



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	August 10, 2015
SUBJECT/REPORT NO:	Additional Funding Required for Previously Approved Capital Projects (FCS15054) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Charlie Elliott (905) 546-2424 Ext. 2162
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services
SIGNATURE:	

RECOMMENDATION

- (a) That the funding shortfall of the Red Hill Expressway project 4060087004 in the amount of up to \$2,808,940 be funded from interest revenue in the Investing in Ontario Subsidy Reserve 108024;
- (b) That the funding shortfall for the Westmount Recreation Centre project 7100954900 in the amount of up to \$2,627,367 be funded from return of capital from ABCP investments in the Investment Stabilization Reserve 112300;
- (c) That the funding shortfall for the Stoney Creek Recreation Centre project 7100954901 in the amount of up to \$2,432,584 be funded from return of capital from ABCP investments in the Investment Stabilization Reserve 112300;
- (d) That the funding shortfall for the Flamborough Twin Pad Arena project 7100554707 in the amount of up to \$357,765 be funded from return of capital from ABCP investments in the Investment Stabilization Reserve 112300;
- (e) That the funding shortfall for the Wentworth Lodge Rehabilitation project 6000051001 in the amount of up to \$641,242 be funded from the 2015 HUC special dividend in the Unallocated Capital Reserve 108020;

- (f) That the funding shortfall for the Lister Block projects 2050659603, 2051141110 and 3540941950 in the amount of up to \$730,205 be funded from the Unallocated Capital Reserve 108020;
- (g) That the funding shortfall for the Universal Metering project 5140071096 in the amount of up to \$3,716,178 be funded from the Waterworks Capital Reserve 108015.

EXECUTIVE SUMMARY

There are several approved capital projects that require funding sources, over and above the amount of approved funding, to fund the project expenditures. Report FCS15054 seeks to obtain approval for the project funding from the associated funding sources.

A summary of the capital projects and amount of funding required and the recommended funding source for each project is provided in Table 1 below.

Table 1

Previously Approved Projects Requiring Additional Funding			
	Project ID.	Funding Required	Recommended Funding Source
Red Hill Expressway	4060087004	\$ 2,808,940	Investing in Ontario Subsidy Reserve 108024 (Interest Income)
Westmount Rec. Centre	7100954900	2,627,367	Investment Stabilization Res. 112300 (ABCP Return of Capital)
Stoney Creek Rec. Centre	7100954901	2,432,584	Investment Stabilization Res. 112300 (ABCP Return of Capital)
Flamborough Twin Pad Arena	7100554707	357,765	Investment Stabilization Res. 112300 (ABCP Return of Capital)
Wentworth Lodge	6000051001	641,242	Unallocated Capital Res. 108020 (2015 HUC Special Dividend)
Lister Block			
Lister Block	2050659603	348,966	
Lister Rehabilitation	2051141110	(18,761)	
Lister Energy Expansion	3540941950	400,000	
Total Lister Block		730,205	Unallocated Capital Res. 108020 (2015 HUC Special Dividend)
Universal Metering Project	5140071096	3,716,178	Waterworks Capital Reserve - 108015
Total Funding Required		<u>\$13,314,281</u>	

The funding sources being recommended in Report FCS15054 were mostly derived from extraordinary revenues that were not budgeted, such as 2015 HUC special dividends, return of capital from Asset Backed Commercial Paper (ABCP) previously

written-off and investment income accumulated in the Investing in Ontario Subsidy (2008) Reserve that have not been committed to date.

Table 2 provides a summary of the recommended funding sources to fund the various projects. Table 2 shows the amount of funding available from the recommended sources and the amount of funding required for the project shortfalls.

Table 2

Summary of Funding Sources			
Funding Source	Funding Available \$	Funding Required \$	Reserve to which Revenue credited:
Interest Income earned on reserve	3,200,000	2,808,940	Investing in Ontario Subsidy Res. (108024)
ABCP Investments - Retn of Capita	5,500,000	5,417,716	Investment Stabilization Reserve (112300)
HUC 2015 Special Dividend	1,518,200	1,371,447	Unallocated Capital Reserve (108020)
Rate (Water) Budget Surpluses	3,716,178	3,716,178	Waterworks Capital Reserve (108015)
Total	13,934,378	13,314,281	

Detailed information with regards to the funding deficits for each project and the funding sources are provided in the Analysis and Rationale Section of Report FCS15054.

Alternatives for Consideration – Not Applicable.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The recommended funding sources for the projects listed in Table 1 are reserves and, therefore, do not have a direct impact on the Tax Levy or Water/Sewer rates. Most of the funding was derived from extraordinary revenues that were not budgeted, such as, HUC special dividends, return of capital from Asset Backed Commercial Paper (ABCP) previously written-off and interest revenue earned on the Investing in Ontario Subsidy Reserve.

Staffing: N/A.

Legal: N/A.

HISTORICAL BACKGROUND (Chronology of events)

The staff presentation to General Issues Committee on January 15, 2015 of the 2015 Tax – Supported Capital Budget included a slide respecting “Previously Approved Projects Requiring Additional Funding”. Committee was advised during the

presentation that a report would follow during 2015 to recommend funding the projects and recommend funding sources.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A.

RELEVANT CONSULTATION

N/A.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

(Include Performance Measurement/Benchmarking Data if applicable)

Funding Sources

The following funding sources are recommended in Report FCS15054 to fund the previously approved projects with funding shortfalls.

Return of Capital from Asset Backed Commercial Paper (ABCP)

The Devonshire Trust ABCP, which defaulted in 2007 and has been the subject of litigation, was settled through external litigation and court order proceeds of \$10.0 million were received on September 17, 2014. Of the \$10.0 million received, \$5.5 million was credited to the Investment Stabilization Reserve 112300.

It is recommended, in this report FCS15054, that \$5,417,716 of the \$5.5 million be used to fund the deficits in the Westmount and Stoney Creek Recreation Centre projects and the Flamborough Twin Pad Arena project.

2015 HUC Special Dividends

In 2015, the City is expected to receive a total of \$8,818,200 in dividends from Hamilton Utilities Corp. (HUC) which consists of the 2014 Dividend true-up of \$3,818,200 plus \$5,000,000 for 2015 Dividends (quarterly payments of \$1,250,000).

The City's 2015 Operating budget includes \$5,300,000 in revenues from HUC Dividends and \$2,000,000 has been committed in the City's 2015 Capital Financing Plan, leaving available funding of \$1,518,200 (\$8,818,200 - \$5,300,000 - \$2,000,000).

It is recommended that \$1,371,447 of the uncommitted HUC dividends be used to fund the Wentworth Lodge and Lister Block project deficits. The source of funding is the Unallocated Capital Reserve 108020 as the \$1,518,200 in uncommitted revenues from the HUC Special Dividends will be credited to 108020.

Investing in Ontario Subsidy Reserve

In 2008, the City received \$48.0 million in subsidy (Provincial surplus funds – had to be used for infrastructure investment) which was used to fund numerous capital projects. The \$48.0 million was credited to an Investing in Ontario Subsidy Reserve (108024) and the projects were funded from the reserve as the project expenditures were incurred.

Reserve 108024 has accumulated interest revenue of over \$3.2 million from 2008 to 2014 that has not been committed, to date, and is, therefore, available to fund the deficit in the Red Hill Expressway project (\$2,808,940).

Waterworks Reserve

A significant portion of the revenues from homeowners for the installation of water meters were credited to the Water operating accounts in the years the Universal Metering project was implemented, rather than applied to fund the Universal Metering capital project as budgeted. Had the revenues been applied as budgeted, this would have created a budget surplus in the operating accounts in those years that were credited to the Waterworks Reserve at year end.

It is therefore recommended that the funding shortfall for the Universal Metering capital project of \$3,716,178 be funded from the Waterworks Reserve 108015. The balance at the end of 2014, in the Waterworks Reserve, was \$28.9 million.

Projects to be funded

Red Hill Expressway

As of June 30, 2015, the total unfunded amount for the Red Hill Expressway project is \$5,901,471, including Legal Fees in the amount of \$3,092,531, that pertains to the ongoing Federal lawsuit. The legal fees are expected to be recovered from a favourable judgement from the lawsuit and are, therefore, not included in the funding request in this report. It is recommended to fund the Red Hill Expressway project in the amount of \$2,808,940.

Red Hill Expressway	
	\$
Total Project Revenues	458,197,160
Total Project Expenditures (incl. Commitments)	464,098,631
Total Funding Required	<u>(5,901,471)</u>
Legal Expense (re Federal Lawsuit)	3,092,531
Funding Shortfall	<u>(2,808,940)</u>

Westmount Recreation Centre

The budget for the Westmount Recreation project was \$21.0 million, with funding from the Federal Infrastructure Stimulus Fund (ISF) program for \$7.0 million, the Provincial ISF program for \$7.0 million, and the remaining \$7.0 million from the City (debt).

The amount of ISF funding actually received for the project was \$3,851,900 of the Federal Government's share and \$4,738,797 of the Provincial Governments share. Therefore, the funding shortfall, due to the project not being completed within the Federal deadline of October 31, 2011 and the Provincial deadline of March 31, 2012, is \$3,148,100 from the Federal Government and \$2,261,203 from the Provincial Government.

The ISF funding shortfall is partially off-set by the project expenditures being under budget by \$2,518,480 and a reserve transfer (2011 Operating Surplus - #110046) of \$250,000, resulting in a net funding shortfall of \$2,627,367. The funding shortfall is summarized in the Table below:

Westmount Recreation Centre			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Federal ISF	7,000,000	3,851,900	(3,148,100)
Provincial ISF	7,000,000	4,738,797	(2,261,203)
Debt (Actual to be issued)	7,000,000	7,000,000	-
Transfer from Reserves	-	250,000	250,000
Total	21,000,000	15,840,697	(5,159,303)
Expenditures	21,000,000	18,468,064	2,531,936
Net Shortfall	-	(2,627,367)	(2,627,367)

Lower Stoney Creek Recreation Centre

The budget for the Stoney Creek Recreation project was \$13.0 million, with funding from the Federal ISF program for \$4.333 million, the Provincial ISF program for \$4.333 million and the remaining \$4.334 million from the City (debt).

The amount of ISF funding, actually received for the project, was \$2,734,347 from the Federal Government's share and \$3,541,335 from the Provincial Government's share. Therefore, the funding shortfall, due to the project not being completed within the Federal Government deadline of October 31, 2011 and the Provincial Government

deadline of March 31, 2012, is \$1,598,653 from the Federal Government and \$791,665 from the Provincial Government.

In addition, the project expenditures are over budget by \$42,266, resulting in a total funding shortfall of \$2,432,584. The funding shortfall is summarized in the following Table:

Lower Stoney Creek Recreation Centre			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Federal ISF	4,333,000	2,734,347	(1,598,653)
Provincial ISF	4,333,000	3,541,335	(791,665)
Debt (Actual to be issued)	4,334,000	4,334,000	-
Total	13,000,000	10,609,682	(2,390,318)
Expenditures	13,000,000	13,042,266	(42,266)
Net Shortfall	-	(2,432,584)	(2,432,584)

Flamborough Twin Pad Arena

The financing plan for the Flamborough Twin Pad includes revenues of \$450,000 from land sales which has not been realized to date.

Also, a Development Levy (Refer FCS10052 – Signed agreement between the Province, developers, former Flamborough and the City of Burlington re; Official Planning Area OPA28 – Minutes of Settlement) has been included as a funding source in the amount of \$5,850,000. This Development Levy is area specific and agreed to by the area developers. The charge is compensation in recognition of the fact that residential development growth revenues do not cover the full cost of growth (refer to former Flamborough CN Watson study). The charge is currently \$1,340 per Single Detached Unit and is subject to indexing. The remaining unit potential is approximately 4,000 single detached unit equivalents which would potentially generate approximately an additional \$5.5 million (in addition to the \$1.78 million already generated), therefore staff are being conservative by limiting the exposure of this funding source to \$5.85 million. The amount collected as at May 31, 2015, is \$1,781,000. It is expected that the revenues from the Land sale and the development levy will be realized, at some time in the future, and therefore, the funding shortfall from these two sources are not included in the Net Funding Shortfall (\$357,765) being recommended to fund in this report FCS15054.

The Net Shortfall of \$357,765 is mainly attributed to project expenditures being over budget by \$384,492, and being partially off-set by additional funding from DC's (\$10,477) and additional Contribution from Current (\$16,250) – refer to the following Table:

Flamborough Twin Pad Arena			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Land Sale	450,000	-	(450,000)
Other Revenues - OPA 28 Development Levy	5,850,000	1,781,000	(4,069,000)
Debentures	5,950,000	5,950,000	-
Development Charges	4,000,000	4,010,477	10,477
Contribution from Current	285,000	301,250	16,250
Contribution from Reserves	2,200,000	2,200,000	-
Total	18,735,000	14,242,727	(4,492,273)
Future Revenues			
Land Sale		450,000	450,000
Other Revenues - OPA 28 Development Levy		4,069,000	4,069,000
Expenditures	18,735,000	19,119,492	(384,492)
Net Shortfall	-	(357,765)	(357,765)

Wentworth Lodge Reconstruction Project

The Wentworth Lodge Reconstruction project has been completed for some time now; however, the City has been involved in litigation with the project's contractor. A settlement between the City and the project contractor has now been reached.

The Contribution from Reserves funding source includes \$200,000 from the 2008 Capital Budget (#108020 Unallocated Capital Levy Reserve). The 2008 Investing in Ontario Grant funded \$2,000,000 (total Grant amount was \$48 million and it's purpose was limited to City capital infrastructure).

The total expenditures of \$26,101,003 in the Table below include the final payments, due to the project contractor, and, therefore, reflect the total project costs. The total budget for the reconstruction project was \$24,188,050, resulting in an unfavourable variance of \$1,912,953 for project expenditures.

The unfavourable expenditure variance of \$1,912,953 is partially off-set by funding \$1,271,711 from the 2014 Capital Financing surplus at year end (2014), resulting in a net funding shortfall of \$641,242.

Wentworth Lodge Reconstruction Project			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Debt	21,814,000	21,814,000	-
Transfer from Reserves	2,150,000	2,150,000	-
Transfer from Operating	-	1,271,711	1,271,711
Provincial Subsidy	182,244	182,244	-
Misc. Revenue	41,806	41,806	-
Total	24,188,050	25,459,761	1,271,711
Expenditures	24,188,050	26,101,003	(1,912,953)
Net Shortfall	-	(641,242)	(641,242)

Lister Block Project

The funding variance of \$730,205 for the Lister Block project is the result of the following (also refer to Table below):

- \$700,000 in funding was budgeted from investment income on the Province’s \$7,000,000 contribution to the Lister project, whereas the actual investment revenue was \$861,875 resulting in a \$161,875 funding surplus;
- Funding from reserves was budgeted at \$1,050,000, whereas actual reserve funding was \$669,280 (Unallocated Capital Levy Reserve #108020) , resulting in a funding deficit from reserves of \$380,720;
- \$400,000 was budgeted, as a purchase credit on the purchase of the renovated Lister Block, for the savings to the vendor from the installation of district heating / cooling by the City. The actual purchase credit was \$300,000 resulting in a \$100,000 funding shortfall;
- The actual expenses exceeded budget by \$411,360.

Lister Block Rehabilitation / Purchase			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Investment Income on Prov. Subsidy	700,000	861,875	161,875
Funding from unallocated reserve	1,050,000	669,280	(380,720)
District Energy credit on purchase	400,000	300,000	(100,000)
Total	2,150,000	1,831,155	(318,845)
Expenditures			
Lister Block Costs	8,100,000	8,637,463	(537,463)
Lister Rehab. Project	29,800,000	29,673,897	126,103
Total			(411,360)
Net Shortfall			(730,205)

Universal Meter Installation Project

The total Universal Metering project budget was \$9.0 million and was to be funded with revenues from billing the homeowners for the meter installations. Total project expenditures were \$8,877,474, accounting for a \$122,526 favourable variance to budget. However, a significant amount of the revenues from homeowners were incorrectly credited to the Water Operating account over the years the project was ongoing and not the Capital Project account, accounting for a \$3,838,704 revenue deficit in the capital project. It is recommended that the net deficit of \$3,716,178 be funded from the Waterworks Capital Reserve, as the operating surplus in the years the revenues were credited to the operating accounts, would have been credited to the Waterworks reserve with the year-end closing entries (refer to following Table):

Universal Meter Installation			
	Budget (\$)	Actual (\$)	Surplus / (Shortfall) (\$)
Funding			
Third Party Billings	9,000,000	5,161,296	(3,838,704)
Expenditures			
	9,000,000	8,877,474	122,526
Net Shortfall	-	(3,716,178)	(3,716,178)

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Alternatively, Council could approve all of the required tax-supported funding from the City's Unallocated Capital Reserve. This would amount to a total of \$9,598,103 to be funded from the Unallocated Capital Reserve. As the Table below illustrates, this would decrease the forecast balance in the reserve to approximately \$2 Million. This would severely limit Council's ability to deal with emergency Capital requests. Also this reserve would cease to be an effective Capital Budgeting source as the minimum recommended balance in this reserve should be approximately \$25 Million.

Tax Capital Levy-Reserve-108020

	2014	2015	2016	2017	2018	2019
Opening Balance	21,794,154	27,981,803	11,301,524	11,327,465	11,365,195	11,279,010
Add:						
Interest	585,915	471,400	271,548	272,312	271,730	268,710
Revenues	11,663,422	11,955,055	3,051,941	3,037,731	2,913,814	2,834,448
Sub-Total	12,249,337	12,426,455	3,323,489	3,310,043	3,185,545	3,103,158
Less:						
Expenditures	6,061,687	28,635,334	3,026,000	3,000,000	3,000,000	3,000,000
Sub-Total	6,061,687	28,635,334	3,026,000	3,000,000	3,000,000	3,000,000
Projected Dec 31 Bal.	27,981,803	11,301,524	11,327,465	11,365,195	11,279,010	11,113,458

N/A.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

APPENDICES AND SCHEDULES ATTACHED

N/A.