest of the country as there continues to be pent up demand for housing in this Province. This demand is the result of a firmer labour market and increasing inter-provincial migration. In addition to this, the early stages of pre-2010 Olympics construction activity has begun to boost consumer and business confidence.

Surrey's Financial Performance

The level of development in the third quarter of the year continues to exceed expectations. This is primarily related to growth in the residential housing market. This pace of growth is expected to remain strong through the rest of 2004. The less robust housing sales in the Province is an early indication that development revenues may have peaked and will begin to level off in 2005.

The following graphs show how the third quarter of the year compare to previous years' results for the same time period.

Graph 3



Graph 3 shows that application fees collected in the third quarter of this year exceed the value collected in the second quarter of 2003. It is expected that we will exceed our 2004 budget figures.



Graph 4



Graph 5

Graph 4 shows Land Development activity. The activity for first the three quarters of the year is comparable with the same period in 2003. It is expected that Land Development fees will exceed budget expectations for 2004. The Development Cost Charges that have been collected to September 30th of this year exceed those collected in the same period of 2003. It is expected that the 2004 target will be surpassed.



Building permit fees collected to date are higher than expected due to the continued strong activity in the housing market. This activity is expected to continue for the remainder of the year. It is therefore expected that budget revenue targets will be exceeded in 2004.

Graph 6

The value of new construction is converted into taxable assessed values and is considered to be the 'growth' component of our annual property tax levy. However due to the tax rate for commercial/industrial properties being almost three times that of residential property, 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 to September 30th are above last year's experience. Overall, the value of new construction in the City so far this year well exceeds construction value for 2003.



Graph 9

Graph 10

Graph 9 shows that the overall assessed value of new growth has continued to increase in 2004. Graph 10 shows the results when the tax rates are applied to these assessed values. It is expected that the increased building activity in 2004 (graphs 7 & 8) will continue the trend of increased property taxes generated by new growth in 2005 and 2006.

Comparison of Actual versus Budget



The graphs below illustrate the variances between the actual and the budgeted revenues and expenditures for the first quarter.

Graph 11

Graph 12

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 2004 Financial Plan:

Gaming Revenue

The City has received \$985,000 in gaming revenue up to the end of the third quarter of 2004. It is anticipated that the total revenue will be approximately \$1.5 Million for the year. This will be available for allocation as part of the 2005 Capital

Planning process.

GST Rebates

It is anticipated that the City will receive \$1.3 Million in additional GST rebates arising from general operating expenditures for 2004. This was already earmarked for allocation in the Second Quarterly Report, presented to Council July 26, 2004. Over and above the rebates related to operating expenditures, there are additional rebates related to capital expenditures that were identified in Corporate Report R068, which was presented to Council on March 22nd of this year. The Report indicates that an additional \$500,000 will be generated from general capital projects for 2004. This will be available for allocation as part of the 2005 Capital Planning Process.

Traffic Fine Revenue

The Province recently announced an increased allocation of traffic fine revenue beginning in January 2004. Analysts at the Ministry of Community, Aboriginal and Women's Services are currently in the process of calculating the new revenues for the local governments based on this announcement. The current formula for 2004 is the allocation of \$10.0 M (approximately 25% of the total net revenue) based on the municipality's policing costs for 2002. The new allocation will be based on 100% of the net traffic fines collected in the Province, which is approximately \$40.0 Million each year.

Based on the new allocation, the Ministry is estimating that the local governments will be receiving approximately four times the amount that was announced last March. We received written confirmation March 26, 2004 that we would be receiving about \$800,000 in traffic fine revenue sharing for 2004. It is now estimated that we will be receiving about \$3.2 Million for 2004 and onwards.

Operating Transfer to Capital

This now reflects an increase of \$4.3 Million. This is based on the recommendations in Corporate Report R196 (Capital Projects to Meet Urgent Community Needs), which was adopted by Council July 26th, 2004.

Council Projects

As additional information, we have also included an update of allocations that have been made by Council to date in 2004. The details of those allocations are located in Appendix 2.

City Manager's Department is reporting a year-to-date favourable variance of \$0.7 million primarily due to temporary departmental vacancies in By-law Enforcement, Legislative Services, Economic Development and Administration as well as revenue increases from filming revenues and business licences. It is projected that the annual variance will be favourable to budget by approximately \$1.0 million.

Engineering is reporting a \$0.8 million year-to-date favourable variance, most of which is due to increased Land Development activities, and seasonal fluctuations. Engineering is expecting to achieve a year-end favourable variance of approximately \$0.9 million.

Finance, Technology & HR is currently favourable to budget by over \$0.7 million primarily due to timing of professional/consulting fees and temporary departmental vacancies. It is anticipated that the year-end projection is for a \$1.0 million favourable variance.

Fire Services has a favourable year-to-date variance of \$0.3 million due primarily to improved use of the staff management for career and volunteers for emergency response, timing of ECOMM participation, timing of uniform and gear purchases and temporary vacancies. Fire is projecting an annual favourable variance of \$0.3 million.

Library Services is currently showing a year-to-date favourable variance of \$0.1 million, which is primarily due to the timing of collection and material acquisitions and to temporary vacancies. It is expected that Library Services will be on budget by year-end.

Parks, Recreation & Culture is showing a year-to-date favourable variance of over \$0.4 million, primarily due to temporary vacancies, higher than anticipated program registration, membership and rental revenues; partially offset by lower than anticipated drop-in revenue, higher instructors costs and increased supplies and material costs. It is projected that the annual variance to budget will be favourable by \$0.4 million.

Planning and Development is reporting a favourable year-to-date variance of \$2.2 million primarily due to increased development activity. This trend is expected to continue to year-end resulting in a projected favourable variance of \$2.5 million.

RCMP is currently showing a favourable year-to-date variance of \$0.4 million primarily due to timing of the policing contract costs that are expected to be eliminated by the end of the year. There is no significant variance projected other than that reported in the second quarter (\$470K), which has already been allocated directly back to RCMP capital needs (Corporate Report R196, July 26th, 2004).

Mayor and Council is currently showing a small favourable variance of \$92,000 primarily due to a vacant position. The projected year-end favourable variance is approximately \$100,000.

The results at the end of the Third Quarter indicate that a total of \$4.9 Million is available for re-allocation. This includes the \$2.4 Million anticipated from increased traffic fine revenue. The construction contracts for several capital projects funded in 2004 have not yet been awarded. Due to the significant increase in construction costs, it is anticipated that additional funding may be required and will be addressed further in the 2005 budget process. It is therefore proposed that \$4.9 Million be directed to the Capital Program and be made available for 2005 capital projects. It is also proposed that any further surplus generated in the last quarter of the year, be directed towards future capital projects.

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 July through to September. Schedule 2 is a detailed listing of securities as at September 30, 2004 sub-totaled by issuer type.

The Portfolio represents the City's bank account for monies that are committed for use in the future. There are several different types of accounts that make up the total Portfolio.

Non-Discretionary Accounts

The following accounts are regulated through either the Local Government Act or the Community Charter:

- Water and Sewer/Drainage Utilities, and
- Development Cost Charges.

The monies in each of these accounts have already been allocated but not yet spent. Interest is earned on each balance and used to help fund future projects specifically related to those accounts.

Discretionary Accounts

There are other accounts that are more discretionary in nature and funds may be re-directed by Council. These accounts include:

- The Legacy Fund;
- City Land Reserve;
- Vehicle and Equipment Replacement Reserve;
- Local Improvement Revolving Fund, and
- Surplus.

Each year Council directs monies from these accounts to help support the Capital Program.

Working Capital

The Portfolio also includes the working capital that is required to run the City's day-to-day operations. The annual tax levy generates the majority of the City's revenue. It is collected once a year and is invested in short-term securities until the monies are required for general operating expenditures. The interest earned on the monies reserved for working capital is included in the 'Non-Tax Revenues', which forms part of the General Operating Revenue for the City.

The balance of the Investment Portfolio as at September 30th, 2004 is \$568 Million.

CONCLUSION

The 2004 adopted budget required a transfer from surplus of \$2.9 million. It is anticipated that the development activity will continue at the same pace for the remainder of 2004. As well, the City is continuing its diligent efforts to manage costs. The results at the end of the Third Quarter indicate that a total of \$4.9 Million is available for re-allocation, including \$2.4 Million from increased traffic fine revenue. It is therefore proposed that this be directed to the Capital Program and be made available for 2005 capital projects. It is also proposed that any further surplus generated in the last quarter of the year, be directed towards future capital projects.

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

Appendix 1

Appendix 2

Appendix 3