

2017

BUDGET AND FINANCE REFERENCE GUIDE



CITY OF
PRINCE GEORGE

TABLE OF CONTENTS

1.	INTRODUCTION	3
1.1.	Purpose	3
2.	FINANCIAL PLAN AND BUDGETS.....	3
2.1.	Five-Year Financial Plan.....	3
2.2.	Capital Budget.....	4
	Table A: Capital Budget Preparation.....	4
2.3.	Operating Budget	5
	Table B: 2016 Operating Budget.....	5
	Figure 1: General Operating Fund - Source of Funds (in 000's) – 2016.....	5
	Figure 2: General Operating Fund Expenditures (in 000's) – 2016	6
	Table C: Operational Budget Preparation	6
3.	PROPERTY TAXES.....	7
3.1.	Property Tax Rate Setting	7
	Table D: Sample Calculation of Property Tax Rates	7
3.2.	BC Assessment Authority and Tax Classes.....	7
	Table E: Prince George's Tax Classes, Rates and Levy Contributions – 2016.....	8
3.3.	Tax Payment/Non Payment.....	8
	Table F: Tax Payment Calendar	9
3.4.	Property Tax Sale.....	9
3.5.	Tax Exemptions	9
3.6.	Taxes Collected for Other Authorities.....	10
	Figure 3: Taxes Collected for City and Other Authorities – 2016.....	10
3.7.	Local Area Services	11
	Table G: Capital Projects Funded by Local Area Service Taxes	11
4.	REVENUE ENTITLEMENTS UNDER AGREEMENTS AND GRANTS	11
4.1.	Traffic Fine Revenue	11
	Table H: Police Expenditures and Traffic Fine Revenue (2013 – 2016).....	11
4.2.	Gaming Revenue	12
	Table I: Gaming Revenue and Use of Funds (2013 – 2016)	12
4.3.	FortisBC (formerly Terasen Gas) Agreements	12
4.3.1.	FortisBC Franchise Fee Revenue	12
	Table J: FortisBC Franchise Fee Revenue (2013 – 2016)	12
4.3.2.	FortisBC Lease In/Lease Out Agreement.....	12

2017 Budget and Finance Reference Guide

4.4.	Federal Gas Tax Grants.....	12
	Table K: Federal Gas Tax Revenue (2013 – 2016)	13
5.	RESERVE FUNDS	13
	Table L: Reserve Funds – Source, Use and Balance of Funds – 2015	13
5.1.	Accumulated Surpluses	16
	Figure 4: General Operating Fund Surplus – Minimum Guideline and Actual (2011 – 2015).....	17
	Figure 5: Water Operating Fund Surplus – Minimum Guideline and Actual (2011 – 2015).....	17
	Figure 6: Sewer Operating Fund Surplus – Minimum Guideline and Actual (2011 – 2015).....	18
6.	DEBT	18
6.1.	Long-Term Debt.....	18
	Figure 7: Long-Term Debt Outstanding by Fund (\$millions) (2006 – 2015).....	19
	Figure 8: Long-Term Debt Payments by Fund (\$millions) (2006 – 2015).....	19
6.2.	Lease/Partnering Agreement	20
6.3.	Financial Liability Servicing Limits	20
	Table M: Debt Capacity and Available Capacity (2011 – 2015)	21
7.	COUNCIL’S FINANCE GUIDELINES	21
	APPENDIX A: SUSTAINABLE FINANCE GUIDELINES	22

1. INTRODUCTION

1.1. Purpose

This guide has been produced to assist Council and Administration in creating the 2017 - 2021 Operating and Capital Financial Plan. The document identifies finance guidelines which currently inform decisions of Council and Administration and may also be adapted for use as a reference tool for newly elected officials and city staff.

2. FINANCIAL PLAN AND BUDGETS

2.1. Five-Year Financial Plan

Each year, municipalities must adopt by bylaw, a five-year financial plan which includes operating and capital items. The financial plan must be adopted before the annual property tax bylaw is adopted (before May 15th). A financial plan may be amended by bylaw at any time.

The financial plan must include the following, for each year of the plan:

- Proposed expenditures including separate amounts for:
 - interest and principal on debt;
 - capital purposes;
 - a financial deficiency; and
 - other purposes.
- Proposed funding sources including separate amounts for:
 - revenue from property taxes;
 - fees and charges;
 - proceeds from borrowing; and
 - revenue from other sources.
- Proposed transfers between funds, including separate amounts for each statutory reserve fund and accumulated surplus.

For each year of the financial plan, the proposed expenditures and transfers to other funds cannot exceed the proposed revenues and transfers from other funds – i.e. there cannot be a deficit. If a deficit does occur, it must be reflected in the financial plan as expenditure in the next year.

Before adopting a financial plan, Council must have undertaken a public consultation process regarding it. Public consultation for the five year financial plan is received by Council until the end of October and may, for example, take the form of neighborhood meetings or public opinion surveys concerning municipal services and quality of life. Council's budget meeting agendas also advertise, in advance, opportunity for public presentations and written submissions. The results from all public consultation are considered by Council in its deliberations on budget and finance matters.

2017 Budget and Finance Reference Guide

2.2. Capital Budget

The capital budget is developed for the purpose of investing in the City's infrastructure, equipment and facilities.

Capital expenditures may be funded by:

- grant funds;
- annual revenue;
- reserve funds;
- lease/partnering agreements; and
- long-term debt.

The City's 2016 capital program amounts to \$36.2 million, as reflected in the 2016 -2020 Financial Plan.

Council and Administration have developed processes and associated schedules for preparation, consideration, approval and management of the five year capital and operating financial plan. The processes reflect legislated requirements, including approval deadlines.

Table A: Capital Budget Preparation

Activity	Who	Date	Result
Financial Planning estimates Capital Expenditure Reserve balance for 2017	Financial Planning	September	Estimated amount of available funding is identified
Capital Scoring Team prioritizes 2017-2021 capital plan	Budget Managers and Senior Leadership	October/ November	Capital Scoring Team prioritize their recommended capital plan
Draft 2017-2021 capital plan is presented to Finance and Audit Committee	Financial Planning and Senior Leadership	December	Priority projects, available funding and funding challenges are presented
Proposed funded and unfunded 2017-2021, and proposed unfunded 2022-2026 capital plan is presented to Council	Financial Planning and Senior Leadership	January	Council approves 2017-2021 and 2022-2026 capital plan
Financial Plan Bylaw receives final reading	Financial Planning	Before May 15 th	Council considers and approves Financial Plan Bylaw

2017 Budget and Finance Reference Guide

2.3. Operating Budget

The City of Prince George municipal operating budget is represented by four funds: general; district energy; water; and sewer.

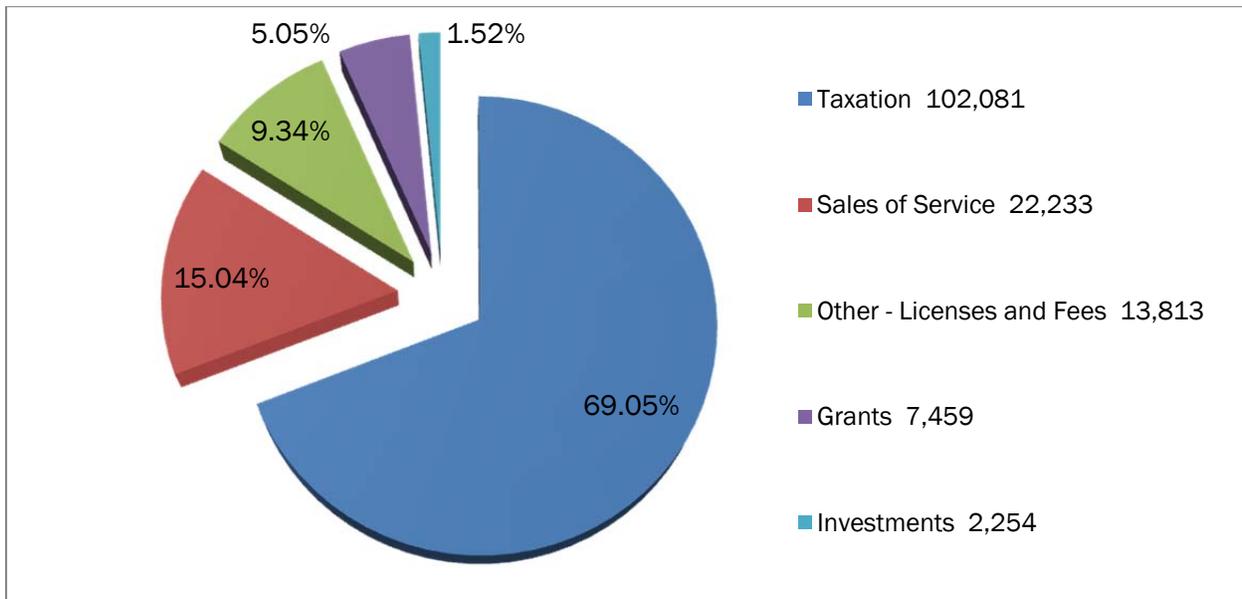
Table B: 2016 Operating Budget

General Operating Fund	\$149.1 million
District Energy Operating Fund	\$1.3 million
Water Operating Fund	\$9.2 million
Sewer Operating Fund	\$8.3 million
Total*	\$167.9 million

* It should be noted that these figures include amortization (15.2 million General; 0.5 million District Energy; 1.8 million Water; 1.4 million Sewer).

To provide more detail, the annual operating budget is then segmented into service categories that provide financial representation of the City's plans to deliver municipal services and programs. Figures 1 and 2 below provide a more detailed breakdown of the City's General Operating Source of Funds and Operating Expenditures.

Figure 1: General Operating Fund - Source of Funds (in 000's) - 2016



2017 Budget and Finance Reference Guide

Figure 2: General Operating Fund Expenditures (in 000's) – 2016

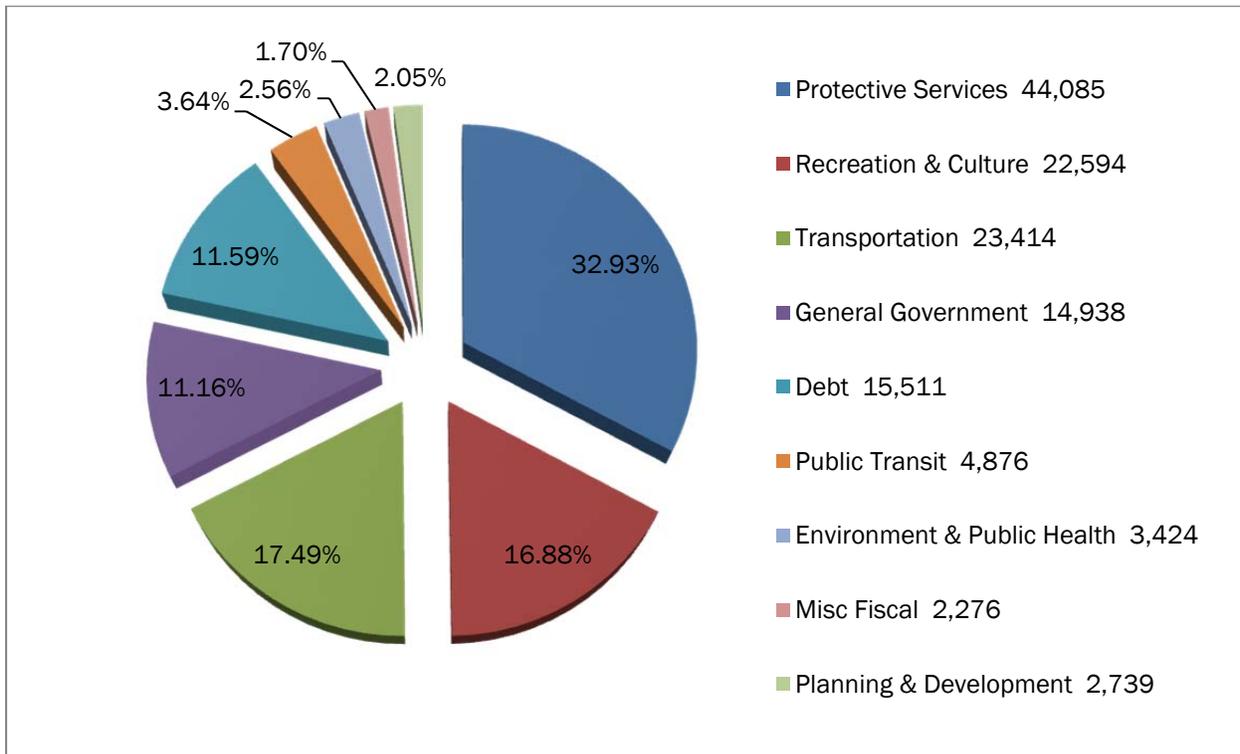


Table C: Operational Budget Preparation

Activity	Who	Date	Result
Prepare and distribute 2017 operating budget guideline	Financial Planning and Senior Leadership	October	2017-2021 budget entry by Finance
Prepare draft five year operating budget for review by Senior Leadership and presented to Finance and Audit Committee	Financial Planning	November	Draft budget prepared for review by Senior Leadership and Finance and Audit Committee
Prepare final draft five year operating budget	Financial Planning	December	Proposed budget reviewed by Senior Leadership
Prepare five year budget for Council agenda	Financial Planning and Legislative Services	December	Electronic and printed five year plan produced
Prepare and present proposed 2017-2021 operating plan to Council	Financial Planning, Senior Leadership and Departmental Managers	January Budget Meetings	Council approves 2017 - 2021 operating plan
Final reading of Financial Plan Bylaw	Financial Planning	Before May 15 th	Council considers and approves Financial Plan Bylaw

3. PROPERTY TAXES

3.1. Property Tax Rate Setting

Once Council has determined the total amount of municipal property taxes to be raised in the City's operating budget, Council must then approve the annual tax rate bylaw which details what share of that total taxation revenue will be collected from each of the City's nine property tax classes. Council approves a tax rate structure that generates the tax revenue required by multiplying the total assessed value of each of the property classes by their respective tax rates.

Another way of expressing this is that the tax rate equals required tax revenue, divided by taxable assessed value. For example, if \$200,000 is to be raised from residential properties and the total taxable value is \$10,000,000, the tax rate is set at \$20 per \$1,000 of assessed residential value (property tax rates are expressed in dollars per thousand of assessed value).

Table D: Sample Calculation of Property Tax Rates

Tax Rate =	Tax Revenue for Class / Assessed Value of Class
	2016 Business Tax Rate
	\$27,946,738 / \$1,650,703,713
Tax Rate =	\$.01693020 per \$1 of assessed value or \$16.93020 per \$1,000 of assessed value

3.2. BC Assessment Authority and Tax Classes

Since 1974, BC Assessment Authority has established and maintained assessments throughout the province for property taxation purposes. BC Assessment values and classifies properties into one or more of nine classes included in the Assessment Act regulations.

The BC Assessment Authority Act describes:

- the methods to be used in classifying and valuing property (e.g. use, selling price of comparable land and improvements, revenue or rental value);
- the rules for providing assessment notices and assessment rolls to property owners and taxing bodies; and
- a framework for review and appeal of the classification, valuation, and exemption of property.

2017 Budget and Finance Reference Guide

Table E: Prince George's Tax Classes, Rates and Levy Contributions – 2016

BC Assessment Classifications	Tax Rate (charge per \$1,000)	Percentage of total tax payable
Residential	8.06	54.1
Utility	42.33	1.5
Supportive Housing	8.06	0.0
Major Industry	46.00	12.4
Light Industry	27.23	2.8
Business/Other	16.93	29.0
Managed Forest	8.06	0.0
Recreation/Non Profit	8.06	0.1
Farm	5.47	0.1

The Provincial Government can and sometimes does, set tax class rate caps. For example, the Utility Class tax rate cannot exceed the greater of \$40/1000 of assessed value or 2.5 times the Business Class tax rate.

In addition, the valuation method may be different for different classes of property. For example, while properties in Class 6 (Business and Other) are valued at market value, improvements in Class 4 (Major Industry) are valued on cost, less depreciation values.

3.3. Tax Payment/Non Payment

The *Community Charter* allows a municipality to follow a “general tax collection scheme” or an “alternative municipal tax collection scheme”.

- **general tax collection scheme:**
 - taxes are due on July 2nd.
 - Province sets penalties and interest rates for unpaid taxes.
- **alternative municipal tax collection scheme:**
 - Council may establish tax due dates for unpaid taxes by bylaw.
 - Province sets penalties and interest rates for unpaid taxes.

To accommodate its tax pre-payment plan, the City uses an alternative tax collection scheme which is governed by Bylaw No. 7280. Under the City's alternative tax collection scheme, a property owner may elect to pay taxes during the period July 1st to June 30th. The owner may make the required scheduled payments through any method accepted by the City, including pre-authorized withdrawals.

For those who do not participate in the pre-payment plan, the due date for current property taxes is the first Friday after July 1st. The Province has set a penalty rate of 10% that may be applied all at once under the general tax collection scheme or a combined total of 10% under the alternative municipal tax collection scheme.

2017 Budget and Finance Reference Guide

Table F: Tax Payment Calendar

1st year	first Friday after July 1st	If the tax is not paid in full, a penalty equal to 5% of the outstanding current year balance owing is added to the balance owing.
	second Friday in September	If the tax is not paid in full, a further penalty equal to 5% of the outstanding current year balance owing is added to the balance owing.
	December 31st	Unpaid taxes and penalties become taxes in arrear and are charged interest at rates set by the Province.
2nd year	December 31st	Taxes in arrear become delinquent taxes and continue to accumulate applicable interest.

3.4. Property Tax Sale

3rd year – last Monday in September – properties with delinquent taxes are subject to tax sale. An auction is held where the public may bid on applicable properties. The upset price for a property reflects all the taxes and interest owing to the date of tax sale, plus 5% penalty on these amounts, as well as fees set out in the “Land Titles Act”.

The City is declared the purchaser of properties that are offered for sale and for which there are no public purchasers. Alternatively, a person authorized by Council may bid for the municipality at the tax sale up to a maximum amount set by Council.

4th year – Up to one year from the day of tax sale a property owner may redeem their property by repaying the upset price and interest as well as any current taxes paid by the purchaser.

3.5. Tax Exemptions

Certain property may be exempted (totally or partially) from taxation as mandatory exemptions or at the discretion of Council, by bylaw, in accordance with the *Community Charter* or other legislation.

Mandatory exemptions include:

- properties owned by municipalities and buildings used for public worship;
- properties owned by the Federal and Provincial governments and their agencies (in many cases, the government or agency pays a grant in lieu of taxes);
- some properties owned by utility companies are exempt from general property taxation but are subject to 1% revenue taxation; and
- each property in the business class receives a \$10,000 exemption.

Permissive exemptions are a means for Council to support organizations within the community to further Council’s objectives of enhancing quality of life and delivering services economically. There is no obligation on Council’s part to grant these exemptions. The City’s Annual Municipal Report includes a list of permissive property tax exemptions.

Generally, eligible properties are owned by not-for-profit organizations. In limited circumstances, properties owned by businesses may also be eligible; particularly when property owned by a private partner is used to provide a municipal service.

2017 Budget and Finance Reference Guide

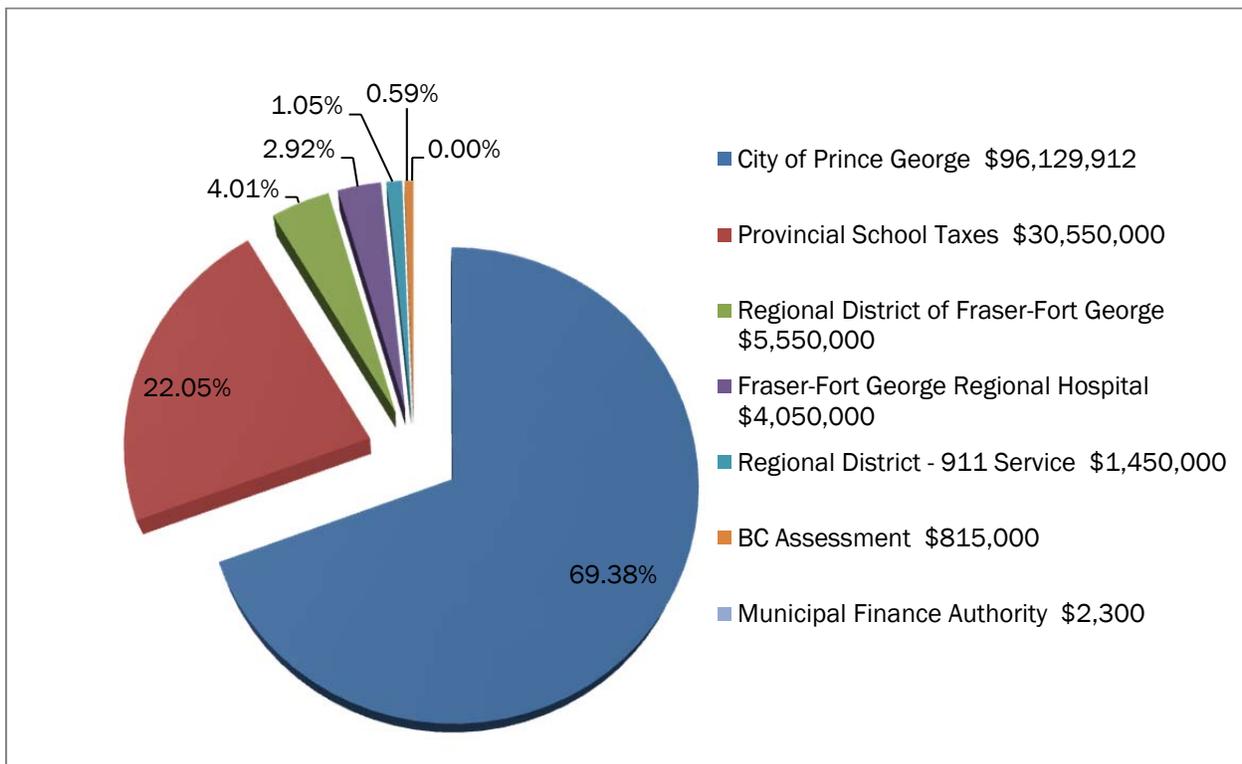
Revitalization exemptions are granted by Council for the purpose of encouraging revitalization within the municipality. The exemption may be for a period of up to 10 years. A tax exemption certificate must be issued by the municipality for the property to which the revitalization tax exemption applies. The City's revitalization bylaws set out the qualifying criteria and amounts of tax exemptions available under the program.

3.6. Taxes Collected for Other Authorities

For administrative ease, municipalities collect all the property taxes that are imposed on properties within their boundaries. Five authorities obtain a portion of their annual revenue from the Prince George property tax base. While the City collects and remits these authorities' taxes, it does not control their tax levy amounts or the distribution of them amongst the tax classes. In 2016, the City will collect \$42.4 million in taxes for these authorities. The five authorities are:

- the Province of B.C. (for school purposes);
- the Regional District of Fraser-Fort George, including its 9-1-1 Service;
- the Municipal Finance Authority;
- the Fraser-Fort George Regional Hospital District; and
- BC Assessment Authority.

Figure 3: Taxes Collected for City and Other Authorities – 2016



3.7. Local Area Services

The *Community Charter* defines a Local Area Service as a municipal service that is to be paid for in whole or in part by a local service tax.

Only business improvement areas or services that Council considers a particular benefit to part of the municipality may be provided as local area services. Local area services are established by bylaw.

The initiative to create a Local Area Service can arise: from Council, which is subject to a petition against the proposed service; by petition of affected property owners who seek a service; or through approval by elector assent.

Table G: Capital Projects Funded by Local Area Service Taxes

Water services in the neighbourhoods of Bunce Road and Leland Road
Sewer services in the neighbourhoods of Berwick Drive, Dundee Drive, Wallace Crescent, Wallace Place, Langley Crescent, Sparrow Road, Bunce Road, Leland Road, and Heyer Road
Street trees in the downtown

Business Improvement Areas

There are currently two business improvement areas in the city:

- 20th Avenue and Victoria Street Business Improvement Area
- PG Downtown Business Improvement Area

4. REVENUE ENTITLEMENTS UNDER AGREEMENTS AND GRANTS

4.1. Traffic Fine Revenue

The Province provides Traffic Fine Revenue Sharing grants to assist municipalities to improve public safety through community policing, crime prevention, and education. The amount a municipality receives is determined by its annual policing costs divided by all BC municipalities' annual policing costs multiplied by the grant funds available.

Table H: Police Expenditures and Traffic Fine Revenue (2013 - 2016)

	Year 2013	Year 2014	Year 2015	Year 2016 (budget)
Traffic Fine Revenue Sharing Grant	\$818,750	\$821,861	\$1,113,368	\$1,001,000
Police Net Expenditures	\$19,076,784	\$21,267,153	\$22,496,561	\$23,362,343

4.2. Gaming Revenue

In 2000, the City entered into a Host Financial Assistance Agreement with the Province with respect to Casino Hollywood (now called Treasure Cove Casino). The City receives a ten percent share of the casino's net revenues and allows the City to use the funds for eligible costs which are defined to be "any purpose that is of public benefit to the Host community and within the lawful authority of the Host".

Table I: Gaming Revenue and Use of Funds (2013 – 2016)

	Year 2013	Year 2014	Year 2015	Year 2016 (budget)
Gaming Revenue Share	\$2,661,264	\$2,569,834	\$2,625,455	\$2,600,000
Expenditures				
Capital Projects	\$1,691,264	\$1,849,834	\$1,880,000	\$2,600,000
Community Grants	\$970,000	\$720,000	\$720,000	\$0

4.3. FortisBC (formerly Terasen Gas) Agreements

4.3.1. FortisBC Franchise Fee Revenue

The City receives a franchise fee from FortisBC Inc. based on 3% of the gross revenue from the sale of natural gas within the municipal boundaries. The franchise fee revenue is used for general operating purposes.

Table J: FortisBC Franchise Fee Revenue (2013 – 2016)

	Year 2013	Year 2014	Year 2015	Year 2016 (Budget)
FortisBC Franchise Fee Revenue	\$1,131,602	\$1,036,990	\$1,125,378	\$1,281,533

4.3.2. FortisBC Lease In/Lease Out Agreement

The City and FortisBC have a Lease In/Lease Out Agreement concerning the natural gas distribution system in the city. The City has financed the capital lease through long-term debt. FortisBC operates the natural gas distribution system and pays semi-annual lease payments to the city. The City in turn, applies the lease payments to the debt and places net revenues in a reserve fund. The agreement is projected to create a \$24 million legacy by 2021.

4.4. Federal Gas Tax Grants

Funding for the Community Works Program results from the Federal Government Gas Tax Agreement and comes to BC local governments via the Union of British Columbia Municipalities (UBCM). Funding can be used for infrastructure construction, renewal, and enhancement projects in eligible categories and for capacity building projects. The Agreement is in place until 2024.

2017 Budget and Finance Reference Guide

Table K: Federal Gas Tax Revenue (2013 - 2016)

	Year 2013	Year 2014	Year 2015	Year 2016 (Budget)
Federal Gas Tax Revenue	\$2,910,033	\$3,112,062	\$2,988,070	\$3,088,697

5. RESERVE FUNDS

The *Community Charter* provides that Council may, by bylaw, establish reserve funds for specific purposes. Money in a reserve fund, including the interest earned, must only be used for the purpose for which the fund was established. If the balance in a reserve fund is greater than the amount required, Council may, by bylaw, transfer all or part of it to another reserve fund. While their purpose can be operating (e.g. snow reserve), reserve funds are typically used to accumulate funding for future capital purposes.

Table L: Reserve Funds – Source, Use and Balance of Funds – 2015

Type	Name	Source of Funds	Use of Funds	Balance as at Dec 31/15
General Capital	Capital Expenditure	- annual contributions from Endowment and Land Reserves and from Gaming Revenue	- funds general capital projects	103,458
General Capital	Endowment	- annual contributions from General Operating Fund to repay principal and interest costs of internal debt - land sales surpluses	- provides interim financing (referred to as internal debt) for capital annually, excess amounts are transferred to Capital Expenditure Reserve to fund capital projects	24,441,109
General Capital	General Infrastructure Reinvestment	- annual contribution from property tax levy	- funds general infrastructure replacement	612,125
General Capital	Land	- proceeds from land sales	- annually, excess land sale proceeds are transferred to Capital Expenditure Reserve to fund capital projects or transferred to the Endowment Fund	240,000
General Capital	Road Rehabilitation	- annual contribution from property tax levy	- funds road rehabilitation projects	39,855

2017 Budget and Finance Reference Guide

Type	Name	Source of Funds	Use of Funds	Balance as at Dec 31/15
Development Cost Charge	General	<ul style="list-style-type: none"> - new developments pay development cost charges because they place demands on a municipality's infrastructure - money received is placed in the appropriate DCC reserve 	- funds capital projects that have been identified in the Capital Expenditure Plan as growth-related projects	2,015,838
	▪ Roads			114,172
	▪ Parkland/ Open Space			1,310,130
	▪ Drainage			614,448
	Water			1,855,591
	Sewer			
Equipment	Computer Equipment	- annual contribution from Capital Expenditure Reserve	- finances purchase/lease of computer hardware and software	63,025
Equipment	Mobile Equipment	<ul style="list-style-type: none"> - capital lease proceeds - net rental rate revenue 	<ul style="list-style-type: none"> - provides interim funding for equipment acquisition - funds net rental rates losses in a given year 	3,577,326
Other	Carbon Tax Initiative Program	- carbon tax rebate	- funds projects that reduce the City's overall carbon footprint	1,149,251
Other	Cemetery Development	- no ongoing source of funds	- funds cemetery-related capital projects	3,009
Other	Community Works	- Federal Gas Tax	- funds infrastructure construction, renewal, and enhancement projects in eligible categories and funds capacity building projects	318,362
Other	Debt Reduction	- ongoing funds from surplus on debt maturities and any excess proceeds from security issues	- funds capital projects that would otherwise require the procurement of long-term debt	1,943,436
Other	Downtown Off-Street Parking	- off-street parking surplus and levy funds in excess of capital commitments	- funds capital projects related to existing and new off-street parking spaces	577,199
Other	EVP Crown Land Forest	- various government grants	- funds urban forestry management	196,240

2017 Budget and Finance Reference Guide

Type	Name	Source of Funds	Use of Funds	Balance as at Dec 31/15
Other	FortisBC	<ul style="list-style-type: none"> - Lease In Lease Out Agreement with FortisBC Inc re: natural gas distribution system within City - City financed capital lease through long-term debt - FortisBC operates system and pays City semi-annual lease payments - City uses lease payments to repay debt and places net revenue in the reserve 	- by 2021, Council will determine how to use LILO Agreement's Legacy (expected to be \$24 million)	3,199,498
Other	Green City Award	- LiveSmart BC Green Cities Award in 2008	- unrestricted funds	16,581
Other	Local Area Service	<ul style="list-style-type: none"> - property owners that benefit from local area services pay local area service taxes - revenue is placed in the reserve 	- provides interim financing for local area service capital projects	113,429
Other	Major Events	- gaming revenues	- funds western, national, and international events of a sporting or cultural nature	382,599
Other	Ospika / Marleau Extension	- no ongoing source of funds	- developers' contribution for Ospika Boulevard less the greenbelt buffer strip value	212,420
Other	Parkland Acquisition	- cash contributions received from developers in lieu of parkland dedication	- funds acquisition of parkland	17,039
Other	Performing Arts Centre	- one-time capital contribution from Initiatives Prince George from proceeds of sale of ACS building	- funds the development of a new performing arts centre	74,151
Other	Snow Control	- snow control tax levy	- snow control operations	0
Other/ Equipment	Solid Waste Services	- planned capital contributions from solid waste operations	- funds replacement of solid waste equipment	130,655
Other	Southwest Sector Recreation	<ul style="list-style-type: none"> - in 1985, Council placed funds in the reserve - no ongoing source of funds 	- funds recreation-related capital projects located in the City's five southwest sector communities	116,945

2017 Budget and Finance Reference Guide

Type	Name	Source of Funds	Use of Funds	Balance as at Dec 31/15
Other	Storm Drainage	- sinking fund and debt surplus from debenture debt - no ongoing source of funds	- funds capital projects related to storm drainage assets	1,724
Other	Valentina Goodwin Donation	- donation from the estate of Valentina Goodwin	- funds beautification or augmentation of Hudson's Bay Wetlands area	14,843
Sewer Capital	Sewer Utility	- MFA sinking fund surpluses - sewer user rates	- Sewer capital projects	2,887,988
Water Capital	Water Utility	- MFA sinking fund surpluses - water user rates	- Water capital projects	12,757,285
General Capital	Capital Expenditure	- annual contributions from Endowment and Land Reserves and from Gaming Revenue	- funds general capital projects	103,458
General Capital	Endowment	- annual contributions from General Operating Fund to repay principal and interest costs of internal debt - land sales surpluses	- provides interim financing (referred to as internal debt) for capital annually, excess amounts are transferred to Capital Expenditure Reserve to fund capital projects	24,441,109

5.1. Accumulated Surpluses

To avoid incurring operating deficits, the City projects revenues and expenses conservatively and analyzes budget variances regularly. This approach usually results in modest annual operating surpluses.

General, water, and sewer fund accumulated surpluses are retained to:

- reduce the need to borrow temporarily early in the year before revenues from property tax and utility bills are received; and
- provide funds that may be required to deal with major emergencies.

The City attempts to maintain all Operating Fund surpluses between 5% and 10% of the respective Operating Fund expenditures. Excess amounts over and above the 10% target are transferred to respective capital expenditure reserves for infrastructure needs. As this Sustainable Finance Guideline was revised in 2013, historical figures do not show alignment within the range. Also, starting in 2013, expenditures include amortization.

2017 Budget and Finance Reference Guide

Figure 4: General Operating Fund Surplus – Minimum Guideline and Actual (2011 – 2015)

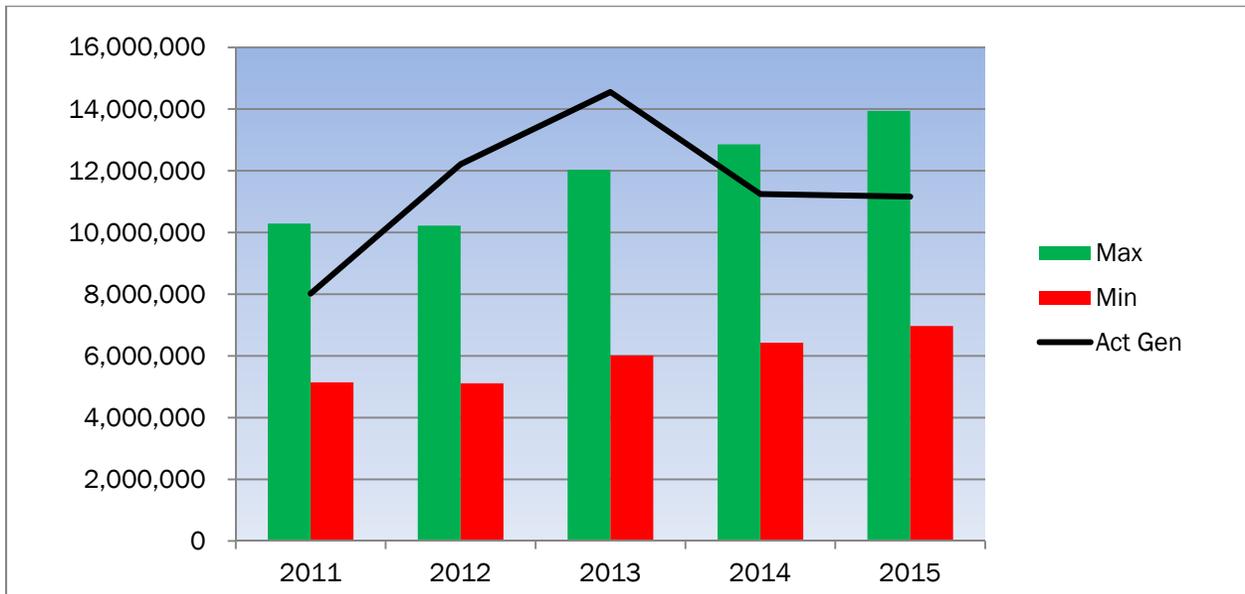


Figure 5: Water Operating Fund Surplus – Minimum Guideline and Actual (2011 – 2015)

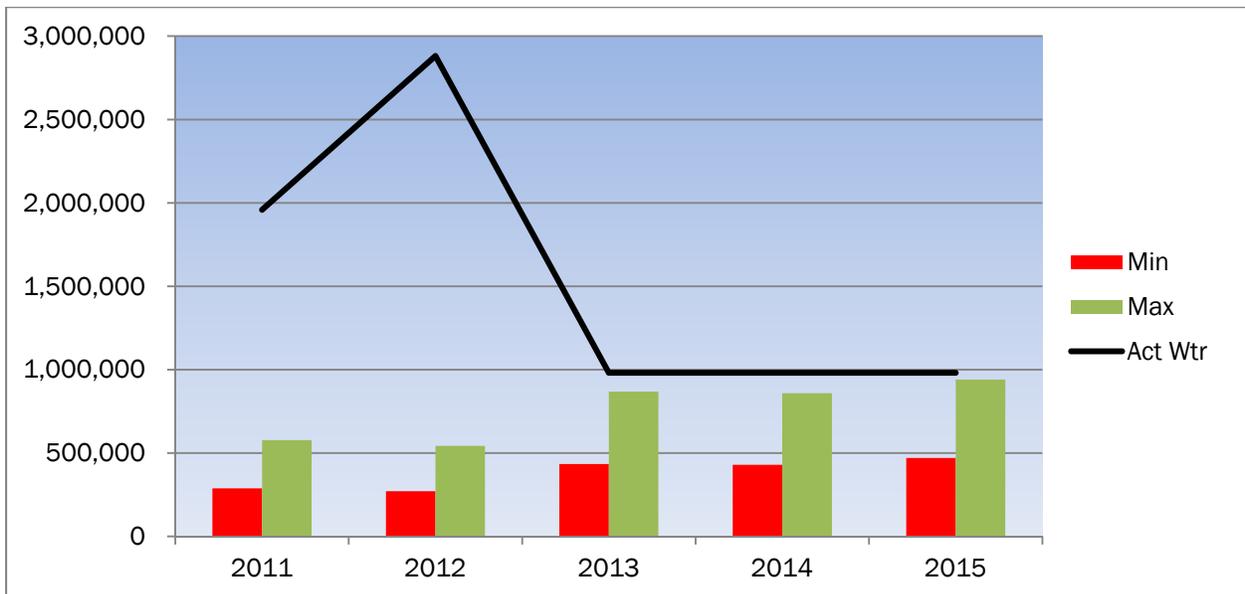
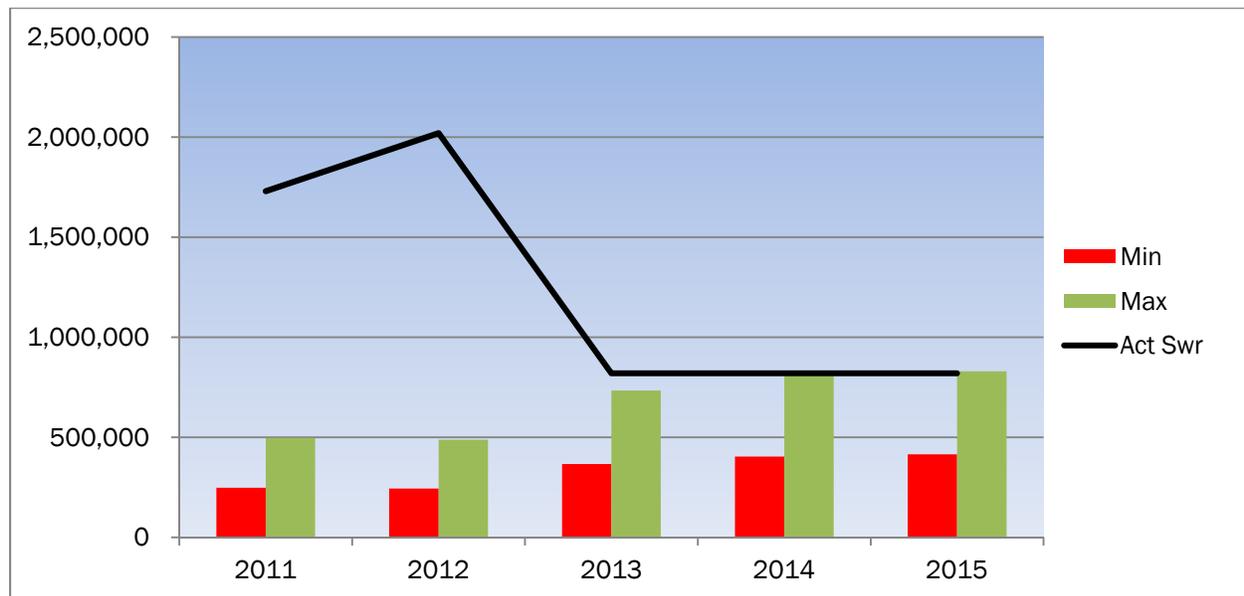


Figure 6: Sewer Operating Fund Surplus - Minimum Guideline and Actual (2011 - 2015)



6. DEBT

6.1. Long-Term Debt

The City relies on debt financing for new infrastructure and for major repair of existing infrastructure. Long-term debt must be undertaken through the adoption of a loan authorization bylaw approved by the Inspector of Municipalities. The maximum term of a debt is the lesser of thirty years or the reasonable life expectancy of the capital asset or the term of any related agreement. The City makes debt payments for general/district energy/water/sewer capital projects from their respective operating funds.

Long-term debt for all BC municipalities except the City of Vancouver must be undertaken through their regional district, which borrows on their behalf from the Municipal Finance Authority (MFA).

The MFA, created in 1970, is an independent organization that is directed by its members (elected officials representing every regional district in BC) and provides: long-term, short-term and lease financing; investment management; and a range of low-cost and flexible financial services. The MFA achieves this by pooling the borrowing and investment needs of its member local governments in BC. This collective structure, along with the requirement that regional districts guarantee the debt obligations of their members, grants the MFA an excellent credit rating (AAA) that enables attractive and sustainable borrowing solutions to contribute to the financial well-being of BC communities.

2017 Budget and Finance Reference Guide

Figure 7: Long-Term Debt Outstanding by Fund (\$millions) (2006 - 2015)

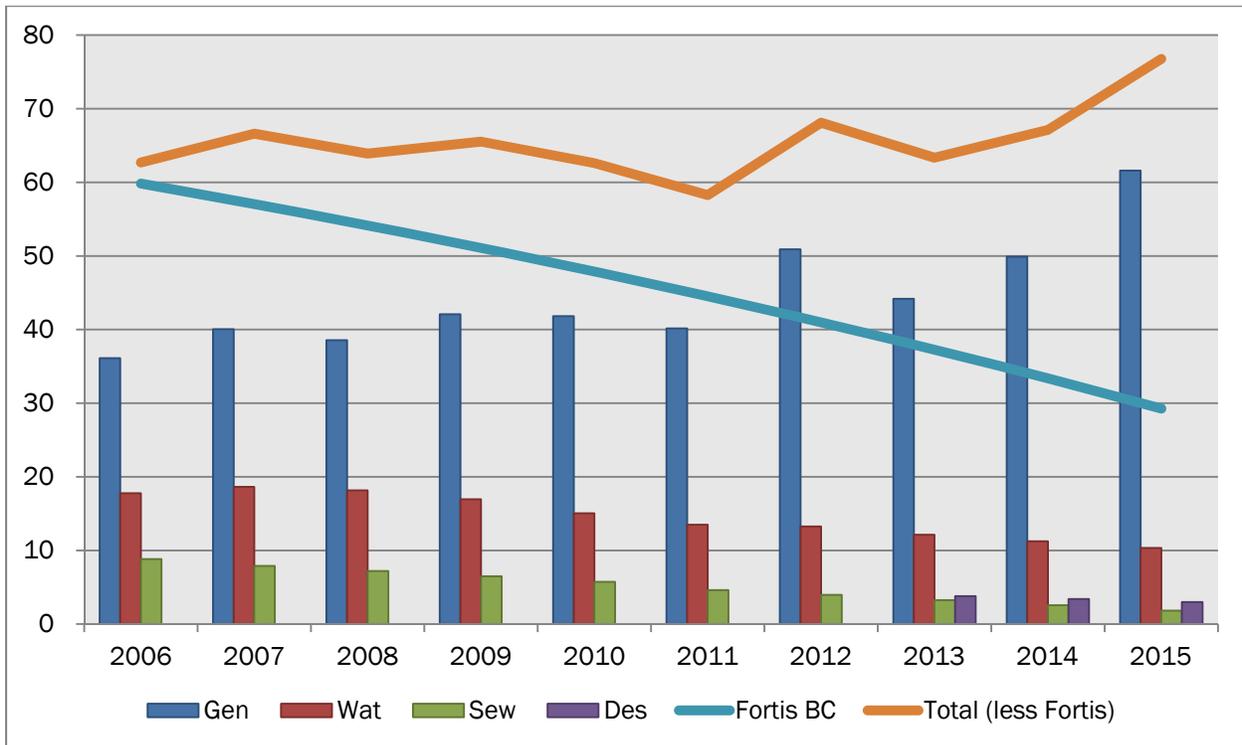
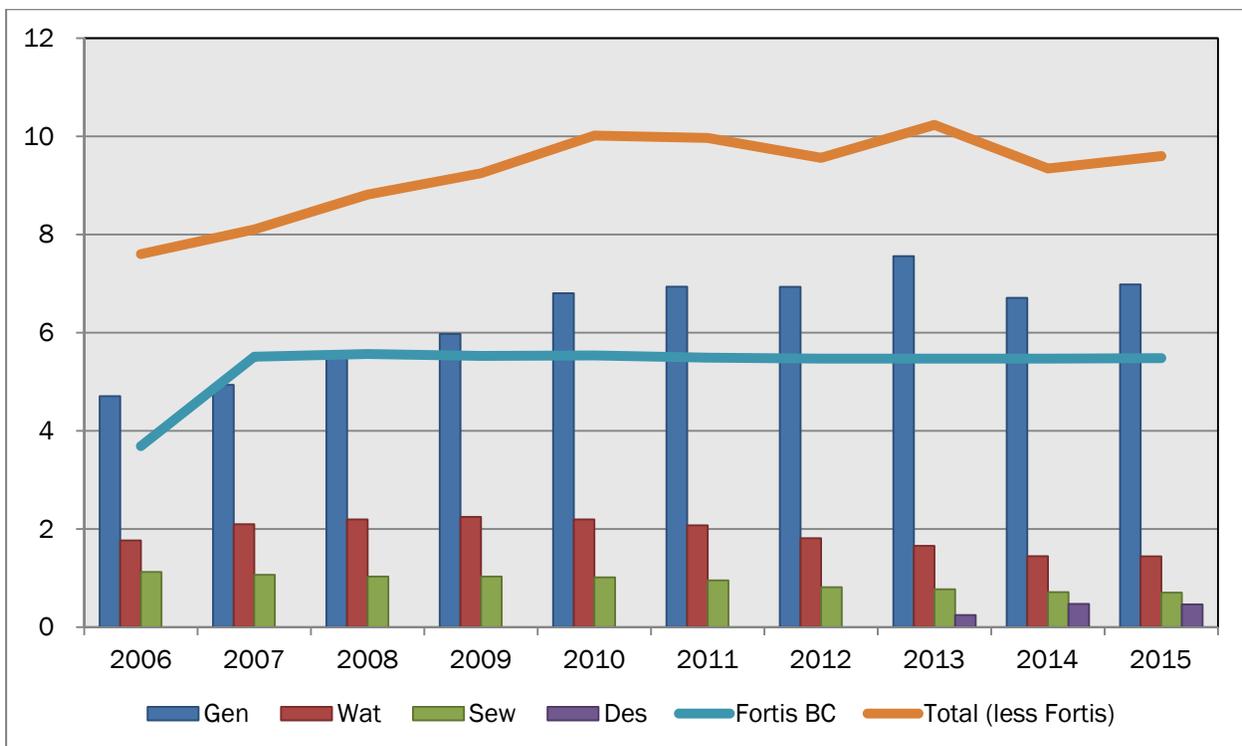


Figure 8: Long-Term Debt Payments by Fund (\$millions) (2006 - 2015)



6.2. Lease/Partnering Agreement

There are two forms of capital financing under agreement: lease agreements and partnering agreements.

Lease Agreement

- Leasing may be undertaken either through the Municipal Finance Authority or through a commercial leasing entity.
- The City enters into capital lease agreements for the purchase of mobile and other equipment.

Partnering Agreement

- A partnering agreement is an agreement between a local government and a public or private partner under which the partner agrees to provide a service on behalf of the local government.
- A partnering agreement may include the financing of capital assets by one of the parties to the agreement.

6.3. Financial Liability Servicing Limits

BC municipalities' financial liabilities (e.g. under leases, partnering, and long-term debt agreements) are subject to liability servicing limits. They also require elector approval if they are:

- a loan guarantee or are of a capital nature; and
- the agreement is for more than five years; or
- for more than five years if an extension were exercised.

A municipality cannot incur a liability that extends beyond the current year if it would cause the municipality's total annual cost of servicing (e.g. lease payments, partnering capital payments, long-term debt principal and interest payments) to exceed the regulated amount as determined by the Municipal Liabilities Regulation. Exceeding the regulated amount requires prior approval of the Inspector of Municipalities in consultation with the MFA. The regulated amount is based on 25% of a municipality's controllable revenues such as:

- property taxes - a deduction is made to revenue received from Major Industry tax revenues for municipalities which are heavily dependent on that class;
- payments in lieu of taxes;
- user fees; and
- unconditional grants.

The total amount of all loan authorization bylaws are included in the liability servicing limit regardless of whether the funds have actually been borrowed.

2017 Budget and Finance Reference Guide

Table M: Debt Capacity and Available Capacity (2011 - 2015)

Year	Municipal Revenue	Liability Servicing Limit	Payment Capacity Available	Approximate Principal Borrowing Available
2011	\$134,335,837	\$33,583,959	\$13,316,129	\$147,956,989
2012	\$133,553,328	\$33,388,332	\$15,591,012	\$173,233,467
2013	\$143,685,547	\$35,921,387	\$17,879,497	\$198,661,078
2014	\$152,049,739	\$38,012,435	\$21,591,125	\$239,901,389
2015	\$160,816,299	\$40,204,075	\$24,889,275	\$276,547,500

7. COUNCIL'S FINANCE GUIDELINES

Council and Administration's financial decisions are guided by the City of Prince George's Sustainable Finance Guidelines, which is Appendix A of this document.

APPENDIX A: SUSTAINABLE FINANCE GUIDELINES

SUSTAINABLE FINANCE GUIDELINES

City Government – Sustainable Fiscal Management

Approved by Council: September 23, 2013

PURPOSE:

To provide the framework for excellent financial management to enable the City to provide high quality services today and in the future.

GUIDELINES:

1. Financial Plan (Community Charter Sections 165 and 166)

The City's Financial Plan is aligned with its Strategic and Corporate Plans and reflects the revenues from and costs of delivering its services.

Guideline 1.0

Administration regularly reviews departmental/divisional operations and identifies efficiencies and cost savings.

Guideline 1.1

Budget Service Category Plans outline the levels of services to be provided and any operational cost savings that may be achieved.

Guideline 1.2

Approved new services and enhancements to existing services may be funded by one or a combination of the following:

- a. Reduced cost of existing services;
- b. Increased non-property tax revenues;
- c. Increased property tax revenue;
- d. Accumulated surplus (for one-time expenditures only).

2. Property Tax Rates (Community Charter Sections 197 and 199)

The City has property tax rates that are stable and fair in comparison to “peer municipalities”.

Guideline 2.0

Annually, the Finance and Audit Committee will determine a preferred tax rate option and recommend that Council approve it. During its deliberations, the Committee may consider the following information:

Sustainable Finance Guidelines

- a. Value of taxes from new construction;
- b. The City and its peer municipalities' assessed values, tax rates, percentages of taxation by class, tax class multiples, and taxes levied and utility fees charged on a representative home;
- c. The City's Class 4 (Major Industry) tax rate compared to the BC average municipal Class 4 tax rate.

3. Self-Funded Services

The City's water, sewer, district energy, solid waste, and off-street parking services are self-funded.

Guideline 3.0

User fees, parcel taxes, special agreements, and government grants are used to fully fund water, sewer, district energy, solid waste and off-street parking services.

Guideline 3.1

The cost structure of the water, sewer, district energy, solid waste, and off-street parking services include a management fee so that the users contribute to the City's general overhead costs which include the provision of facilities and office and general corporate services such as human resources and accounting.

4. User Fees (Community Charter 194)

The City of Prince George provides goods and services that benefit the community and goods and services that benefit specific organizations and individuals. The City follows the general principle that taxpayers pay for public goods and services and users pay for private goods and services but recognizes that there is the need for exceptions to that principle.

Guideline 4.0

Annually, budget managers will review their good's and service's costs and provide recommendations to the Finance and Audit Committee concerning the introduction of new user fees and the modification of existing user fees.

Guideline 4.1

Goods or services provided to specific, identifiable recipients will be fully funded through user fees except when:

- a. Subsidized or free use of a good or service will provide a significant public benefit or influence personal choice;
- b. Attempting to fully recover costs through user fees will result in reduced use of a good or service and in reduced revenue to the City;
- c. Attempting to fully recover costs through user fees will result in denied access to intended users;
- d. The cost of collecting user fees will be excessive or will require extreme measures.

Sustainable Finance Guidelines

Guideline 4.2

Exceptions to the general principle that taxpayers pay for public goods and services and users pay for private goods and services will only be made after considering the impacts of making exceptions on the City, the taxpayers, and the users.

5. Financial Assistance

The City of Prince George may provide financial assistance to community organizations as a cost-effective means of achieving the City's objectives.

Guideline 5.0

Programs may be developed which provide financial assistance to community organizations. Such programs will include statements concerning the objectives to be achieved and will be recommended to Council for approval.

Guideline 5.1

The City's annual budget process will identify the funds which may be available for programs which provide financial assistance to community organizations.

Guideline 5.2

Organizations applying for financial assistance will be required to demonstrate that:

- a. The programs or projects for which they're applying for financial assistance will contribute to the attainment of the City's objectives.
- b. They have a need for financial assistance to operate the programs or projects.
- c. The level of public benefits provided by the proposed programs or projects is proportionate to the private or commercial benefits of the proposed programs or projects.
- d. In operating their programs or projects, they maximize partnerships, cooperation, or co-ordination with other community organizations.
- e. They have an inclusive approach and actively encourage potential beneficiaries of the programs or projects to participate in them.
- f. They adhere to acceptable standards of governance and accountability.

Guideline 5.3

City staff or Council committees will adjudicate applications for financial assistance. City Council will approve applications for financial assistance or, in the case of some programs, delegate the authority to approve applications to staff.

Guideline 5.4

Organizations which have received financial assistance will be required to report on their programs' or projects' activities, contribution to the City's objectives, and use of public funds.

Sustainable Finance Guidelines

Guideline 5.5

The City may provide permissive tax exemptions (Community Charter Section 224) to non-profit organizations as a means of achieving its objectives of enhancing the community's quality of life and delivering services economically.

Guideline 5.6

The City may provide revitalization tax exemptions (Community Charter Section 226) as a means of encouraging development which will enhance the community's economic, social, and cultural quality of life. Revitalization tax exemption programs will be enacted by bylaw and included in the City's Financial Plan.

6. Investments (Community Charter Section 183)

The City invests funds that are in excess of its current needs.

Guideline 6.0

Staff primarily purchases Municipal Finance Authority investments due to their competitive rates and lower administrative costs.

Guideline 6.1

Staff purchases a combination of short, medium, and long term investments that both maximize the rate of return and ensure that funds are available to meet the City's current and scheduled financial obligations.

Guideline 6.2

Reports on investment activities and results are provided to the Finance and Audit Committee in accordance with its Terms of Reference.

7. Accumulated Surpluses for Operating Contingencies

The City projects revenues and expenses conservatively and analyzes budget variances regularly. This approach usually results in modest annual operating surpluses. General, water, sewer and district energy fund accumulated surpluses are retained to: reduce the need to borrow early in the year before property tax and utility fee revenues are received and provide funds that may be required to deal with major emergencies.

Guideline 7.0

The City attempts to maintain the General, Water, Sewer and District Energy Operating Funds' accumulated surpluses for operating contingencies between 5% and 10% of the respective Operating Fund's annual expenditures. Funds in excess of 10% of an Operating Fund's annual expenditures are transferred to the respective fund's infrastructure reserves.

8. Capital Expenditure Plan

The City's Capital Expenditure Plan is closely coordinated with its Official Community Plan so that land use policies reflect the City's ability to fund growth and development and so that financial planning reflects the need to invest in infrastructure.

Sustainable Finance Guidelines

The City funds capital projects from a variety of sources including property taxes, gaming income, grants, reserves, and debt. Once capital projects are completed, they usually have ongoing operating (e.g. maintenance) and capital (e.g. replacement) costs.

Guideline 8.0

The City balances the need and desire for major capital expenditures against its ability to fund them.

Guideline 8.1

Each capital funding request will clearly indicate the initial cost, the future operating and replacement costs, and the estimated service life of the project and will identify the sources of sustainable funding for those costs.

Guideline 8.2

The unspent amount of funding for an approved capital project may be carried forward to the following year's Financial Plan if the project has begun. Unspent onetime operating funds or capital funds for projects that have not begun may be carried forward with the Director of Corporate Services' approval.

9. Gaming Income

The City has a Host Financial Assistance Agreement with the Province of BC (Minister of Public Safety and Solicitor General) for the Treasure Cove Casino. The agreement provides for 10% of net gaming income to be transferred to the City on a quarterly basis. The funds can be used for any purposes that are within the lawful authority of the City.

Guideline 9.0

The following guideline will be implemented over a four year period beginning in 2014:

Gaming income will be used to fund general capital projects and non-recurring general operational projects or programs approved by Council in the 5 year financial plan.

10. Reserves (Community Charter Sections 188 and 189)

The City establishes and maintains reserves to:

- a. Provide sources of funds for future capital expenditures.
- b. Provide sources of funds for areas of expenditures that may fluctuate significantly from year to year (e.g. mobile equipment, computer equipment).
- c. Protect the City from uncontrollable or unexpected increases in expenditures (e.g. snow control) or decreases in revenues or a combination of both.

Guideline 10.0

Money in a reserve, including the interest earned, will only be used for the purpose for which the reserve was established. Proposals to appropriate funds from reserves will include repayment plans.

Sustainable Finance Guidelines

Guideline 10.1

Annually, Administration will present information to the Finance and Audit Committee concerning reserve balances and recommended transfers. Reserves that are repealed will have their balance (if any) transferred to either the Endowment or the Capital Expenditure Reserve.

11. FortisBC (formerly Terasen Gas) Lease-In Lease-Out Agreement

The City has entered into an agreement with Fortis BC that has resulted in the creation of the FortisBC Reserve Fund. Under the terms of the agreement, the City has entered into 35 year capital and 17 year operating leases, both commencing on November 1, 2004. At the end of the operating lease term (October 31, 2021), FortisBC has the option of terminating the agreement with the City and making a lump-sum payment estimated to be \$29 million or negotiating a new 18 year operating lease and continuing to make semi-annual lease payments.

Guideline 11.0

Maximization of long-term benefits to City residents will be Council's guiding principle in making decisions concerning the use of the FortisBC LILO Agreement's revenues.

Guideline 11.1

Prior to the temporary depletion of the FortisBC Reserve, forecast to occur in 2017, Council will determine how shortfalls between the City's payments to the Municipal Finance Authority and to FortisBC under the capital lease and payments from FortisBC under the operating lease will be covered (options include City internal borrowing, MFA or FortisBC external borrowing, or alternate short term financing).

12. Internal Debt

The City operates the Endowment Reserve as a "revolving fund". Appropriations from this reserve are referred to as "internal debt" and the monies borrowed are repaid with interest from the General Operating Fund.

Guideline 12.0

Repayment of monies appropriated from the Endowment Reserve is not a legal requirement. As required, Council may approve adjustments to internal debt interest rates and repayment schedules to meet budget needs.

13. External Debt (Community Charter Sections 174 and 175)

The City of Prince George may use long term debt to finance major capital projects. Using long term debt allows the costs of acquiring capital assets to be spread out over their useful lives and to be paid for by their current and future beneficiaries. The Community Charter governs the maximum amount of external debt that the City can incur. The City makes debt payments for general, sewer, water and district energy projects from their respective operating funds.

Sustainable Finance Guidelines

Guideline 13.0

The City will only incur external debt for one-time capital projects; it will not incur external debt for ongoing programs (e.g. road rehabilitation).

Guideline 13.1

The City will make every effort to maintain its current property tax supported debt servicing charges at their current or a lower level (i.e. to only add new debt in years when old debt is retired).

Guideline 13.2

Notwithstanding Guideline 13.1, the City may incur new debt for self-financed entities (e.g. Water Utility, Sewer Utility, FortisBC Lease-In Lease-Out Agreement).

Guideline 13.3

The City will review balances owing on Municipal Finance Authority issued debentures upon their 1st ten year maturities and consider using the Debt Reduction Reserve to retire the debentures.

14. Budget Management

City department directors are accountable for their departments' financial results.

Guideline 14.0

At scheduled times during the year; budget managers will review and document their capital and operating variances (i.e. the differences between their Service Categories' budgeted revenues and expenses and their actual revenues and expenses) and submit them to the Manager, Financial Planning. Budget managers will explain business unit variances that exceed 10%.

Guideline 14.1

Budget transfers within a department require the director's approval. Budget transfers between departments require the approval of both directors.

Guideline 14.2

Budget amendments of \$250,000 or less may be approved by directors. Budget amendments greater than \$250,000 and less than or equal to \$1,000,000 may be approved by the City Manager. Budget amendments greater than \$1,000,000 require Council's approval.