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**TO:** Committee of the Whole                      **MEETING:** June 11, 2019

**FROM:** Manvir Manhas  
Manager, Capital Accounting &  
Financial Reporting                      **FILE:** 1870-01

**SUBJECT:** Quarterly Financial Report – First Quarter – 2019

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## **RECOMMENDATION**

That the Financial Report for the period January 1, 2019 to March 31, 2019 be received for information.

## **SUMMARY**

Overall, all services are within budget or under budget and this trend is expected to continue through 2019. Total operating revenues are at 22% of the budget, with Building Inspection operating revenues at 29% of the budget. Regional & Community Utilities revenues (17%) will increase after the first utility services billing which occurs at the end of May. Total operating expenditures are at 18% benchmark. The majority of variances are due to timing differences in recording revenues and expenses. Capital spending is at 10% of the budget due to the timing of capital projects and the drawdown accounting approach where transfers from reserves and Development Cost Charge revenues are recorded only when project expenses are incurred.

## **BACKGROUND**

The Regional Board is provided with quarterly financial progress statements in order to review budget trends. Other than taxation revenue, which is accrued evenly through the year and shows at 25% of budget, revenues and expenses are incurred as projects are completed. Variances are explained below at an organizational level and specific service variations are explained in Attachment 1.

### **Economic Overview**

#### ***Canada***

The Canadian economy was operating at close to potential and then slowed in the fourth quarter of last year. The pace of economic activity in the fourth quarter of 2018 was weaker than expected, and the weak growth is estimated to have continued into the first quarter of 2019. Economic growth is expected to pick up for the second half of 2019, and GDP growth is projected to increase from 1.2% in 2019 to about 2% in 2020 and 2021<sup>1</sup>. Core measures of inflation continued to hover at about 2%, and despite the CPI decrease to 1.6% in the first quarter of 2019, inflation is expected to remain close to 2% through 2020 and 2021. The Bank

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<sup>1</sup> Bank of Canada Monetary Policy Report, April 2019

of Canada continues to hold the overnight lending rate at 1.75% based on current economic data.

### **British Columbia** (Content provided by TD Economics<sup>2</sup>)

*After several years of blockbuster growth, B.C.'s economy is estimated to have slowed to a still-decent 2% in 2018. An extended housing market correction and a likely moderation in consumer spending are expected to fuel a further downshift in 2019. Still, in light of healthy investment intentions, strong labour markets, and decent public finances, growth in the province should remain above the national average over the next two years, extending an impressive trend that has been in place since 2014.*

*B.C.'s deepening housing market slowdown is likely to put a larger damper on growth this year. The province's housing market has been the most hard-hit (Chart 1) by the implementation of tighter mortgage rules, rising interest rates, and B.C. government policy measures. Resale activity declined a disappointing 25% in 2018, and the market has shifted well into buyer's territory. Housing demand is likely to stabilize later this year – albeit at low levels. Nevertheless, loose market conditions are likely to lead to price declines, with only a muted uptick likely in 2020.*

*The correction underway is expected to become more visible in consumer-oriented data in 2019. That said, household spending is likely to remain resilient. British Columbia's labour markets are undisputedly the strongest in the country. Wage growth, which has been healthy, will receive an added boost from scheduled minimum wage increases. These conditions will continue to provide support to household spending in the face of rising debt-servicing costs.*

*At the same time, non-residential investment should partially counter weaker homebuilding. Construction on the LNG Canada terminal and the Coastal GasLink pipeline should deliver a substantial boost to growth, with the bulk of the impact expected in 2020 and 2021. Statistics Canada's Capital and Repair Expenditure survey placed B.C. at the top for 2019 (Chart 2). Combined with decent past performance and the above projects, the 12.9% increase in intentions is a sign that confidence is strong in the province.*

*Meanwhile, B.C.'s government finances still lead the country. The FY2019-20 budget contained minor changes, with an emphasis on continued surpluses. Capital expenditures on education, healthcare, and transportation infrastructure will add modestly to debt, but should support growth while keeping the taxpayer-supported debt/GDP ratio near 16%.*

### **Regional District of Nanaimo**

The positive economic indicators for the Regional District of Nanaimo (RDN) continue with 181 building permits issued by the RDN in the second quarter vs. 163 in 2018. Average single family dwelling prices for April 2019 at \$586,595 in Nanaimo and \$662,136 in Parksville/Qualicum are up 6% and 8% respectively over April 2018; however, the number of sales is down by 15% and 5% respectively<sup>3</sup>.

The unemployment rate of 3.7% for Vancouver Island/Coast for April 2019 is well below the 4.6% provincial rate, which was the lowest in Canada during the month of April<sup>4</sup>. BC Ferries

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<sup>2</sup> TD Economics Provincial Economic Forecast (March 14, 2019)

<sup>3</sup> Vancouver Island Real Estate Board Single Family Home Average Sales Price, April 2019

<sup>4</sup> Statistics Canada, Labour Force Survey, April 2019, The Daily, May 10, 2019

March 2019 Year to Date Vehicle and Passenger traffic declined 1.39% and 1.57% at Departure Bay, but increased at Duke Point by 2.18% and 1.63% over March 2019<sup>5</sup>.

There are a number of factors that will impact the Canadian, BC and Vancouver Island economies in 2019 and forward including interest rate changes, the Canadian dollar fluctuations, climate change, trade agreement battles and global politics. These areas have had some negative effects on the Island economy; however, at this time, BC and Vancouver Island are expected to continue to show growth.

### **Overall Summary by Division (Attachment 2)**

The Overall Summary by Division provides an overview of the year-to-date results at a divisional level.

#### ***Capital Accounts***

Overall capital spending is at 10% of budget due to the timing of capital projects, in particular the \$31.5 million allocated for 2019 to the secondary treatment project at the Greater Nanaimo Pollution Control Centre for which the construction is currently underway. The timing of capital projects also impacts professional fees (8%). Capital projects use a drawdown accounting approach where grant revenues and transfers from reserves and Development Cost Charge revenues are recorded when project expenses are incurred which in turn impacts transfers from reserves (22%), capital grant revenues (1%), and new borrowing (2%). Other major capital works underway or beginning in 2019 are the Nanoose Bulk Water Joint Venture project, design work for the French Creek Pollution Control Centre, San Pareil Water Treatment upgrades, Chase River Pump Station and Forcemain upgrades, Mount Benson Parking Lot construction, Meadowood Community Recreation Centre construction and the design work for Dashwood Volunteer Fire Hall replacement and Huxley Skatepark.

#### ***Operating Accounts***

Total operating revenues are at 22% of the budget, with Building Inspection operating revenues at 29% of the budget. Regional & Community Utilities revenues (17%) will increase after the first utility services billing which occurs at the end of May.

Operating expenditure accounts are at 17% or more of budget other than professional fees (8% impacted by capital as noted above), community grants (0%) and program costs (8%). Community Grants (0%) reflect the timing of grants to various organizations which will be disbursed fully over the summer and the fall. Program costs reflect the Drinking Water/Watershed Protection rebate programs in Regional & Community Utilities (5%) which are currently underway and expected to be fully allocated by the year-end. Recreation and Parks program costs at 11% are incurred predominantly in the spring and summer when most children and youth programming is completed.

Expenditures for Debt Interest (19%) and Debt Principal (8%) are lower than budget because of the timing of debt payments made on behalf of municipalities and the Vancouver Island Regional Library.

Transfers to Reserve (0%) approved in the annual budget are completed and recorded in August when tax revenues are received from the Province and the municipalities.

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<sup>5</sup> BC Ferries, Traffic Statistics System Total Vehicle and Passenger Counts by Route for March 2019

Total operating expenditures are \$20 million or 18% of budget, which reflect the items discussed above and those in Attachment 1.

**Summary of Operating Results by Department (Attachment 3)**

The Summary of Operating Results by Department lists the total year-to-date revenues and expenditures for services within each organizational division at March 31. The majority of the variances are due to the timing of capital and operating projects and the related revenue accruals.

**Contract Awards**

During the first quarter, the following contracts (greater than \$100,000) were awarded by the Regional District of Nanaimo totaling over \$2,395,256.

Date	Description	Awarded Vendor	Awarded Amount
January 2019	Web Mapping Software	ESRI	\$151,810
January 2019	Mount Benson Regional Park Parking Lot	Milestone Equipment Contracting	\$526,758
January 2019	White Heather Lane Firewater Storage Tank	David Stalker Excavating	\$166,351
March 2019	French Creek Pollution Control Centre Additional Engineering	AECOM	\$222,172
March 2019	Oceanside Place Energy Upgrades & Chiller Replacement	Fraser Valley Refrigeration	\$380,920
March 2019	Ravensong Aquatic Centre Mechanical Upgrades	Archie Johnstone Plumbing & Heating	\$699,250
March 2019	Greater Nanaimo Pollution Control Centre Wastewater Treatment Chemicals	Waterhouse Environmental Services	\$100,170
March 2019	Parks & Trails Landscape Services	Strain Landscapes	\$147,825

**ALTERNATIVES**

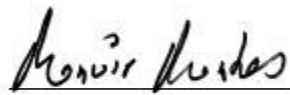
1. Receive the financial report for the period January 1, 2019 to March 31, 2019 for information.
2. Provide alternate direction to staff.

## FINANCIAL IMPLICATIONS

There are no significant variances impacting the overall budget for the period ending March 31, 2019. Capital projects are ongoing and all RDN services are forecast to be within budget for 2019.

## STRATEGIC PLAN IMPLICATIONS

Quarterly financial progress statements provide information to identify budget trends and to allow for improved financial planning. This directly supports the Board governing principles to “Be Transparent and Accountable” and to “Show Fiscal Restraint” through prudent use of tax dollars and to deliver the services expected by residents of the Region as cost effectively and economically as possible.



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May 23, 2019

Reviewed by:

- J. Bradburne, Director of Finance
- D. Wells, General Manager, Corporate Services
- P. Carlyle, Chief Administrative Officer

Attachments:

1. List of variances for March 31, 2019 quarterly reporting
2. Overall Summary by Division March 31, 2019
3. Summary of Operating Results by Service March 31, 2019