



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

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	November 24, 2017
SUBJECT/REPORT NO:	2018 Tax Supported Capital Budget (FCS17099) (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 2018 Tax Supported Capital Levy in the amount of \$110,454,000 be approved;
- (b) That the 2018 Tax Supported Capital Budget and Financing Plan in the amount of \$236,028,000, attached as Appendix “A” to Report FCS17099, be approved;
- (c) That the Tax Supported Discretionary Net Capital Funding Forecast 2018 – 2027, attached as Appendix “B” to Report FCS17099, which assumes:
 - (i) a 0.5% Residential Property Tax increase in each year from 2019 to 2021;
 - (ii) an additional Property Tax increase of 0.66% in 2019 , 0.61% in 2020 and 0.27% in 2021 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, in principle, and re-visited by Council each budget year;

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- (d) That the operating and Full Time Equivalent (FTE) impacts of the Gage Park Tropical House (4451451004), in the amount of \$65,000 and 0.67 FTE, included in Appendix “C” to Report FCS17099 be incorporated into the 2018 Tax Supported Operating Budget, subject to approval of the 2018 Tax Supported Capital Budget funding of Gage Park Tropical House;
- (e) That the operating budget and FTE impacts of the 2018 Tax Supported Capital Budget, estimated to be \$2,206,990 and 15.77 FTEs, attached as Appendix “C” to Report FCS17099, be incorporated into the 2019, or future, Tax Supported Operating Budgets;
- (f) That the reserve funding included in the 2018 Tax Supported Capital Budget totalling \$48,342,000 attached as Appendix “D” to Report FCS17099, be approved;
- (g) That funding from previously approved projects (WIP’s) included in the 2018 Tax Capital Budget totalling \$13,173,000, as attached in Appendix “E” to Report FCS17099, be approved and any relevant projects be referred to the Capital Project Work-in-Progress Sub-Committee for closure;
- (h) That the General Manager, Finance and Corporate Services be authorized to negotiate the terms and placement of a debenture issue(s), and/or private placement debenture issue(s), and/or bank loan agreement and debenture issue(s), and/or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$21,844,000 related to the 2018 Tax Supported Capital Budget, as attached in Appendix “A” to Report FCS17099, which includes \$13,790,000 in Tax Supported debt and \$8,054,000 in Development Charges Tax Supported debt;
- (i) That the General Manager, Finance and Corporate Services be authorized to negotiate the terms and placement of a debenture issue(s), and/or private placement debenture issue(s), and/or bank loan agreement and debenture issue(s), and/or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$42,137,000 related to the 2018 Rate Supported Capital Budget, as attached in Appendix “G” to Report FCS17099, which includes \$16,615,000 in Rate Supported debt and \$25,522,000 in Development Charges Rate Supported debt;
- (j) That the General Manager, Finance and Corporate Services and Mayor be authorized to negotiate and execute all required documentation satisfactory to the City Solicitor to secure the terms and issuance of a debenture issue(s), and/or private placement debenture issue(s), and/or bank loan agreement and debenture issue(s), and/or variable interest rate bank loan agreement and debenture issue(s); and to engage the services of a fiscal agent(s), and/or Infrastructure Ontario’s Loan Program, and outside legal counsel; and to enter into all agreements necessary, including Letter(s) of Representation with The Canadian Depository for Securities Limited;

- (k) That a By-Law(s) be passed authorizing the debenture issue(s), and/or private placement debenture issue(s), and/or bank loan agreement and debenture issue(s), and/or variable interest rate bank loan agreement and debenture issue(s), as negotiated and placed in accordance with recommendation (h) and (i) above.

- (l) That the Erosion Leachate-Rennie Brampton project (5120392305) in the amount of \$913,000 be funded from the Working Capital Reserve.

EXECUTIVE SUMMARY

Report FCS17099 provides the multi-year budget recommendations required to approve the 2018 Tax Supported Capital Budget. The complete details of the capital budget are provided in the “2018 Tax Supported Capital Budget” books 1 and 2 which are distributed under separate cover.

The 2018 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 FCS17099 and the Table 1 reflect a capital levy tax increase in the Tax Supported Operating Budget of \$7,500,000 that translates into an average residential property tax increase of 0.9%.

The recommended 0.9% capital levy tax increase represents an increase of \$30 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 0.4% is required to fund the debt charges in the 2018 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 Ministry of Transportation Ontario will provide \$36,489,204 and the City will fund \$36,489,204 (\$29,327,000 Net of development charges) for PTIF projects totalling \$72,978,408. External debt of \$29,327,000 to be issued in future years when construction is completed, results in annual debt charges of \$3,400,000 over 10 years.

The recommended 2018 Tax Supported Capital Levy of \$110,454,000 and the split between debt charges and transfer from operating to capital is reflected in Table 1.

Table 1

CAPITAL BUDGET IMPACT ON OPERATING BUDGET				
(\$000's)				
	2017 APPROVED	2018 PROPOSED	CHANGE	
			\$	%
Debt Charges	52,091	42,487	(9,604)	(18.4)
Transfer from Operating	50,863	67,967	17,104	33.6
Total Impact	102,954	110,454	7,500	7.3
Impact on Average Residential Property Tax 0.9% (\$30)				

Table 2 of Report FCS17099 provides a summary of the proposed 2018 Tax Supported Capital Budget by program area with a comparison to the Approved 2017 Tax Supported Capital Budget.

The 2018 Tax Supported Capital Budget provides \$236,028,000 in funding compared to \$289,404,000 in the Approved 2017 Tax Supported Capital Budget. The 2017 Tax Supported Capital Budget had a greater dollar amount due to Public Transit Infrastructure related projects.

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Table 2

2018 PROPOSED TAX SUPPORTED CAPITAL BUDGET (\$000's)				
	2017 APPROVED		2018 PROPOSED	
	GROSS	NET	GROSS	NET
Proposed Program Funding	\$	\$	\$	\$
Recreation Facilities	14,482	8,620	10,596	4,624
Corporate Facilities	4,960	4,450	16,217	4,507
Entertainment Facilities	1,590	800	7,000	1,300
Forestry & Horticulture (Includes Tree Planting)	1,550	1,345	1,742	1,345
Open Space Development	10,505	3,018	7,768	3,241
Waste Management	8,959	7,862	4,556	4,556
Transit Services	90,713	33,027	19,408	4,820
Corporate Fleet Services	7,895	-	7,739	-
Parks & Cemeteries	1,590	1,138	1,590	1,138
Roads / Bridges / Sidewalk / Street Lighting / Traffic	82,532	55,019	82,375	55,202
West Harbour & Waterfront Initiatives	27,235	27,235	25,790	24,280
Public Health	92	92	-	-
Community Services	167	167	320	-
Housing Services	500	500	11,000	11,000
Long-Term Care Facilities	1,709	500	1,606	500
Emergency Services	7,338	650	8,232	580
Corporate Services / City Manager	5,786	4,540	7,455	5,983
Area Rating (Ward 1-8)	2,053	-	870	-
Planning & Development	7,336	1,053	4,611	130
Tourism & Culture	1,852	1,852	1,702	1,702
Downtowns & Commercial Districts	2,210	2,210	2,260	2,210
Total Program Funding	281,054	154,078	222,837	127,118
Other Major Projects				
Parkland Acquisition	-	-	-	-
Randle Reef	300	300	375	375
Emerald Ash Borer Program	2,600	2,600	2,600	2,600
Total Other Major Projects	2,900	2,900	2,975	2,975
Total Before Special Levies and Boards	283,954	156,978	225,812	130,093
Special Levies & Boards				
CityHousing	500	500	500	500
Police Services	-	-	1,330	1,330
Hamilton Public Library	2,905	1,136	6,344	2,260
Beach Rescue	45	-	42	-
H.C.A\Confederation Park\Westfield	2,000	2,000	2,000	2,000
Total Special Levies & Boards	5,450	3,636	10,216	6,090
Total Funded Projects	289,404	160,614	236,028	136,183

Alternatives for Consideration – See Page 10

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2018 Tax Supported Capital Budget & Financing Plan in the amount of \$236,028,000 attached as Appendix “A” to Report FCS17099, includes the gross costs and sources of financing. The 2018 Capital Levy of \$110,454,000 will be incorporated into the 2018 Tax Operating Budget, representing a \$7,500,000 increase from 2017 and a 0.9% 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 2018 capital projects is \$2,271,990 which includes \$65,000 for 2018 and \$2,206,990 for 2019-2020 as per Appendix “C” to Report FCS17099. The \$2,206,990 in operating impact is recommended to be incorporated into the 2019, or future, Tax Supported Operating Budgets for Council’s consideration next year.

A summary of the Operating Budget Impacts of Capital by project are attached as Appendix “C” to Report FCS17099. The operating costs, by project, are also identified on the “2018 – 2027 Capital Budget Project Lists” and the “Capital Budget Project Detail Sheets” included in the 2018 Tax Supported Capital Budget Book 2.

The Discretionary Tax Supported Net Capital Funding Forecast 2018 – 2027, attached as Appendix “B” to Report FCS17099, provides a forecast of discretionary capital funding for years 2018 to 2027. The forecast assumes a 0.5% tax increase or \$4,100,000 levy increase for capital in 2018. In addition to the 0.5% tax increase in years 2018-2027, the forecast includes incremental increases of 0.4% in 2018, 0.66% in 2019, 0.61% in 2020 and 0.27% in 2021 to cover the debt charges associated with the City’s share of the Public Transit Infrastructure Fund (PTIF) Program. In total there is \$1,233,388 in discretionary funding for the period 2018 to 2027.

In order to accommodate growing capital spending requirements, a total of \$21,844,000 has been allocated to debt financing in the 2018 Tax Capital Budget. This, amount includes \$13,790,000 in Tax Supported debt and \$8,054,000 in Development Charges Tax Supported debt.

In addition, total proposed 2018 Rate Supported debt amounts to \$42,137,000, which consists of \$16,615,000 Rate Supported debt and \$25,522,000 in Development Charges Rate Supported debt.

Staffing: The operating budget and FTE impacts related to the proposed 2018 Tax Supported Capital Budget totals \$2,271,990 and 16.44 FTE which includes \$65,000 and 0.67 FTE for 2018 and \$2,206,990 and 15.77 FTE for 2019 – 2020 as identified in Appendix “C” to Report FCS17099.

Legal: N/A

HISTORICAL BACKGROUND

The City of Hamilton employs a hybrid Capital Block Funding Prioritization methodology to allocate sources of revenue to capital projects 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 prudent financial management. As part of newly proposed Bill 6, Infrastructure for Jobs and Prosperity Act, the City's Asset Management Team has identified a number of assets across the City that require funding in order to preserve the average grade. Upon reviewing the financial position of current funding sources Staff concludes that existing funding is unsustainable to facilitate the proposed capital upgrades. The process for the 2018 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 and third quarters of 2017 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.

Under direction from the Council, the City's Staff are in a process of implementing a multi-year capital budget. This approach to business planning enables the City to respond to political, economic, social and environmental conditions. The capital budget process maintains a 10 Year outlook with the focus on the first 4 years, 2018-2021.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Report FCS17099 meets the requirements of the City of Hamilton's Debt Policy, whereby Council authority is required to issue debt.

The 2018 Recommended Tax Budget (Report FCS17099) supports the principle of a tax levy system. The City's Multi-Year Business Planning and Budget Policy has guided the recommendations in Report FCS17099 as follows:

- Tax Capital Budgets for a four-year period (2018 to 2021) comprised of a one-year period for approved and a three-year forecast plan be adopted plus a further six-year forecast (2022 to 2027) be received for information.

Asset management regulations under *Bill 6, Infrastructure for Jobs and Prosperity Act, 2015* are being considered for adoption by the Province in January 2018. The Tax Capital Budget forecasts in Report FCS17099 are based on the best available information as the impact of these asset management regulations is not fully known.

RELEVANT CONSULTATION

The 2018 Tax Supported Capital Budget is prepared from submissions from departments and consultation with departments.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The 2018 Tax Supported Capital Budget & Financing Plan in the amount of \$236,028,000, attached as Appendix “A” to Report FCS17099, includes the gross costs and sources of financing.

Staff are recommending a 2018 Capital Levy of \$110,454,000 representing an increase of \$7,500,000 over the 2017 Capital Levy of \$102,954,000 in the Tax Supported Operating Budget. The increase of \$7,500,000 represents a 0.9% increase to the tax impact of the City’s Preliminary 2018 Tax Supported Operating Budget which equates to an increase of \$30 on an average residential property. Of the 0.9% Property Tax increase, 0.4% supports the debt charges associated with the City’s share of Capital Levy Funding required for PTIF Capital Investments.

Funding from Reserves of \$48,342,000 is provided in Appendix “D” to Report FCS17099. The remaining sources of financing the 2018 Gross Tax Supported Capital Budget are summarized in Appendix “A” to Report FCS17099.

Staff have submitted a number of projects that are not included in the 2018 Tax Supported Capital Budget and Financing Plan. A list of these projects is included in 2018 Tax Supported Capital Budget Book 1 which will be available prior to the General Issues Committee meeting on November 24, 2017.

Council approved a Debt Management Policy and Lease Financing Policy (Report FCS13074) in October 2013, which contains the City-internal goals on debt levels, statutory limits on debt and financial ratios related to debt. These ratios are provided in Appendix “F” to Report FCS17099. Collectively, these financial indicators for the past four years (2012 to 2016) have generally increased, and some are forecasted to

decrease for 2017 and 2018. They will remain well within the affordability range and acceptable levels of prudent financial management.

The debt related financial indicators include the following items:

I. City-internal Goals on Debt Levels:

1. Total tax and rate-supported debt as a percentage of City Own-Source revenues, not to exceed 60%, unless approved by Council.

The City’s debt ratios for 26.7% in 2016, estimated 23% in 2017 and forecasted 23.5% for 2018 are well within the limit, of 60%.

2. Total Development Charge (DC) supported debt as a percentage of the total DC Eligible Costs for the forecast period of the latest DC Background Study, not to exceed 25%, unless approved by Council.

The City considers the limit of 25% to be an appropriate balance between two competing uses of revenues generated by development charges: i) to sustain and ensure adequate infrastructure (capital), services and resources to support the City's growth plans and (ii) to repay the debt issued for development.

The City's debt ratios of 2.3% in 2016 and estimated 2% in 2017 and forecasted 3.7% for 2018 are well within the limit, of 25%.

II. Statutory Limits:

1. The annual debt and financial obligation limit for the City is calculated in accordance with Section 3 of Ontario Regulation 403/02 as amended.
The City's debt service charges as a percentage of City Own Source Revenue of 4.7% in 2016 and estimated 6% in 2017 and forecasted 4.1% for 2018 are well within the limit, of 25%.
2. Outstanding variable interest rate bank loan agreements and variable interest rate debentures, in total, cannot exceed 15% of the total outstanding debt of the City as set out in Ont. Reg. 276/02 s(2).
The City's debt ratios are below the limit at 6.5% for 2016 and forecasted 5% for 2018 are well within the limit, of 15%.

III. Financial ratios

The debt related financial ratios will remain well within the affordability range and acceptable levels of prudent financial management. Appendix "F" to Report FCS17099 provides the results of the following ratios:

- Debt and debt service charges per capita;
- Debt service charges as a percentage of City Own Source Revenue;
- Debt service charges as a percentage of the municipal levy;
- Debt to operating revenues;
- Debt to reserves and reserve funds; and,
- Cash and liquid assets to debt service; cash and liquid assets minus debt.

According to Ontario Regulation 403/02, Council shall, before giving authorization for capital work that would require a long-term debt or financial obligation, have the City Treasurer calculate an updated Annual Repayment Limit (ARL) using the most recent

Annual Repayment Limit determined by the Ministry. The most recent ARL, determined and sent in writing by the Ministry on February 8, 2017 to the City

Treasurer, is the 2017 ARL in the amount of \$260,024,674 and is based on 2015 Financial Information Returns.

Using this 2017 ARL, the City Treasurer has calculated an updated ARL of \$211,528,246, shown in Table 3, below. The 2017 ARL was adjusted for possible debt service charges of \$55,685,842 corresponding to approximately \$578 M of debt which has been approved by Council in 2016 and prior years but not yet issued. The 2017 ARL was then further adjusted for debt service charges assumed or discharged on debt since December 31, 2015 to the end of this fiscal year 2017. According to this calculation, the updated ARL of \$211,528,246 represents a maximum amount which the City has available to commit to payments related to debt and financial obligations before the statutory limit is breached and corresponds to approximately \$2.2 B of additional borrowing which the City could undertake (assuming a 15 year term and 5% interest rate).

Table 3

City Treasurer's Updated 2017 Annual Repayment Limit	
Unadjusted Annual Repayment Limit - effective January 1, 2017, based on December 31, 2015 FIR, calculated by the Ministry of Municipal Affairs	\$260,024,674
Debt service charges on approved debt in 2016 and prior years but not yet issued (\$578 M @ 5% for 15 years)	-\$55,685,842
Annual debt service charges resulting from 2016 debenture issue of \$128.415 M	-\$11,540,946
Debt service charges on debt that has expired in 2016 and in 2017	\$18,730,360
Adjusted 2017 Annual Repayment Limit	\$211,528,246
Debenture amount at 5% interest rate for 15 years term (amortizer) corresponding to annual debt service charges of \$211,528,246	\$2,195,590,860

ALTERNATIVES FOR CONSIDERATION

In 2017, the total cost of the Public Transit Capital submissions totalled \$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% funding strategy) the City’s Tax Supported Debt Capacity would be significantly impacted. The 0.4% Property Tax increase supports the \$3,400,000 (\$14 annual Property Tax Increase for an average household) in debt charges associated with the increased Transit Capital request.

The alternative to the recommended 2018 Tax Supported Capital Budget is to forgo issuing the \$29,327,000 debt required to fund PTIF projects. Alternatively, internal funds could be borrowed from a Reserve with annual repayments made through future Tax Supported Capital Budgets to replenish the original source of funds. This would place an annual pressure of \$3,400,000 on the Tax Supported Capital Budget in addition to what is forecasted in Appendix “B” to Report FCS17099. The additional pressure would need to be accommodated by decreasing the identified block funding for a 10-year period.

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.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS17099 – 2018 Tax Capital Budget & Financing Plan

Appendix “B” to Report FCS17099 – Discretionary Tax Supported Net Capital Funding 2018 – 2027 Forecast

Appendix “C” to Report FCS17099 – 2018 Tax Capital Budget Operating Budget & FTE Impact for Projects included in the Financing Plan

Appendix “D” to Report FCS17099 – 2018 Tax Capital Budget Proposed Reserve Funding by Reserve and Project

Appendix “E” to Report FCS17099 – 2018 Tax Capital Budget WIP Funding

Appendix “F” to Report FCS17099 – City of Hamilton Debt Policy Financial Indicators

Appendix “G” to Report FCS17099 – Water, Wastewater & Storm 2018 Rate and DC Supported Debt