



## Land Title and Survey Authority of British Columbia

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### **Management's Discussion and Analysis**

Of Financial Condition and Results of Operations  
For the Quarter ended June 30, 2018

This management's discussion and analysis ("MD&A"), dated September 6, 2018, should be read in conjunction with the Land Title and Survey Authority of British Columbia ("LTSA") audited consolidated financial statements and related notes for the year ended March 31, 2018 (the "consolidated financial statements"). Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

For purposes of this discussion, the LTSA refers to the Land Title and Survey Authority of British Columbia and its wholly-owned subsidiary, LandSure Systems Ltd. ("LandSure").

This report contains forward-looking statements, including statements regarding LTSA business and anticipated financial performance. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and represent management's best judgement based on facts and assumptions that management considers reasonable. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

#### **Business Overview**

The LTSA was formed in 2005 as a publicly accountable, statutory corporation responsible for operating the land title and survey systems in BC. These systems provide the foundation for all real property business and ownership in the province. The LTSA's services are primarily accessed electronically by legal professionals, land surveyors, certain statutory officers and other professionals who provide property-related services to their clients.

The Province of BC establishes the mandate, responsibilities and performance standards of the LTSA in the Land Title and Survey Authority Act and through an Operating Agreement.



LTSA operations are funded through regulated fee revenue from land title and survey services and myLTSA services provided to customers. Fees are established in compliance with requirements set out in the Operating Agreement.

## Highlights

Total revenue for the first quarter was \$10.6 million, less than prior year by \$0.3 million or 3.1%. The decreased revenues reflect reduced transactional activity in the provincial real estate market. Total operating expense for the first quarter was \$9.3 million, greater than prior year by \$1.3 million or 15.6%. The key factors affecting increased operating expenses were investments in human capital planning and organizational development and costs to maintain our large information technology systems.

During the quarter, total capital investments were \$2.3 million, of which 90% of the \$1.9 million spent on property and equipment was for the construction of leasehold improvements for additional office space at LandSure and for the New Westminster office at Anvil Centre. The relocation to Anvil Centre will occur in August 2018.

The multi-year Web Filing project continues the LTSA's commitment to improve customer experience through new and enhanced services on myLTSA, including electronic search and filing improvements. In the first quarter, development continued with an additional \$0.4 million invested in software technology assets. The project is expected to complete in early 2020 at a total cost of \$10.3 million.



## Results

The following table sets forth certain consolidated statement of operations data, as well as consolidated statement of financial position data, expressed in dollars, as at June 30, 2018 and 2017.

Quarters ended June 30	2018	2017
Revenue	<b>\$10,557,610</b>	\$10,892,749
Expenses:		
Salaries and benefits	<b>3,989,223</b>	3,755,849
Information services	<b>1,234,690</b>	821,933
Office and business expenses	<b>661,215</b>	551,538
Building occupancy	<b>770,754</b>	811,138
Professional fees	<b>785,642</b>	340,839
Amortization	<b>1,881,351</b>	1,785,770
	<b>9,322,875</b>	8,067,067
Operating income	<b>1,234,735</b>	2,825,682
Other income (expenses):		
Bank charges, interest and investment fees	<b>(30,194)</b>	(28,448)
Interest income	<b>383,171</b>	187,665
Change in fair value of investments	<b>(10,993)</b>	(98,062)
(Loss) gain on disposal of investments	<b>(66,762)</b>	400
	<b>275,222</b>	61,555
Income and comprehensive income before taxes	<b>1,509,957</b>	2,887,237
Income taxes	<b>65,759</b>	147,285
Net income and comprehensive income	<b>\$1,444,198</b>	\$2,739,952
Total assets	<b>\$99,648,112</b>	\$93,593,501
Total liabilities	<b>\$12,809,849</b>	\$14,043,687
Total long-term liabilities	<b>\$857,643</b>	\$746,047
Total equity	<b>\$86,838,263</b>	\$79,549,814



The following table sets forth certain consolidated statement of operations data expressed as a percentage of revenue for the same fiscal periods.

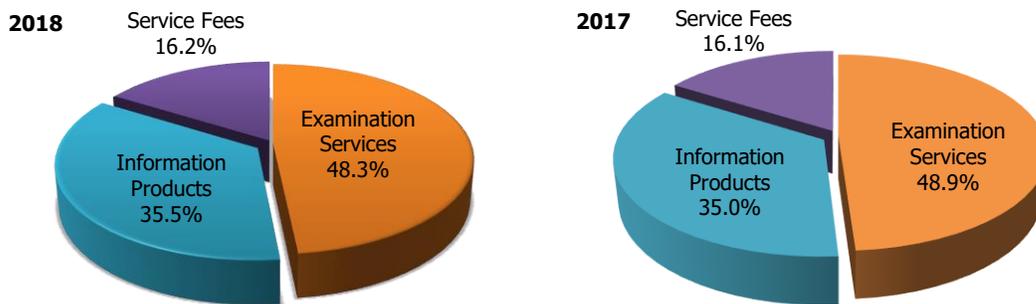
Quarters ended June 30	2018	2017
Revenue	<b>100.0%</b>	100.0%
Expenses:		
Salaries and benefits	<b>37.8%</b>	34.5%
Information services	<b>11.7%</b>	7.5%
Office and business expenses	<b>6.3%</b>	5.1%
Building occupancy	<b>7.3%</b>	7.4%
Professional fees	<b>7.4%</b>	3.1%
Amortization	<b>17.8%</b>	16.4%
	<b>88.3%</b>	74.0%
Operating margin	<b>11.7%</b>	26.0%
Other income (expenses):		
Bank charges, interest and investment fees	<b>(0.3%)</b>	(0.3%)
Interest income	<b>3.6%</b>	1.7%
Change in fair value of investments	<b>(0.1%)</b>	(0.9%)
(Loss) gain on disposal of investments	<b>(0.6%)</b>	0.0%
	<b>2.6%</b>	0.5%
Income and comprehensive income before taxes	<b>14.3%</b>	26.5%
Income taxes	<b>0.6%</b>	1.3%
Net income and comprehensive income	<b>13.7%</b>	25.2%



## Revenue

LTSA revenue sources consist of examination services to ensure that applications and plans are submitted in accordance with rules and regulations of various provincial statutes and acts; information products that include title, document and plan images, certifications and document scanning; and service fees for electronic processing of land title and survey transactions through the myLTSA electronic portal.

### Revenue by Source

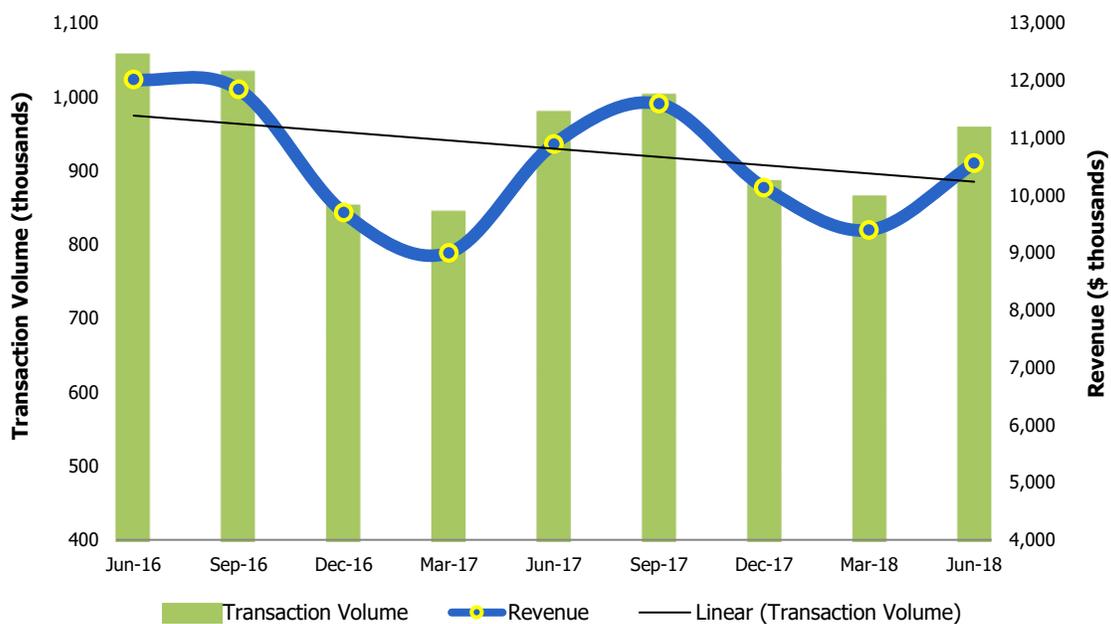


Quarters ended June 30	2018	2017
Examination services	<b>\$5,100,174</b>	\$5,325,376
Information products	<b>3,748,153</b>	3,814,937
Service fees	<b>1,709,283</b>	1,752,436
	<b><u>\$10,557,610</u></b>	<u>\$10,892,749</u>

Total revenue for the first quarter was \$10.6 million, less than prior year by \$0.3 million or 3.1%. While April's revenue was higher than the same period last year, revenue for May and June was lower, reflecting lower transaction volumes. July volumes continued this downward trend and, as a result, we expect the revenues for next quarter will also be less than prior year.



Revenues for the first quarter were the lowest since 2015 with 2016 appearing to have been the peak of the current market cycle. As the following graph shows, transaction volume has been trending slightly downward since fiscal 2015/2016. This graph also shows that there is a strong correlation between transaction volumes and revenue.



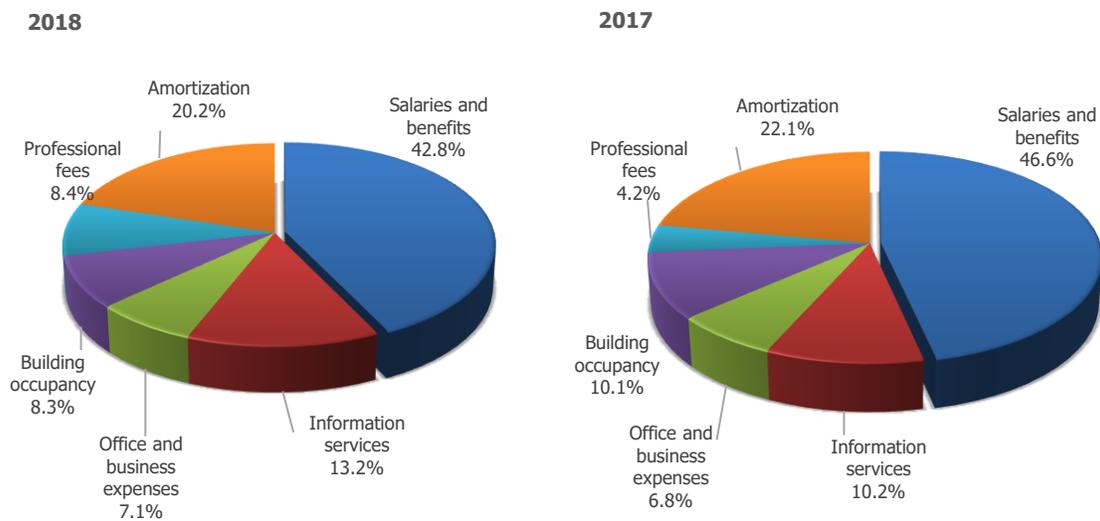
The LTSA is investigating new business initiatives that provide new sources of revenue to improve customer service with a positive return on investment.



## Expenses

In this quarter, operating expense was \$9.3 million, \$1.3 million or 15.6% greater than the same quarter last year.

### Operating Expenses



Salaries and benefits cost was \$4.0 million, \$0.2 million or 6.2% greater than prior year, reflecting an average 4% increase for excluded staff, a 2% increase for included staff under the Collective Agreement (plus a \$600 signing bonus) and more employees at LandSure. We expect salaries and benefits expenses for professional and technology workers will continue to increase at a rate higher than core inflation.

Information services cost was \$1.2 million, \$0.4 million or 50.2% more than the same period last year. The increase reflects success in obtaining resources from outside vendors for maintenance and modernization of our systems. Costs are expected to remain high next quarter as we continue to maintain our large information technology systems.

Office and business expense was \$0.7 million, \$0.1 million or 19.9% more than prior year. During the quarter, we incurred higher insurance costs for expanded insurance coverage obtained in September 2017. Board expenses increased due to higher honorariums and meeting fees. We expect office and business expenses will remain



high next quarter as we add technical and business development staff and incur higher costs for travel and training associated with staff development.

Professional fees were \$0.8 million, \$0.4 million or 130.5% more than last year. The increase was primarily due to costs for organizational and business development activities as well as higher legal costs. Professional fees will remain high next quarter due to our commitment to continue to invest in business development initiatives.

Amortization was \$1.9 million, 5.4% more than the same period last year. The increase was primarily due to PMBC assets being fully in service in July 2017. We anticipate amortization will decrease next quarter as large components of the ASTRA registry system will be fully amortized by September 2018.

### Operating Margin

LTSA operating margin of 11.7% in this quarter reflects three segments: Core Business, myLTSA and PMBC. Core Business comprises the operations of the land title and surveyor general divisions; myLTSA, the electronic portal to LTSA information and services; and PMBC is a single electronic map of all titled parcels and surveyed provincial Crown land parcels.

#### Operating Margins by Segment

Quarters ended June 30	2018	2017
Total LTSA	<b>11.7%</b>	26.0%
Core Business	<b>13.3%</b>	29.0%
myLTSA	<b>17.0%</b>	28.7%
PMBC	<b>(10.7%)</b>	(3.4%)

The reduced Core Business and myLTSA operating margin reflects lower transaction volumes and increased operating costs. The decline in operating margin for PMBC reflects the full transition from build phase to operating phase as costs for the PMBC team are completely operational in nature. Next quarter, we anticipate a continued decline in total operating margin reflecting continued decreased transaction volumes and increased costs for salaries and benefits in business development, information services, and office and business expenses.



## **Net Income and Comprehensive Income**

Overall, net income and comprehensive income totalled \$1.4 million or 13.7% of revenue, down from \$2.7 million or 25.1% of revenue recorded in 2017. The decrease of \$1.3 million was primarily due to 3.1% lower revenue and 11.8% higher operating costs and income taxes, net of other income and expenses.

We anticipate reporting a positive net income next quarter, but it will be smaller than last year.

## **Liquidity and Capital Resources**

### **Sources and Uses of Cash**

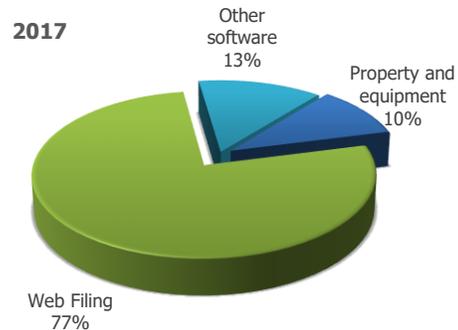
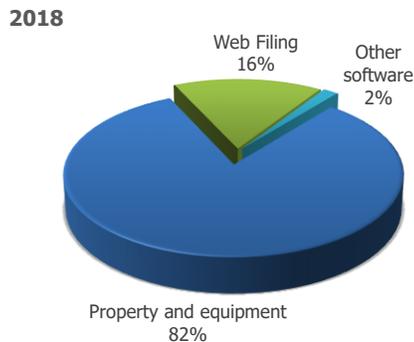
Cash, cash equivalents and short-term investments balance was \$68.5 million on June 30, 2018 (March 31, 2018 - \$68.0 million), of which \$0.3 million (March 31, 2018 - \$0.3 million) consisted of cash collected on behalf of the Province of BC and other parties. The cash owing to these parties is remitted on the following business day.

The remaining \$68.2 million (March 31, 2018 - \$67.7 million) represents cash, cash equivalents and short-term investments actually available to the LTSA. Net LTSA liabilities (total liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$8.6 million (March 31, 2018 - \$9.0 million) at June 30, 2018 which, when combined with the \$6.0 million (March 31, 2018 - \$6.0 million) allocated to the Assurance Fund, left \$53.6 million (March 31, 2018 - \$52.7 million) cash available for reinvestment in LTSA's business.

### **Cash from Operating Activities**

The LTSA's primary source of cash derives from operating activities. Cash from operations for this quarter totalled \$2.8 million compared to \$3.3 million in 2017. The decrease in cash from operations is primarily due to the decline in revenues.

## Capital Investments



Quarters ended June 30 (in millions)	2018	2017
Web Filing	<b>\$0.4</b>	\$1.3
PMBC and other software	<b>\$0.0</b>	\$0.3
Property and equipment	<b>\$1.9</b>	\$0.2
	<b><u>\$2.3</u></b>	<u>\$1.8</u>

Overall, the LTSA invested \$2.3 million in capital projects in 2018 with 82.6% of the expenditures for property and equipment. The property and equipment was primarily for the construction of leasehold improvements and purchase of office equipment for additional office space at LandSure and for the New Westminster office at Anvil Centre.

Web Filing development continues with an investment of \$0.4 million this quarter and completion of the project planned for 2020.

## Assurance Fund

The Assurance Fund has remained at \$6.0 million since March 31, 2013 by resolution of the Board of Directors. The results of an independent actuarial analysis of the program and the small number of Assurance Fund claims supports the LTSA's belief that this continues to be an appropriate fund balance. The fund is assessed on an annual basis and adjusted to reflect changing market conditions as well as transaction volumes.



### **Off-Balance Sheet Arrangements**

The LTSA has no off-balance sheet arrangements.

### **Outlook**

The May 2018 BC Real Estate Association's forecast is for a 9.2% decrease in 2018 unit sales volumes from 2017 due to more stringent mortgage qualification rules, rising interest rates and already elevated home prices. Previous forecasts estimated an 8.6% decline in 2018 unit volume sales. After four years of robust economic growth, the BC economy appears to be returning to its long-run trend. In July 2018, the Business Council of BC forecasted 2018 real GDP in BC will expand at a moderate pace of 2.3%. This is consistent with previously reported forecasts.

All of the LTSA's revenue is transaction based on actual activity in the provincial real estate market. Both revenue and net income would be negatively impacted if transaction volumes are significantly lower than the fiscal 2019 forecast.

### **Risk and Uncertainty**

#### **Critical Accounting Estimates**

LTSA's financial statements are prepared in accordance with IFRS. These accounting principles require management to make certain estimates, assumptions and judgements. Management believes that these estimates, assumptions and judgements upon which we rely are reasonable based upon information available to us at the time. The estimates, assumptions and judgements made can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, the financial statements of the LTSA would be affected.

#### **Public Service Pension Plan**

LTSA employees are members of the Public Service Pension Plan (the "Plan"), a defined benefit, multi-employer pension plan. The most recent Plan valuation, as at March 31, 2017, indicated a funding surplus of \$1,896 million in the Basic Account. The next plan valuation will be assessed as at March 31, 2020, with results available in early 2021.



LandSure Systems employees are members of a group registered retirement savings plan to which the company contributes.

### **Impairment of Long Lived Assets**

The LTSA regularly reviews the carrying value of property, equipment and intangible assets, and continually makes estimates regarding future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the LTSA may be required to record impairment charges for these assets.

Please refer to the consolidated financial statements which contain additional information regarding our accounting policies and other disclosures required under IFRS.