

Corporate Report

NO: R263

COUNCIL DATE: November 28, 2005



REGULAR COUNCIL

TO: Mayor & Council DATE: November 21, 2005
FROM: General Manager, Finance, Technology & HR FILE: 1880-20
SUBJECT: October 31st Financial Report

1.0 RECOMMENDATION

That Council:

- a) Receive this report as information,
- b) Approve the allocation of 2005 surplus as follows:
 - i) RCMP under expenditure to capital policing projects;
 - ii) Fire Services under expenditure to fire-related capital projects, and
 - iii) Remaining 2005 variance to the 2006 Capital Program.

2.0 INTENT

The intent of this report is to provide Council with an update of the City's financial activity as of October 31, 2005, compared to the 2005 Financial Plan.

3.0 DISCUSSION

Due to the timing of Council Meetings in the latter part of October and beginning of November, this report is being presented later than normal. For that reason, this report includes information up to the end of October in order to provide more timely information.

North America will lead the global recovery in the industrialized world this year but the probability of a U.S. recession is increasing in the aftermath of Hurricane Katrina. China, now the world's sixth largest economy will, together with the other emerging East Asian economies, be key players in the global growth outlook.

3.1 Economic Summary

Financial markets are becoming increasingly concerned about the prospects of rising inflation in the United States due to the rising energy prices caused by the active hurricane season. Preliminary forecasts have real growth in the U.S. economy at 3.5% in 2005 and 3% in 2006, with core inflation reaching around 3.2% by the end of 2006.

In Canada, inflationary pressures are not nearly as worrisome as they are in the U.S. despite an economy operating with some excess demand. The higher dollar has helped keep a lid on some inflationary pressures while preventing the economy from moving into a more noticeable state of excess demand. Preliminary estimates of

real GDP growth in Canada are 2.8% this year and 2.7% in 2006.



*Graph 1 Source: Nesbitt Burns Focus Nov 4/05
CUCBC Economic Analysis Oct/05*

*Graph 2 Source: Nesbitt Burns Focus Nov 4/05
CUCBC Economic Analysis Oct/05*

The BC economy remains solid with virtually all the major sectors contributing to the expansion. Consumers are still spending, housing sales are headed for a record year, jobs are plentiful, non-residential construction is booming and exports have held up. Another sign of the healthy economy is an increase in the number of new businesses operating in the province.

With most sectors of the economy contributing to the current upswing, there is little on the horizon to dampen the outlook for the next six to twelve months. As evidenced by the strong pace of new business formation, the economic outlook for the province remains positive.

3.2 Surrey's Financial Performance

The level of development in 2005 has begun to show signs of slowing, with land development applications slightly below last year, however it is still exceeding expectations. The growth in the residential housing market has remained strong, although pent-up demand is beginning to be satisfied and interest rates have started to increase. It is expected that this market will begin to flatten in 2006. Overall, it is expected that the revenue collected from development will exceed budget targets.

The following graphs show how the activity to October 31st of this year compares to previous years' results for the same time period.



Graph 3

Graph 3 shows that application fees collected to date are comparable to those collected to October 31st of 2004. However, it is still expected that we will exceed our 2005 budget figures.

Graph 4



Graph 5

Graph 4 shows Land Development activity. The activity to date is lower than that in the comparable part of last year. This drop off has occurred primarily over the summer and is yet to be seen whether it is a minor fluctuation or signs of a new trend. The Development Cost Charges that have been collected to October 31st this year are also less than those collected in the same period of 2004, but are still expected to meet the 2005 target.



Building permit fees collected to date are exceeding those fees collected in 2004 for the same period. 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 approximately 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 three quarters of the year, which is significantly above last year's experience. This is consistent with the efforts by Council to enhance Commercial/Industrial Development within the City. Overall, the value of new construction in the City to date exceeds the first half results for the same period in 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 licenses and also by actively pursuing new ones (Graph 11). Overall, we expect that our licensing 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 three quarters 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

Non-Tax Revenue is comprised of interest earnings on the city's portfolio as well as penalties and interest earnings from property taxes. While the portfolio earnings are projected to meet the budget figures, the property tax related interest and penalties are projected to be less than budgeted by approximately \$445,000. This is because a greater number of taxpayers are paying on time.

Gaming Revenue is received on a quarterly basis. The revenue for the second and third quarters of the year has been significantly less than the first quarter. This was likely due to the opening of the new casino in the City of Langley. Staff has anticipated that the shortfall will be \$0.8M 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 \$200,000.

Utility Recoveries are based on actual City expenditures. Since overall expenditures are anticipated to be less than budgeted, the utility recoveries are expected to be \$400,000 less than budget 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 \$1.15M primarily due to revenue increases from fines and business licenses as well as some vacancies in By-law Enforcement, Legislative Services, Economic Development and Administration. It is projected that the annual variance will be approximately \$1.15M.

Engineering is reporting a \$0.96M 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 variance of approximately \$0.9M.

Finance, Technology & HR is currently favourable to budget by \$1.15M primarily due to unused professional/consulting fees and temporary departmental vacancies. It is anticipated that this variance will increase to \$1.5M by year-end.

Fire Services has a favourable year-to-date variance of \$0.95M due primarily to improved use of the staff management for career and volunteers for emergency response, temporary vacancies and budget timing variances. Fire is projecting an annual favourable variance of \$1.0M. It is recommended that this surplus be allocated to Fire related capital projects.

Library Services is currently showing a year-to-date favourable variance of \$0.3M, 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 \$0.44M primarily due to early program registration, membership and rental revenues. Temporary vacancies and program cost savings have also contributed to this budget timing variance. It is projected that the annual variance to budget will be approximately \$0.3M.

Planning and Development, which also includes Civic Facilities Management, is reporting a favourable variance of about \$2.8M due primarily to increased development activity. It is projected that the annual variance to budget will reach \$2.9M.

RCMP is currently showing a favourable variance of \$3.3M. This is partly 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. Any surplus generated by this area will be allocated to RCMP capital needs as directed by Council earlier in the year.

Mayor and Council is currently showing a favourable variance of \$123,000. This is due to a vacant position and other sundry savings. The projected year-end variance is approximately \$150,000.

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.

After allowing for the budgeted transfer from surplus (\$2.9M) and the Council directions outlined in the 2nd Quarter Financial Report R195 (\$3.405 to sundry capital projects), it is recommended that the surpluses in Fire Services (\$1.0M) and RCMP (\$3.3M) be re-allocated to their capital needs.

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 July through October. Schedule 2 is a detailed listing of securities as at October 31st, 2005 sub-totaled by issuer type.

It is important to note that although the investment portfolio is currently valued in excess of \$597 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 4.21%, while maintaining investment security as outlined in the investment policy. This is currently slightly less than the expected investment interest return of 4.25% that was anticipated in our 2005 Financial Plan. However, it is anticipated that the short and long term interest rates will continue to rise slowly over the next year. Interest revenue is anticipated to meet budgeted projections.

CONCLUSION

The development activity experienced in 2004 has continued into 2005. The 2005 adopted budget required a transfer from surplus of \$2.9M. This transfer is no longer required and additional funding has been provided to meet critical needs within the City. After addressing these needs, it appears that a small surplus will be generated; therefore it is recommended that these funds be allocated to future capital needs through the 2006 Financial Planning process.

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













