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Corporate Services

**REPORT TO THE ELECTORAL AREA SERVICES COMMITTEE  
MEETING OF WEDNESDAY, 05 MARCH 2008**

**SUBJECT**                      **Community Works Fund – Eligible Costs**

**PURPOSE/ISSUE**

The purpose of this report is to provide more information regarding the Community Works Fund eligible costs and the funds available to 2010 for eligible projects. No further information is yet available on the receipt or distribution of funds beyond 2010.

**BACKGROUND**

At its meeting of February 6, 2008 committee received activity information with regard to the Community Works Fund. Committee wished to be reminded of the details regarding the total funds available to each area, the categories of eligible projects and eligible costs, and the final activity summary for the year 2007.

Following is a table summarizing the amount expected to be received in total along with the breakdown by electoral area based on 2006 population.

Electoral Area	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Juan de Fuca	49,572	49,537	66,029	82,524	164,724	412,385
Salt Spring Island	108,609	108,534	144,666	180,806	360,902	903,517
Southern Gulf Islands	51,938	51,902	69,181	86,463	172,587	432,072
<b>Total</b>	<b>210,119</b>	<b>209,973</b>	<b>279,875</b>	<b>349,793</b>	<b>698,213</b>	<b>1,747,973</b>

The following table sets out the amount and allocation of funds to the end of December, 2007.

	JdF	SSI	SIG	Total
Grant received 05/06	49,572	108,609	51,938	210,119
Grant received 06/07	49,537	108,534	51,902	209,973
2006 Interest earned	2,757	5,780	2,712	11,249
<b>Balance for year 2006</b>	<b>101,866</b>	<b>222,923</b>	<b>106,552</b>	<b>431,341</b>
Grant received 06/07	33,269	71,864	34,805	139,938
Grant received in 2007	34,624	68,785	36,344	139,753
Use of funds:				
St. Mary's Lake Compressor		(25,000)		(25,000)
Ganges Transportation Study		(24,988)		(24,988)
2007 Interest earned	5,157	11,321	5,394	21,871
<b>Balance for year 2007</b>	<b>73,050</b>	<b>101,982</b>	<b>76,543</b>	<b>251,574</b>
<b>Balance to date</b>	<b>174,916</b>	<b>324,905</b>	<b>183,095</b>	<b>682,915</b>

Attached are the following schedules from the Community Works Fund Agreement:

- Schedule A – Eligible Project Categories and Sub-Categories by Community Tier (the CRD is Tier 2)
- Schedule B – Eligible Costs for Eligible Recipients

Also attached is a copy of the Gas Tax/Public Transit Update Bulletin #4 which contains useful information on project eligibility and reporting.

**ALTERNATIVES**

N/A

**FINANCIAL IMPLICATIONS**

N/A

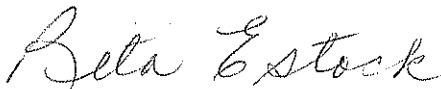
**SUMMARY/CONCLUSIONS**

The electoral areas currently have \$682,915 on hand which represents Community Works Funds received of \$699,783 less \$49,988 invested in eligible projects plus \$33,120 received in interest earnings.

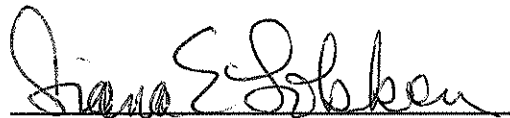
Meeting the terms of the agreement regarding eligible projects and eligible costs has presented a considerable challenge for the electoral areas.

**RECOMMENDATION(S)**

That the committee receive this report for information.



Rita M. Estock, Dip Bus Admin, FCGA  
Senior Manager, Financial Services Division



Diana E. Lokken, Dip Bus Admin, CMA  
General Manager, Corporate Services

Attachments: 3

**SCHEDULE A- Eligible Project Categories and Sub-Categories by Community Tier**

Project Categories	Sub-Categories	Tier 1	Tier 2	Tier 3
<p><i>1) Needs to be capital</i></p> <p><i>2) Connection to reduction in GHG?</i></p> <p><i>3) Measure the outcomes?</i></p>	Develop or improve public transit system (rapid transit, buses, bus ways, sea-buses, commuter rail, ferries, street cars, cycling and pedestrian infrastructure, etc.)	•	•	•
	Road system improvements that encourage a reduction in car dependency (express bus lanes, HOV lanes, park and ride, bike paths, queue, etc.)	•	•	
	Implement innovative technologies that support environmental sustainability	•	•	•
	Rehabilitation of roads and bridges that enhance sustainability outcomes	•	•	
	Paths and trails	•	•	
<p><b>Community Energy Systems</b></p>	Improving energy systems through the use of water systems to generate hydro	•	•	
	Community energy systems (wind, solar, thermal, geothermal, etc.)	•	•	
	Alternative energy systems	•	•	
	Alternative energy systems that serve local government infrastructure	•	•	
	Retrofit local government buildings and infrastructure (e.g. water pumps, street lights, etc.)	•	•	
	Reduce the GHG impact of solid waste (e.g. biogas recovery and conversion of biomass to bio-oil)	•	•	
	Fleet vehicle conversion	•		
Implement innovative technologies that support environmental sustainability	•	•		
<p><b>Water and Wastewater</b></p>	Developing or upgrading drinking water systems to improve water quality and reduce water use, increase energy efficiency, and secure water supply in the face of drought	•	•	•

	Developing or upgrading wastewater and storm water systems to improve water quality and improve aquatic habitat	•	•	•
	Implement innovative technologies that support environmental sustainability	•	•	•
	Investments in the enhancement and/or protection of community green space such as streams and natural corridors including habitat protection systems to improve water quality and improve aquatic habitat	•	•	
<b>Solid Waste Management</b> <i>needs (equipment, materials, staff, etc.)</i>	Develop or improve solid waste collection, treatment and disposal strategies in ways that reduce resource use, or encourage recycling and re-use	•	•	
	Support full cost recovery from users through improved application of user charges	•	•	
	Reduce the environmental impact of solid waste (e.g. composting, bio gas recovery)	•	•	
	Implement innovative technologies that support environmental sustainability	•	•	
<b>Capacity Building</b> <i>needs for... what... water... infrastructure... liquid waste... solid waste... long-term... water conservation... drought... air quality... greenhouse gas... energy... implementing/planning innovative environmental technologies...</i>	Increase local government capacity to undertake integrated sustainability planning including:			
	Regional growth strategies	•	•	
	Community development plans	•	•	
	Community plans	•	•	
	Community Energy Planning	•	•	
	Transportation plans	•	•	
	Infrastructure development plans	•	•	
	Liquid waste management plans	•	•	
	Solid waste management plans	•	•	
	Long-term cross-modal transportation plans	•	•	
	Water conservation/demand management plans	•	•	
	Drought management contingency plans	•	•	
	Air quality plans	•	•	
	Greenhouse gas reduction plans	•	•	
Energy conservation plans	•	•		
Implementing/planning innovative environmental technologies that support sustainability	•	•		

**SCHEDULE B- Eligible Costs for Eligible Recipients****1- Eligible Costs for Eligible Recipients****1.1 Project Costs**

Eligible Costs, as specified in this Agreement, will be all direct costs that are in the Parties' opinion properly and reasonably incurred, and paid by an Eligible Recipient under a contract for goods and services necessary for the implementation of an Eligible Project. Eligible Costs may include only the following:

- a) the capital costs of acquiring, constructing or renovating a tangible capital asset and any debt financing charges related thereto;
- b) the fees paid to professionals, technical personnel, consultants and contractors specifically engaged to undertake the surveying, design, engineering, manufacturing or construction of a project infrastructure asset, and related facilities and structures;
- c) the costs of environmental assessments, monitoring and follow-up programs, as required by the *Canadian Environmental Assessment Act* or a provincial equivalent; and
- d) the costs related to strengthening the ability of Local Governments to develop Integrated Community Sustainability Planning.

**1.1.1 Employee and Equipment Costs**

The incremental costs of the Local Government's employees or equipment may be included in its Eligible Costs under the following conditions:

- a) the Local Government has determined that it is not economically feasible to tender a contract;
- b) employees or equipment are employed directly in respect of the work that would have been the subject of the contract; and
- c) the arrangement is approved in advance and in writing by the Management Committee.

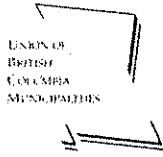
**1. Administration Costs**

That portion of Funds representing interest earned may be used to pay for administration costs.

**2. Ineligible Costs for Eligible Recipients**

Costs related to the following items are ineligible costs:

- a) Eligible Project costs incurred before April 1, 2005;
  - b) services or works that, in the opinion of the Management Committee are normally provided by the Eligible Recipient or a related party;
  - c) salaries and other employment benefits of any employees of the Eligible Recipient, except as indicated in Section 1.1;
  - d) an Eligible Recipient's overhead costs, its direct or indirect operating or administrative costs, and more specifically its costs related to planning, engineering, architecture, supervision, management and other activities normally carried out by its applicant's staff;
  - e) costs of feasibility and planning studies for individual Eligible Projects;
  - f) taxes for which the Eligible Recipient is eligible for a tax rebate and all other costs eligible for rebates;
  - g) costs of land or any interest therein, and related costs;
  - h) cost of leasing of equipment by the Local Government, except as indicated in section 1.1 above;
  - i) routine repair and maintenance costs;
  - j) legal fees;
  - k) administrative costs incurred as a result of implementing this Agreement, subject to 1.2 above; and
  - l) audit and evaluation costs.
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Canada



## Gas Tax/Public Transit Management Services

*...delivering federal gas tax and public transit funding in British Columbia*

TO: All Gas Tax/Public Transit Contacts and Financial Officers

DATE: January 8, 2008

SUBJECT: Gas Tax/Public Transit Update Bulletin #4

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### ANNUAL REPORTING

As you are no doubt aware, annual reporting is an integral component of Gas Tax and Public Transit funding agreements. Every effort has been made to keep the reporting process as simple as possible, yet provide the necessary accountability to the public and the funding providers (Government of Canada and Province of British Columbia). This is vitally important as we approach the Gas Tax Agreement program evaluation and negotiation of an extension to that agreement.

There are two key elements to the reporting process for recipients:

#### **Audited Financial Statements:**

- ✓ **Include financial information regarding Gas Tax Agreement, Public Transit Agreement and/or Public Transit Infrastructure Program funds within your audited financial statements.** If you have received funding under any of these programs, you must include information in your financial statements about the amounts received, disbursed and on hand. While the placement of the information is up to you and your auditors, we have found that the required information is usually provided as a schedule in the supplementary information to your financial statements. A sample schedule and auditors' report is attached. Please note that a separate auditors' report for the Gas Tax/Public Transit information will only be needed if that is the only schedule of supplementary information presented. In cases where the Gas Tax/Public Transit schedule is only one of a number of schedules of supplementary information, the auditors' report that pertains to the other supplementary information is sufficient to cover off the Gas Tax/Public Transit schedule also.
- ✓ Ensure that the information contained in the audited financial statements mirrors what you will be reporting in the Gas Tax/Public Transit Annual Report due July 1 annually; the basics include Opening Balance of Unspent Funds, Funds Received from UBCM in the Current Year, Interest Earned on Unspent Funds, Funds Spent on Eligible Administrative Costs, Funds Spent on Eligible Projects and the Closing

## Gas Tax/Public Transit Update Bulletin #4 - January 8, 2008

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Balance of Unspent Funds. All of these amounts as reported in your audited financial statements should reconcile with the amounts reported in your annual Gas Tax/Public Transit Annual Report. Making sure they reconcile is important since UBCM is required to report on this reconciliation in our Gas Tax Annual Expenditure Report.

- ✓ Call the Gas Tax/Public Transit Management Office if there are any qualified audit opinions relative to the Gas Tax or Public Transit Funds as soon as this becomes known. UBCM is not able to make further Gas Tax payments if there is an unresolved qualified audit opinion that stems from use of Gas Tax or Public Transit funds. Consequently, it is important that we are able to work with you to resolve any deficiencies prior to your next scheduled Gas Tax payment.
- ✓ Ensure that the Ministry of Community Services has a copy of your audited financial statements by May 15. UBCM is not able to make further Gas Tax payments until your audited financial statements have been submitted.

**Prepare and File Your Gas Tax/Public Transit Annual Expenditure Report by July 1**  
*(Detailed instructions for reporting using the Canada Reporting Database is expected to be sent out to recipients in mid-April):*

- ✓ Report on the eligible projects in which costs were incurred in the year being reported on, the interest earned and any administrative costs incurred, using the Canada Reporting Database.
- ✓ Run the Annual Expenditure Report and if there have been eligible projects reported, the Year Project Report from the Canada Reporting Database.
- ✓ Have the financial officer sign the Financial Officer Certification.
- ✓ Fax or mail the hard copy report to UBCM by July 1.

Once recipients have completed their reporting requirements, UBCM must prepare its own Annual Expenditure Report, which includes a consolidation of all recipient reporting. That report is due by September 30 annually. *Although July 1 is the deadline, filing your report earlier helps us in our report preparation and is sincerely appreciated.* We will contact you as quickly as possible after we receive your report to let you know if there is any further information or clarification needed.

The past two years of reports are available on our website at [www.civicnet.bc.ca](http://www.civicnet.bc.ca) under Programs and Services/Gas Tax-Public Transit/Background Information and Reports. You will be pleased to know that BC's report was well received generally speaking by the funding providers. You may notice in the report that we incorporated quite a number of photos from projects throughout BC. Thanks to those recipients who were able to contribute them. Although not part of the reporting requirements, we would ask you to take a few high quality, relevant photos throughout the various stages of projects for similar opportunities in the future. Please feel free to send us photos and tell us the story of your projects at any time.



## Preparing for the 2008 Reporting Period (For the January 1 – December 2007 Fiscal Year)

The following provides some additional background on a number of challenges that arose during the last reporting period. It is hoped that further clarification on these points will help to make the upcoming reporting period less demanding for you.

### Project Eligibility:

The eligibility of some of the Community Works Fund (CWF) projects recipients reported last year was questioned subsequent to that reporting. While the vast majority of projects did meet eligibility requirements, there were a few that didn't. Although the design of the CWF program provides recipients with local choice around which eligible projects it chooses to fund under this program, it is incumbent on recipients to ensure that the projects that are chosen fit well within the eligibility criteria of the Agreement.

There is essentially a two-pronged test to determine if a project is eligible:

- ✓ all projects must fit within one of the project categories and sub-categories that are applicable to your Tier. These categories are set out in Schedule A of the Gas Tax Agreement and Schedule A of your CWF Agreement; and
- ✓ if the project is within one of the capital project categories (i.e., Public Transit, Community Energy Systems, Water and Wastewater, and Solid Waste Management) then the project must also be leading towards reduced greenhouse gas emissions, cleaner air or cleaner water. Note that this last requirement is not applicable to the capacity building project category.

We recognize that determining project eligibility may be difficult given the broad language of the project categories set out in the Gas Tax Agreement. We have produced an Integrated Community Sustainability (ICS) Planning Framework Guide that should help with making project eligibility decisions for capacity building and ICS planning projects. Guidance in relation to the capital project categories can be found in previous Gas Tax Agreement Update Bulletins and in a general question and answer document. All of these documents are located on our website at [www.civicnet.bc.ca](http://www.civicnet.bc.ca) under Programs and Services/Gas Tax-Public Transit. We would be happy to discuss the eligibility of proposed projects if these resources don't address your questions.

Please remember that having determined that a project is eligible, you will also need to consider the eligibility of each of the costs related to that project. Eligible and ineligible costs are set out in Schedule B of the Gas Tax Agreement and your CWF Agreement. Please also see below for a discussion of eligible and ineligible costs.

### Allocating Interest on Unused Funds:

A significant number of recipients reported no interest or very small amounts of interest earned on Funds held, even though the Funds in some cases had been held for significant periods of time. CWF Agreements require reporting of interest and also restricts the use of interest to eligible costs of eligible projects or eligible administration costs (see below for a more detailed explanation of these eligible costs).

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The funding providers expect that funds paid to and held by recipients pending spending on eligible projects would be invested prudently so as to maximize the benefit in infrastructure development. In order to fulfill our obligations under the Gas Tax Agreement, UBCM contacted a number of recipients that had not reported interest last year when it seemed that interest may have accrued. Aside from simple misunderstandings about the need to report interest, the following were identified as the most significant challenges with reporting interest:

- ✓ some local governments stated that they were accounting for Gas Tax and Public Transit Funds as deferred revenue and that it was not their usual practice to attribute interest to deferred revenue accounts; and
- ✓ some local governments stated that Gas Tax or Public Transit Funds were invested with funding from other sources and so it was difficult to precisely allocate interest.

It is our understanding interest earned on the Funds is irrespective of the accounting treatment for the Funds (i.e., even if the Funds are accounted for as deferred revenue, they can be accumulating interest and that interest should be reported). In addition, interest earned on Funds should be reported even if those Funds are combined with funding from other sources for investment purposes. In that case, the Financial Officer's estimation of interest earned on the Funds is sufficient. If Financial Officers are uncomfortable making such an estimation, there is always the option of investing the Gas Tax or Public Transit Funds separately in order to more accurately track interest earned and spent. In either circumstance, you will want to ensure that appropriate documentation is available for audit purposes.

### **Reporting of Spending on Eligible Administration Costs:**

Interest earned on Gas Tax or Public Transit Funds may be used towards either the eligible costs of eligible projects or eligible administration costs. If interest is used towards the eligible costs of eligible projects, the amount of interest used is simply added to the amount of principle that was applied to the project. However, if interest is used towards eligible administration costs, it is to be reported separately.

Most recipients did not report spending on eligible administration costs. This is not problematic in any way, and in fact helps to show the local contribution towards projects. Later in this update we provide some information on eligible administration costs, should you wish in the future to use a portion of the interest earned towards these costs.

For those that did report spending on eligible administration costs, we would appreciate your cooperation in ensuring that appropriate documentation in relation to these costs is available should you be audited. We expect that administration costs may be a matter of interest in the audit program related to both Gas Tax and Public Transit programs, because it is a unique feature of these programs, as compared to previous federally funded infrastructure programs that do not allow any funding to be used towards administration costs.

**Why Is Accuracy and Completeness of Data Entered into the Canada Database Reporting System So Important?**

The information entered into the database is currently accessible to UBCM, Infrastructure Canada and the Province of BC. In future, it is expected that the information gathered in the reporting process will be made available to a much wider audience, including the public.

2007 was the first year BC used the Canada Reporting Database. Generally speaking, recipients reported relatively few problems and found the system reasonably user friendly. From the perspective of UBCM as the manager and Canada as the primary funding provider, overall, it was reasonably effective in gathering and providing the information required to meet the reporting requirements.

There were some problem areas that required follow-up and correction. In some cases the follow-up was not completed prior to our own reporting. It is hoped that the quality of the data will improve with a multi-prong approach of enhancements to the software, improved instructional documentation and recipients paying close attention to ensuring that the data they enter is complete and accurately reflects the projects they have undertaken.

The data is and will continue to be carefully analyzed and reported on in a wide variety of ways. A good example is UBCM's own annual report that included a wide variety of statistics, charts and graphs. These are proving to be useful in demonstrating the value of the program and will be especially important in the evaluation phase (2008-09).

**Why is the July 1st Deadline Critical?**

Reports must be received and reviewed prior to making the first of two CWF payments that are normally paid around mid July. Grant claims under other Gas Tax programs or payments under PTA/PTIP may also be delayed until reporting requirements have been met. In addition, UBCM requires time to prepare its own consolidated annual report for the Gas Tax/Public Transit programs.

Although reports do not need to be filed until July 1, we would appreciate receiving them as soon as you are able to provide them to us.

**What happens if I am unable to file my report or our audited financial statements are not ready by July 1?**

Please call the Gas Tax/Public Transit Management Services office prior to July 1 and we will do what we can to guide you through the reporting process. If we are unable to resolve the reporting deficiencies prior to the next scheduled payment date, we will need to withhold that payment until all reporting requirements have been met.

We are also interested in helping to ensure the accuracy, completeness and timeliness of all recipient reporting in order to improve UBCM's consolidated annual report, since any deficiencies in that report have the potential to jeopardize or delay the funding transfer from Government of Canada to UBCM. In such circumstances, we would be unable to pay any recipient until the transfer from Canada was restored.

## NEW INFORMATION ON USE OF OWN FORCE LABOUR AND EQUIPMENT

All funding agreements under the Gas Tax Agreement, the Public Transit Agreement and the Public Transit Infrastructure Program require recipients to use funding provided under the agreement towards the Eligible Costs of Eligible Projects. Schedule B of each of the funding agreements set out both eligible and ineligible costs. In most cases eligible and ineligible costs are identical regardless of which of the three programs are the subject of the funding agreement. However, the eligibility of costs of a Local Government's employees or equipment when used on an eligible project differ depending on whether the funding is from the Gas Tax Agreement, the Public Transit Agreement or under the Public Transit Infrastructure Fund.

Costs of employees and equipment of the recipient are ineligible costs under the Public Transit Agreement; they are however, eligible costs under the Public Transit Infrastructure Program, so long as the costs are *incremental* and the employees are directly undertaking work, or the equipment is directly used, on an eligible project.

Under the Gas Tax Agreement, costs of employees or equipment of the recipient are ineligible costs except for the *incremental* cost of those employees or that equipment if the local government has determined that it is not economically feasible to tender a contract, if the employees or equipment are employed directly in respect of the work that would have been the subject of the contract and if the arrangement is approved in advance and in writing by the Management Committee (MC).

### **For Capacity Building/Integrated Community Sustainability (ICS) Planning Projects under the Gas Tax Agreement**

Capacity building/ICS planning projects are specifically intended to strengthen a local government's capacity, which in many cases is most effectively accomplished by strengthening the internal capacity of the organization. Given this, the MC made a blanket approval for use of Gas Tax Funds towards the recovery of incremental costs of local government employees, so long as those employees are employed directly in respect of an *eligible capacity building/ICS planning project*.

This means that local governments may use Gas Tax funds towards employee costs when undertaking capacity building/ICS planning projects without seeking additional approval from the MC. Local government using Funds for this purpose should retain records substantiating the expenditure for audit purposes (e.g., time records relating to the hours worked on the project by individual employees).

This approval relates only to incremental costs and only where the employee is directly working on the eligible capacity building/ICS planning project. Please also note that the approval does not extend to use of a local government's equipment, the use of which is unusual for these types of projects. If a local government wishes to use its own equipment towards a capacity building/ICS planning project, it must seek prior MC approval (see below for the approval process).

### Capital Projects under the Gas Tax Agreement

The above noted approval does not relate to any projects under the capital project categories (Public Transit, Community Energy, Water and Wastewater, and Solid Waste) under the Gas Tax Agreement. **Local governments wishing to use Gas Tax funds towards own-force labour or equipment used on an eligible capital project, must seek MC approval in advance.**

The process for seeking MC approval is to write to UBCM requesting the approval, and this may be done via email if you prefer. The request should also identify the eligible project and explain how the conditions in Section 1.1.1 of Schedule B of the Gas Tax Agreement are met (e.g. why tendering a contract is not economically feasible). If MC approval is given and expenditures are made, local governments should ensure that accurate records substantiating the expenditure are retained.

### CLARIFICATION OF ELIGIBLE AND INELIGIBLE COSTS

All funding agreements under the Gas Tax Agreement, Public Transit Agreement and Public Transit Infrastructure Program contain a schedule of eligible and ineligible costs. With the exception of eligibility for own-force labour and equipment (as noted above), all three programs have similar criteria for eligible and ineligible costs.

Eligible costs for capacity building projects are generally one-time operating costs to undertake the project and eligible costs for capital projects are the capital cost of the project and any related debt servicing costs, certain consulting and professional fees and costs related to environmental assessments. However, certain specific costs are ineligible and others are eligible only under specified circumstances.

The listing of ineligible costs should be reviewed carefully prior to making decisions about use of Gas Tax or Public Transit Funds. The most common pitfalls relate to using those Funds towards the following costs, which are all ineligible: land acquisition; legal fees; routine repairs and maintenance; feasibility studies of individual eligible projects; and the recipient's overhead costs such as costs related to planning, engineering, supervision, management, etc. normally carried out by recipient's staff.

All three programs provide that any interest earned on the Funds may be used to pay for the eligible costs of eligible projects or administrative costs incurred as a result of implementing the funding agreement. The most common eligible administrative costs are the incremental costs related to fulfilling specific requirements imposed under a funding agreement (e.g., if your financial statement audit costs more because of the requirement to include a note on Gas Tax/Public Transit spending, the difference is an eligible administrative cost; costs associated with fulfilling the communications protocol requirements set out in the funding agreement are eligible administrative costs if they would not have been otherwise incurred).

UBCM is in the process of updating our advisory materials in relation to eligible projects and eligible costs, including providing more detailed examples of eligible and ineligible costs. This information will be posted on our web site as soon as it is available