

Corporate

NO:



R195

Report

COUNCIL DATE:

July 25, 2005

Regular Council

TO: **Mayor & Council** DATE: **July 21, 2005**
FROM: **General Manager, Finance, Technology & HR** FILE: **1880-20**
SUBJECT: **Quarterly Financial Report**

1.0 RECOMMENDATION

That Council:

- a) Receive this report as information;
- b) Approve the allocation of \$2.58M as outlined in *Section 3.5.1* of this report, and
- c) Approve the allocation of all one-time RCMP savings to urgent policing needs as outlined in *Section 3.5.2* of this report.

2.0 INTENT

The intent of this report is to provide Council with a second quarter update of the City's financial activity as compared to the 2005 Financial Plan and to allocate one-time savings to meet urgent needs.

3.0 DISCUSSION

The world economy continues to remain strong as Japan and the European nations recover from past recessions. While growth is expected to remain strong into 2006 with China and India leading the way, the actual rate of growth is expected to slow by the beginning of next year. Despite commodity price increases, globalization and intense international competition are helping to keep inflation low.

3.1 Economic Summary

Spending in the United States is beginning to show signs of slowing. This is taking place at the expense of consumer spending, which makes up 70% of the US economy. This slow down will cause growth to drop from 4½% in 2004 to approximately 3½% in 2005. It is expected to fall further in 2006 to an estimated rate of 3%. Despite this slow in spending, the housing market and discounted auto market continue to remain stable due to the low interest rates. The US dollar is expected to remain stable through the second half of 2005 and appreciate slightly through 2006.

The Canadian economy is stable as the strong natural resource export market balances off import increases to support domestic demand. Diversified service-orientated regional economies have also helped through job creation, and a countrywide construction boom supported by public sector infrastructure projects. An increase in interest rates is expected to slow the domestic demand and the Canadian dollar is expected to weaken. Despite this, Canada is expected to maintain stable inflation and stable growth through 2005.



Graph 1 Source: Nesbitt Burns Focus June 30/05

Graph 2 Source: Nesbitt Burns Focus June 30/05

RBC Provincial Outlook July/05

RBC Provincial Outlook July/05

BC's strong economy is supported by above average population, labour force and employment growth. Strong migration and a strong construction market will continue to support economic growth in the Province as it gears up for the 2010 Olympics. However, the strong demand in the construction market has put a strain on the availability of resources, increasing wages and housing costs, CPI is expected to increase to 2.9% in 2006, which would then be highest in the country.

BC is expected to maintain a strong growth pattern in the coming year. US trade, residential housing starts, and higher commodity prices will help BC in 2005. Strong housing starts are also expected to continue into 2006, driven by continued pent-up demand and low interest rates. With the strong migration that BC is experiencing, it is expected that a significant interest rate rise would be needed before the housing market is affected. The continued improvement in international trade should also help to boost BC exports during 2005.

3.2 Surrey's Financial Performance

The level of development in the first half 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 2005. However analysts predict that it should begin to decline in early 2006 as pent-up demand is satisfied and interest rates begin to rise. Overall, it is expected that the revenue collected from development will exceed budget targets.

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 shows that application fees collected in the first half of this year are comparable to the value collected in the first half of 2004. It is expected that we will exceed our 2005 budget figures.

Graph 4



Graph 5

Graph 4 shows Land Development activity. The activity for the first part of the year is comparable with that of the first half of 2004 and fee revenue is expected to exceed budget expectations for 2005. The Development Cost Charges that have been collected in the first half of 2005 are slightly less than those collected in the same period of 2004. However, it is expected that the 2005 target will be met.



Building permit fees collected for the first half of the year are exceeding those fees collected in 2004. Activity in the housing market remains strong and it is expected that budget revenue targets will be exceeded again in 2005.

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. 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 the construction value of commercial/industrial building permits for the first half of the year, which is significantly above last year's experience. This is consistent with the efforts by Council to enhance Commercial Development within the City. Overall, the value of new construction in the City for the first half of the year exceeds the first half results for each time period for each of the last five years.



Graph 9

Graph 10

Graph 9 shows that the overall assessed value of new growth has continued to increase in 2005. Graph 10 shows the results when the tax rates are applied to these assessed values. 2005 shows an increase in the amount of taxes that we will be collecting for Commercial/Industrial properties. The increased building activity in 2004 has helped increase the tax dollars attributable to growth in 2005. Based on the results in Graph 7 and 8, it is also expected that the 2006 tax growth will exceed that of 2005.



Graph 11

Graph 12

In 2005 we have continued to increase our business licensing revenues by renewing existing licences and also by actively pursuing new ones (Graph 11). Overall, we expect that our licencing revenue will slightly exceed our budgeted expectations.

3.3 Comparison of Actual versus Budget

The graphs below illustrate the variances between the actual and the budgeted revenues and expenditures for the first half of the year.

Graph 13

Graph 14

Appendix 1 shows these revenues and expenditures at a more detailed level. Following are explanations of significant variances from the adopted 2005 Financial Plan:

3.3.1 Corporate Revenues

Net Taxation: Although the majority of the tax revenue has already been received, grants in lieu of property taxes are not normally received until the fall. The unfavourable variance of \$100,000 is reported until the actual grant revenue has been received.

Non-Tax Revenue includes interest earnings on the City's investment portfolio; tax penalties and interest charged on arrears tax balances. This year, more taxpayers paid their taxes by the due date, creating an unfavourable balance in this category of \$300,000.

Gaming Revenue is received on a quarterly basis. The revenue for the second quarter of the year was significantly less than the first quarter. This was likely due to the opening of the new casino in City of Langley. Staff has anticipated that the shortfall will be \$1.0M by the end of the year. Since 75% of this revenue is directed to capital the net impact on operating income is expected to be \$250,000.

Utility Recoveries are based on actual City expenditures. Since the expenditures are anticipated to be less than budgeted, the utility recoveries an unfavourable variance of \$300,000 is expected by the end of the year.

3.3.2 Departmental Revenues

Departments are closely monitoring their actual results on a monthly basis. Explanations of departmental variances follow:

City Manager's Department is reporting a year-to-date favourable variance of \$820,000 primarily due to revenue increases from fines and business licences as well as departmental vacancies in By-law Enforcement, Legislative Services, Economic Development and Administration. It is projected that the annual variance will be favourable to budget by approximately \$900,000.

Engineering is reporting a \$591,000 favourable variance, most of which is due to increased Land Development activities, Solid Waste clean-up week savings and seasonal fluctuations. Engineering is expecting to achieve a year-end favourable variance of approximately \$500,000.

Finance, Technology & HR is currently favourable to budget by \$566,000 primarily due to timing of professional/consulting fees and temporary departmental vacancies. It is anticipated that the year-end projection is for a \$1.2 million favourable variance.

Fire Services has a favourable year-to-date variance of \$232,000 due primarily to improved use of the staff management for career and volunteers for emergency response and temporary vacancies. Fire is projecting an annual favourable variance of \$300,000.

Library Services is currently showing a year-to-date favourable variance of \$383,000, 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 \$870,000, primarily due to higher than anticipated program registration, membership and rental revenues and temporary vacancies; 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 \$400,000.

Planning and Development, which also includes Civic Facilities Management, is reporting a favourable variance of about \$956,000 due primarily to increased development activity. It is projected that the annual variance to budget will be favourable by \$1.9 million.

RCMP is currently showing a favourable variance of \$1,468,000. This is primarily due to an increase of \$837,000 in the City's share of traffic fine revenue. The remainder is due to timing of the policing contract costs and the number of billable members on staff. By

year-end, this department is expected to have a favourable variance to budget of \$2.8 million. It is recommended that all one-time operating savings be allocated to RCMP capital needs.

Mayor and Council is currently showing a favourable variance of \$53,000. This is due to a vacant position. The projected year-end favourable variance is approximately \$100,000.

Council Projects: As additional information, we have also included an update of allocations that have been made by Council to date in 2005. The details of those allocations are located in Appendix 2.

All of the above variances outlined in *Sections 3.3.1 and 3.3.2* result in an overall one-time savings of \$5.0 Million. \$2.8 Million of which is directly attributable to the RCMP. Recommendations as to the allocation of these funds follow in *Section 3.5*.

3.4 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, 2005 sub-totaled by issuer type.

It is important to note that although the investment portfolio is currently valued in excess of \$594 million, most of these funds have either been committed to specific capital projects or else they are operating funds that have already been collected and invested until the appropriate expenditures are required.

The City's investment portfolio is currently earning a combined rate of approximately 4.15%, while maintaining investment security as outlined in the investment policy. This is currently less than the expected investment interest return of 4.25% that was anticipated in our 2005 Financial Plan. However, it is anticipated that the interest rates will rise in the Fall, so it is expected that interest revenue will meet the budgeted projections.

3.5 Urgent Capital Needs

The mid-year review of the City's financial progress offers an opportunity to address urgent community capital needs not addressed through the most recent budget process.

3.5.1 Urgent Needs

The following is a list of the most urgent needs:

In Support of Existing Projects:	
<p><i>Sullivan Park Fieldhouse</i></p> <p>The Province has promised to provide \$250K for bleachers and washrooms. However, an additional \$100K is required to meet the projected costs of this project.</p>	\$0.100M
<p><i>SS Athletic Park re: Football Practice</i></p> <p>Development of the facility will result in the existing football lighting system to be displaced. This funding would reinstate the lighting.</p>	\$0.025M
<p><i>Playground Upgrades</i></p> <p>Some City playgrounds contain ageing equipment that is being taken out of service for safety reasons. This funding will allow for the replacement of some equipment in high profile locations such as Bear Creek Park.</p>	\$0.200 M

Existing Medians		
	One-time contribution towards the Green City Reserve Fund established in the Corporate Report (Review of Tree Preservation Bylaw) that will be used for tree planting and beautification of existing medians.	\$0.500M
Sub Total		\$0.825M
Additional Projects:		
	Artificial Turf	
	To meet the high demand for soccer fields in both summer and winter.	\$1.700M
	Portable Picnic Shelters & Additional Washroom Facilities in Parks	
	There is a continuing demand from seniors for shelters in parks. This funding would allow shelters to be constructed & placed primarily in neighbourhood parks in Newton	\$0.055M
TOTAL		\$2 580M

3.5.1 Urgent Policing Needs

It is recommended that any savings resulting in the 2005 RCMP operations be directed to policing needs as outlined below.

1. Increase the authorized RCMP complement by 20 members effective October 1st, 2005, in particular to address the needs in the City Centre area. This will require one-time funding of \$625,000 for this year. On-going funding requirements will be addressed through the 2006 budget process.
2. Significantly increase the size of the City Centre District Office to accommodate additional members as well as some centralized services that are currently located in the main detachment.

The above examples have also been outlined in the Corporate Report (City Centre Enhancement Strategy).

CONCLUSION

The development activity experienced in 2004 has continued in the first half of the year and is expected to continue for the remainder of 2005. The 2005 adopted budget required a transfer from surplus of \$2.9 million. This transfer is no longer required. In addition, there is also one-time funding available for other needs. It is therefore recommended that these funds be allocated to the urgent needs identified in *Section 3.5* of this Report.

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