



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	November 25, 2016
SUBJECT/REPORT NO:	2017 Tax Supported Capital Budget (FCS16089) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Lindsay Gillies (905) 546-2424 Ext. 2790 Marcin Zukowski (905) 546-2424 Ext. 2162 Marcel Cerminara (905) 546-2424 Ext. 4371
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services
SIGNATURE:	

RECOMMENDATIONS

- (a) That the 2017 Tax Supported Capital Levy in the amount of \$106,554,000 be approved;
- (b) That the 2017 Tax Capital Budget and Financing Plan in the amount of \$289,299,000, attached as Appendix “A” to Report FCS16089, be approved;
- (c) That the Tax Supported Discretionary Net Capital Funding Forecast 2017 – 2026, attached as Appendix “B” to Report FCS16089, which assumes a 0.5% Residential Property Tax increase in each year from 2018 to 2026 be approved, in principle, and re-visited by Council each budget year;
- (d) That for 2017 an additional 0.45% Residential Property Tax Increase to fund the debt charges associated with the City’s share of Capital Levy Funding required for Public Transit Infrastructure Fund (PTIF) Capital Investments be approved;
- (e) That the operating budget and FTE impacts of the 2017 Tax Capital Budget, estimated to be \$2,034,100 and 13.02 FTE’s, attached as Appendix “C” to Report FCS16089, be incorporated into the 2018 Tax Supported Operating Budget;
- (f) That staff investigate options to mitigate the financial impact identified in Recommendation (e) during the 2018 Tax Supported Operating Budget Process;

- (g) That the reserve funding included in the 2017 Tax Capital Budget totalling \$50.860 M, attached as Appendix “D” to Report FCS16089, be approved;
- (h) That the funding from previously approved projects (WIP’s) included in the 2017 Tax Capital Budget totalling \$5.321 M, as attached in Appendix “E” to Report FCS16089, be approved;
- (i) That the Area Rating Capital Reinvestment projects be approved subject to approval of the \$13.4 M Special Infrastructure Levy for Wards 1 to 8 in the 2017 Tax Supported Operating Budget;
- (j) That the 2017 capital projects from the Hamilton Public Library, subject to approval from Council, be funded from debt.

EXECUTIVE SUMMARY

Report FCS16089 provides the recommendations required to approve the 2017 Tax Supported Capital Budget. The complete details of the capital budget are provided in the “2017 Tax Supported Capital Budget” books 1 and 2 which are distributed under separate cover.

The 2017 Tax Supported Capital Budget supports the City’s Strategic Plan and Council’s Strategic Directions of Economic Prosperity and Growth, Built Environment and Infrastructure and Our People and Performance.

The Tax Supported Operating Budget funds a portion of the projects in the Tax Supported Capital Budget. The recommendations in Report FCS16089 and the table below reflect a capital levy tax increase in the Tax Supported Operating Budget of \$7,600,000 that translates into an average residential property tax increase of 0.95%. The recommended 0.95% capital levy tax increase represents an increase of \$31 for an average assessed house.

Historically, the capital levy tax increase has been 0.5% with exceptions in some years. An additional tax increase of 0.45% is required to fund the debt charges in the 2017 Tax Supported Operating Budget for the City’s share of the investment through the Public Transit Infrastructure Fund (PTIF). Council at its meeting of October 12, 2016 approved GIC Report 16-023 which included the City’s submission of projects under PTIF as detailed in Report FCS16083. The Federal Government of Canada through Infrastructure Ontario will provide \$36,489,204 and the City will fund \$36,489,204 (\$29.327 M Net of development charges) for PTIF projects totalling \$72,978,408. External debt of \$29.327 M issued in future years when construction is completed results in annual debt charges of \$3.6 M over 10 years. These additional capital projects were not included in the 2016 Tax Supported Capital Budget and Financing Plan forecast for 2017 and 2018 and, therefore, these projects are incremental to the City’s longer term financial plans and require additional funding.

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The recommended 2017 Tax Supported Capital Levy of \$106,554,000 and the split between debt charges and transfer from operating to capital is reflected in Table 1 below:

Table 1

CAPITAL BUDGET IMPACT ON OPERATING BUDGET				
Includes impact of Public Transit Infrastructure Fund (0.45%)				
(\$000's)	2016	2017	CHANGE	
	<u>APPROVED</u>	<u>PROPOSED</u>	\$	%
Debt Charges	50,222	50,906	684	1.4%
Transfer from Operating	48,732	55,648	6,916	14.2%
Total Impact	98,954	106,554	7,600	7.7%
Impact on Average Residential Property Tax 0.95%(\$31)				

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Table 2 of Report FCS16089 provides a summary of the proposed 2017 Tax Supported Capital Budget by program area with a comparison to the Approved 2016 Tax Supported Capital Budget.

Table 2

2017 PROPOSED TAX SUPPORTED CAPITAL BUDGET (\$000's)				
Proposed Program Funding	2016 APPROVED		2017 PROPOSED	
	GROSS	NET	GROSS	NET
	\$	\$	\$	\$
Recreation Facilities	14,728	5,100	14,482	8,620
Corporate Facilities	7,202	4,583	5,110	4,600
Entertainment Facilities	1,000	800	1,590	800
Forestry & Horticulture (Includes Tree Planting)	2,782	1,345	1,550	1,345
Open Space Development	14,750	3,327	10,505	3,018
Waste Management	2,635	1,420	9,409	8,312
Transit Services	18,234	3,700	90,713	33,026
Corporate Fleet Services	9,181	0	7,895	0
Parks & Cemeteries	1,592	1,265	1,590	1,138
Roads	91,819	55,895	83,082	55,569
West Harbour & Waterfront Initiatives	7,475	7,475	27,235	27,235
Public Health	92	92	92	92
Community Services	90	90	167	167
Housing Services	1,915	1,500	500	500
Long-Term Care Facilities	2,090	1,590	1,709	500
Emergency Services	6,680	508	7,338	650
Corporate Services / City Manager	3,015	2,865	5,786	4,540
Area Rating (Ward 1-8)	1,241	0	2,053	0
Planning & Development	7,744	1,089	7,486	1,203
Tourism & Culture	2,450	1,702	1,852	1,852
Downtowns & Commercial Districts	2,210	2,210	2,210	2,210
Total Program Funding	198,925	96,556	282,354	155,377
Other Major Projects				
Parkland Acquisition	1,500	1,500	1,500	1,500
Provincial Offences Administration Building	9,500	0	0	0
Randle Reef	300	300	300	300
Emerald Ash Borer Program	2,600	2,600	2,600	2,600
Total Other Major Projects	13,900	4,400	4,400	4,400
Total Before Special Levies and Boards	212,825	100,956	286,754	159,777
Special Levies & Boards				
CityHousing	2,300	1,500	500	500
Police Services	0	0	0	0
Hamilton Public Library	1,365	0	0	0
Beach Rescue	68	0	45	0
H.C.AWestfield	2,000	2,000	2,000	2,000
Total Special Levies & Boards	5,733	3,500	2,545	2,500
Total Funded Projects	218,558	104,456	289,299	162,277

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The 2017 Tax Supported Capital Budget provides \$289.3 M in funding compared to \$218.6 M in the Approved 2016 Tax Supported Capital Budget. The 2017 Tax Supported Capital Budget includes significant commitments to one-time projects.

Alternatives for Consideration – See Page 8

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2017 Tax Supported Capital Budget & Financing Plan in the amount of \$289,299,000, attached as Appendix “A” to Report FCS16089, includes the gross costs and sources of financing. The 2017 Capital Levy of \$106,554,000 will be incorporated into the 2017 Tax Operating Budget, representing a \$7,600,000 increase from 2016 and a 0.95% tax impact on an average residential property.

Some capital projects, especially those that provide new or expanded services, have an impact on operating costs on an ongoing basis once the projects have been completed. The estimated operating impact of the recommended 2017 capital projects is \$2.034 M, which is being recommended to be incorporated into the 2018 Tax Supported Operating Budget for Council’s consideration next year. Staff are also recommending options be investigated to identify savings/efficiencies in an effort to off-set the \$2.034 M impact during the 2018 budget process.

A summary of the Operating Budget Impacts of Capital by project are attached as Appendix “C” to Report FCS16089. The operating costs, by project, are also identified on the “2017 – 2026 Capital Budget Project Lists” and the “Capital Budget Project Detail Sheets” included in the 2017 Tax Supported Capital Budget Book 2.

The Discretionary Tax Supported Net Capital Funding Forecast 2017 – 2026, attached as Appendix “B” to Report FCS16089, provides a forecast of discretionary capital funding for years 2018 to 2026. The forecast assumes a 0.5% tax increase or \$4.0 M levy increase for capital annually. In addition to the 0.5% tax increase in years 2017-2026, the forecast includes incremental increases of 0.45% in 2017, 0.39% in 2018 and 0.16% in 2019 to cover the debt charges associated with the City’s share of the Public Transit Infrastructure Fund (PTIF) Program. In total there is \$1.415 billion in discretionary funding for the period 2017 to 2026.

During 2016, the City received a commitment of \$36.49 M in grants from Infrastructure Canada under the PTIF Program. The projects for which the grants were applied for have been incorporated into the 2017 Tax Supported Capital Budget and Financing Plan. Table 3 below provides a list of projects with funding from the PTIF program and the funding source for the City’s share.

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Table 3					
Projects with Public Transit Infrastructure Funding					
(\$000's)					
Proj. ID	Project	Gross Cost	Funding		
			PTIF Grant	Dev Charges	Debt
5301785701	Transit Maintenance and Storage Facility	28,650	14,325	7,162	7,163
5301783700	HSR Bus Expansion Program	10,380	5,190	-	5,190
5301785602	Transit Shelter Expansion and Rehabilitation Project	7,043	3,522	-	3,521
5301784710	Automated Passenger Counters	4,300	2,150	-	2,150
5301755700	Transit Priority Measures	3,850	1,925	-	1,925
5301749701	Transit Capital Infrastructure	3,300	1,650	-	1,650
5301751500	Replace Transit Fleet Bus Hoists	3,025	1,512	-	1,513
5301785704	Sustainable Network Connections	3,025	1,512	-	1,513
5301784700	Radio Equipment Replacement	3,000	1,500	-	1,500
5301751701	HVAC Upgrades - 2200 Upper James	2,200	1,100	-	1,100
5301785708	Customer Service Software	1,605	803	-	802
5301749700	Garage Door Replacement at 2200 Upper James (MTC)	1,320	660	-	660
5301785700	Bus Wash Rack Replacement	880	440	-	440
5301783701	Nonrevenue Vehicle Expansion to Accommodate Growth	400	200	-	200
	Total	72,978	36,489	7,162	29,327

Staffing: The operating budget and FTE impacts related to approved PTIF projects (Report FCS16083) of \$2.75 M and 29.0 FTE’s have been incorporated in the 2017 Preliminary Tax Supported Operating Budget. For all other proposed Capital, the staffing impacts of an additional 13.02 full time equivalent (FTE) of the 2017 Tax Supported Capital Budget are identified in Appendix “C” to Report FCS16089.

Legal: N/A

HISTORICAL BACKGROUND

The City of Hamilton employs a hybrid Capital Block Funding Prioritization methodology which over the years has evolved, aligning with the City’s Corporate Strategic Plan. This has been accomplished by senior staff in all program areas endorsing a corporate Capital funding program focused on financial sustainability. This process ensures stable long-term capital funding for hard infrastructure program areas (roads, facilities) which facilitates effective costing and priority planning outcomes.

The process for the 2017 Tax Supported Capital Budget was as follows:

Staff determined the discretionary funding available from the most current information available. Discretionary funds are those funds that could be directed to any Capital program area. This would not include specific use reserve funds (i.e. Development Charges, Fleet, Transit, etc.) or any other specific use funding. Staff met in the second

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and third quarters of 2016 to determine needs and create funding strategies based on those needs versus financial constraints. Quantitative Block Funding strategies were based on historical funding averages, masterplan requirements and subsidy eligibility. Capital projects receiving significant subsidy and/or approved by Council prior to Capital Budget deadlines receive priority in the Block Funding process.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

The 2017 Tax Supported Capital Budget is prepared from submissions from departments and consultation with departments.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The 2017 Tax Supported Capital Budget & Financing Plan in the amount of \$289,299,000, attached as Appendix "A" to Report FCS16089, includes the gross costs and sources of financing.

Staff are recommending a 2017 Capital Levy of \$106.554 M representing an increase of \$7.60 M over the 2016 restated Capital Levy of \$98.954 M in the Tax Supported Operating Budget. The increase of \$7.60 M represents a 0.95% increase to the tax impact of the City's Preliminary 2017 Tax Supported Operating Budget which equates to an increase of \$31 on an average residential property. Of the 0.95% Property Tax increase, 0.45% supports the debt charges associated with the City's share of Capital Levy Funding required for PTIF Capital Investments.

Funding from Reserves of \$50.9 M is provided in Appendix "D" to Report FCS16089. The remaining sources of financing the 2017 Gross Tax Supported Capital Budget are summarized in Appendix "A" to Report FCS16089.

Staff have submitted a number of projects that are not included in the 2017 Tax Supported Capital Budget and Financing Plan. A list of these projects is included in 2017 Tax Supported Capital Budget Book 1 which will be available prior to the General Issues Committee meeting on November 25, 2016. This list includes four projects that were referred to the 2017 Capital Budget Process as follows:

1. Internal Audit Management Action Plan for Information Technology funding at a cost of \$340,000
2. Fallen Firefighter's Memorial funding at a cost of \$1,700,000
3. Traffic Island Beatification Program funding at a cost of \$760,000

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4. Renovating Ownership and Privately Owned Rental Units at a cost of \$1,750,000

ALTERNATIVES FOR CONSIDERATION

One alternative to the recommended 2017 Tax Supported Capital Budget is to eliminate the incremental 0.45% increase to the 2017 Operating Budget Capital Levy used to fund PTIF projects. This would result in a decrease of \$3.6 M to the tax levy.

The additional 0.45% Property Tax Increase is to fund the debt charges associated with the City's share of Capital Levy Funding required for PTIF Capital Investments. The total cost of the Public Transit Capital submissions is \$72,978,408 with the City's share amounting to \$36,489,204 (net discretionary impact of \$29.3 M). This Capital Funding requirement was not included in the previous year's Capital Funding forecast and without additional Capital Levy funding (over and above the 0.5 percent funding strategy) the City's Tax Supported Debt Capacity would be significantly impacted. The 0.45% Property Tax increase supports the \$3.6 M (\$15 annual Property Tax Increase for an average household) in debt charges associated with the increased Transit Capital request.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Clean and Green

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Culture and Diversity

Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

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APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS16089 – 2017 Tax Capital Budget & Financing Plan

Appendix "B" to Report FCS16089 – Discretionary Tax Supported Net Capital Funding 2017 – 2026 Forecast

Appendix "C" to Report FCS16089 – 2017 Tax Capital Budget Operating Budget & FTE Impact for Projects included in the Financing Plan

Appendix "D" to Report FCS16089 – 2017 Tax Capital Budget Proposed Reserve Funding by Reserve and Project

Appendix "E" to Report FCS16089 – 2017 Tax Capital Budget W.I.P. Funding

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