



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

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	December 7, 2018
SUBJECT/REPORT NO:	2019 Tax Supported Capital Budget (FCS18097) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Marcin Zukowski (905) 546-2424 Ext. 2162 Marcel Cerminara (905) 546-2424 Ext. 4371 Joseph Spiler (905) 546-2424 Ext. 4519
SUBMITTED BY:	Brian McMullen Acting General Manager Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the 2019 Tax Supported Capital Levy in the amount of \$116,451,000, be approved;
- (b) That the 2019 Tax Supported Capital Budget and Financing Plan in the amount of \$226,035,000 attached as Appendix “A” to Report FCS18097, be approved;
- (c) That the Tax Supported Discretionary Net Capital Funding Forecast 2019 – 2028, attached as Appendix “B” to Report FCS18097, which assumes
 - (i) a 0.5% Residential Property Tax increase in each year from 2019 to 2028;
 - (ii) an additional Property Tax increase of 0.02% in 2019, 0.27% in 2020, 0.47% in 2021 and 0.47% in 2022 to fund the debt charges associated with the City’s share of Capital Levy Funding required for Public Transit Infrastructure Fund (PTIF) Capital Investments;
 - (iii) an additional Property Tax increase of 0.13% in 2020, 0.04% in 2021, 0.06% in 2023 and 0.25% in 2025 to fund the debt charges associated with the City’s share of Capital Levy Funding required for West Harbour Development;

be approved, in principle, and re-visited by Council each budget year;

- (d) That the operating budget and Full Time Equivalent (FTE) impacts of the 2019 Tax Supported Capital Budget in the amount of \$2,892,490 and 24.24 FTEs, attached as Appendix “C” to Report FCS18097, be incorporated into the 2019, or future, Tax Supported Operating Budgets;
- (e) That the reserve funding included in the 2019 Tax Supported Capital Budget in the amount of \$41,283,000, attached as Appendix “D” to Report FCS18097, be approved;
- (f) That funding from previously approved projects (Work-in-Progress (WIP’s)) included in the 2019 Tax Capital Budget in the amount of \$16,231,000 as attached in Appendix “E” to Report FCS18097, be approved and any relevant projects be referred to the Capital Project Work-in-Progress Sub-Committee for closure;
- (g) That the operating budget impacts related to Digital Office: Smart City and Digital Transformation Project #3381959501, including two temporary FTE’s and associated costs for a period of up to 24 months in the amount of \$200,000 annually be funded from Tax Stabilization Reserve be approved;
- (h) That the requested term extension for temporary complement,
 - (i) including one temporary FTE related to AMANDA Applications Analyst, Project #8121457600 in the amount of \$160,000 annually for a period of up to 24 months, with no impact on the levy, as outlined in Appendix “G” to Report FCS18097, be approved;
 - (ii) including one temporary FTE related to Senior Consultant, West Harbour Disposition Project #4411606002, in the amount of \$144,000 annually, for a period of up to 36 months, with no impact on the levy, as outlined in Appendix “G” to Report FCS18097, be approved;
- (i) That the Acting 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), in either a public or private market 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 \$16,266,000 Canadian currency, as attached in Appendix “A” to Report FCS18097, which includes \$3,975,000 in Tax Supported municipal debt and \$12,291,000 in Development Charges Tax Supported municipal debt,
- (j) i) That the Acting General Manager, Finance and Corporate Services, be authorized to engage the services of all required professionals to secure the terms and issuance of the debenture issue(s) described in subsection (i) including, but not limited to, external legal counsel, fiscal agents and Infrastructure Ontario’s Loan Program;

- ii) That the Acting General Manager, Finance and Corporate Services, Mayor and City Clerk are each authorized and directed to enter into and / or execute, on behalf of the City of Hamilton, all agreements and necessary ancillary documents requiring their respective signatures, to secure the terms and issuance of the debenture issue(s) described in subsections (i), and (j), in a form satisfactory to the City Solicitor;
 - iii) That the Mayor and City Clerk are authorized and directed to enter into and / or execute, on behalf of the City of Hamilton, all agreements and necessary ancillary documents not requiring any specific signing authority, to secure the terms and issuance of the debenture issue(s) described in subsections (i) and (j), in a form satisfactory to the City Solicitor and with content acceptable to the Acting General Manager, Finance and Corporate Services;
- (k) That all necessary By-Law(s) be passed to authorize the debenture issue(s) negotiated placed and secured in accordance with subsections (i) and (j).

EXECUTIVE SUMMARY

Report FCS18097 provides the multi-year budget recommendations required to approve the 2019 Tax Supported Capital Budget. The complete details of the capital budget are provided in the “2019 Tax Supported Capital Budget” Books 1 and 2 which are distributed under separate cover.

The 2019 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 FCS18097 and Table 1 reflect a capital levy tax increase in the Tax Supported Operating Budget of \$4,357,000 that translates into an average residential property tax increase of 0.52% or \$18 for an average assessed house. The proposed tax increase consists of 0.5% (\$4,200,000) for the standard annual tax supported capital levy and additional 0.02% (\$157,000) tax supported capital levy related to Public Transit Infrastructure Fund Phase (PTIF) projects.

Historically, the capital levy tax increase has been 0.5% with exceptions in some years. In 2018, there were two additional tax increases of:

- 0.4% or \$3,400,000 required to fund the debt charges related to Public Transit Infrastructure Fund (PTIF) projects, as detailed in Report FCS16083; and
- 0.2% or \$1,640,000 required to fund \$19M Road Infrastructure projects as approved by Council at its meeting on March 8, 2018 in Report 18-003.

The recommended 2019 Tax Supported Capital Levy of \$116,451,000 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)				
	2018	2019	CHANGE	
	Restated	PROPOSED	\$	%
Debt Charges	44,060	46,148	2,088	4.7
Transfer from Operating	68,034	70,303	2,269	3.3
Total Impact	112,094	116,451	4,357	3.9
Impact on Average Residential Property Tax 0.52% (\$18)				

Table 2 of Report FCS18097 provides a summary of the proposed 2019 Tax Supported Capital Budget by program area with a comparison to the Restated 2018 Tax Supported Capital Budget.

The 2019 Tax Supported Capital Budget provides \$226,035,000 in funding compared to \$257,924,000 of restated 2018 Tax Supported Capital Budget. The 2018 Tax Supported Capital Budget had a greater gross budget primarily due to projects for West Harbour, Corporate Facilities, Entertainment Facilities, Roads and Hamilton Public Library.

Table 2

2019 PROPOSED TAX SUPPORTED CAPITAL BUDGET (\$000's)				
	2018 RESTATED		2019 PROPOSED	
	<u>GROSS</u>	<u>NET</u>	<u>GROSS</u>	<u>NET</u>
<u>Proposed Program Funding</u>	\$	\$	\$	\$
Recreation Facilities	10,169	4,624	10,293	4,616
Corporate Facilities / Energy Initiatives	18,217	6,507	5,902	4,860
Entertainment Facilities	7,000	1,300	2,839	800
Forestry & Horticulture (Includes Tree Planting)	1,742	1,345	1,895	1,345
Open Space Development	7,868	3,241	8,333	3,398
Waste Management	4,556	4,556	3,712	3,468
Transit Services	19,408	4,820	24,250	5,111
Corporate Fleet Services	7,739	-	10,125	-
Parks & Cemeteries	1,590	1,138	2,625	1,658
Roads / Bridges / Sidewalk / Street Lighting / Traffic	102,075	55,202	96,692	56,215
West Harbour & Waterfront Initiatives	25,790	24,280	8,210	8,210
Healthy and Safe Communities-	320	-	553	318
Housing Services	11,000	11,000	7,500	7,500
Long-Term Care Facilities	1,606	500	1,435	500
Emergency Services	8,482	580	10,689	982
Corporate Services / City Manager	7,455	5,983	10,597	9,976
Area Rating (Ward 1-8)	870	-	0	-
Planning & Development	4,664	130	6,711	1,398
Tourism & Culture	1,702	1,702	2,294	1,702
Downtowns & Commercial Districts	2,260	2,210	2,210	2,210
Total Program Funding	244,513	129,118	216,865	114,267
<u>Other Major Projects</u>				
Parkland Acquisition	-	-	1,500	1,500
Randle Reef	375	375	375	375
Emerald Ash Borer Program	2,600	2,600	2,600	2,600
Total Other Major Projects	2,975	2,975	4,475	4,475
Total Before Special Levies and Boards	247,488	132,093	221,340	118,742
<u>Special Levies & Boards</u>				
CityHousing	500	500	500	500
Police Services	1,550	-	400	400
Hamilton Public Library	6,344	2,260	1,725	720
Beach Rescue	42	-	70	-
Hamilton Conservation Authority / Westfield	2,000	2,000	2,000	2,000
Total Special Levies & Boards	10,436	4,760	4,695	3,620
Total Funded Projects	257,924	136,853	226,035	122,362

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Alternatives for Consideration – See Page 11

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2019 Tax Supported Capital Budget & Financing Plan in the amount of \$226,035,000 attached as Appendix “A” to Report FCS18097, includes the gross costs and sources of financing. The 2019 Capital Levy of \$116,451,000 will be incorporated into the 2019 Tax Operating Budget, representing a \$4,357,000 increase from 2018 and a 0.52% 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 budget impacts of the recommended 2019 capital projects is \$2,742,490. The \$2,742,490 in operating impact is recommended to be incorporated into the 2019, or future, Tax Supported Operating Budgets for Council’s consideration.

A summary of the Operating Budget Impacts of Capital by project are attached as Appendix “C” to Report FCS18097. The operating costs, by project, are also identified on the “2019 – 2028 Capital Budget Project Lists” and on the “Capital Budget Project Detail Sheets” included in the 2019 Tax Supported Capital Budget Book 2.

The Discretionary Tax Supported Net Capital Funding Forecast 2019 – 2028, attached as Appendix “B” to Report FCS18097, provides a forecast of discretionary capital funding for years 2019-2028 in the total amount of \$1,657,947,000. The 2019-2028 forecast assumes a 0.50% standard tax levy increase and additional 0.02% in 2019, 0.4% in 2020, 0.51% in 2021, 0.47% in 2022, 0.06% in 2023 and 0.25% in 2025. The 0.52% tax increase equates to \$4,357,000 levy increase for capital in 2019.

In order to accommodate growing capital spending requirements, a total of \$16,266,000 has been allocated to debt financing in the 2019 Tax Capital Budget. This, amount includes \$3,975,000 in Tax Supported debt and \$12,291,000 in Development Charges Tax Supported debt.

In light of changes to the ward boundaries and the new council taking office on December 1, 2018, the 2019 Tax Supported Tax Budget does not include funding for Special Capital Reinvestment Area Rating projects. Special Capital Reinvestment Discretionary Fund projects have not been funded for the traditional \$100,000 per ward for a total of \$800,000 in total due to changes in the ward boundaries.

Contract extension for two temporary FTE positions AMANDA Applications Analyst, project #8121457600, and Senior Consultant, West Harbour Disposition, project #4411606002, have been requested as outlined in Appendix “G” to Report FCS18097.

Major Capital Initiatives

Public Transit Infrastructure Fund:

The Tax Supported Capital 2019-2028 forecast, includes \$250M gross capital cost related to the Transit Maintenance and Storage Facility (MSF). Phase 1 (design, due-diligence, demolition and site preparation) was approved in 2017 as part of Public Transit Infrastructure Fund (PTIF) funding. Phase 2 of the project is forecasted for 2020 or beyond, pending further PTIF funding from other levels of government. The capital budget submission of \$250,000,000 for Phase 2 is anticipated to be put forward for Council’s consideration as part of the 2020 Budget Submission with the City’s contribution to be determined. Associated operating costs of \$5,063,000 and 19 FTE’s will also be incorporated into the 2020 Tax Supported Capital Budget submission related to the Transit MSF.

The 2019 Tax Supported Capital Budget assumes funding from senior levels of government of 73% of the eligible costs for PTIF2 projects with the net cost primarily funded from debt of \$81,300,000 from 2019 to 2022. There may be a risk of the assumed subsidy of 73% to be lower. Any reduction in the subsidy rate would increase the amount the City would have to fund from debt. For the Transit MSF facility, every \$10,000,000 in reduced subsidy would require an annual increase of \$1,300,000 for 10 years in City debt charges or approximately a 0.15% Capital levy increase.

West-Harbour Waterfront Strategic Initiatives:

Since the initial West Harbour cost estimates were based on high-level conceptual designs and did not include cost indexing, the 2019 Capital Budget and budget forecast for future years includes costing adjustments based on detailed design specifications, projects that were not identified in the original plan and current year pricing estimates with respective financial indexing. The effect of which is a substantial increase in the overall cost projections.

Table 3 to Report FCS18097 provides a summary of the proposed tax levy increases for 2019-2025 related to additional new debt required to accommodate increased capital requirements for Public Transit Infrastructure Fund (PTIF) Capital Investments and West Harbour Waterfront Strategic Initiatives.

Table 3
Major Capital Initiatives
Potential Residential Tax Impacts to Capital Levy %

	2019	2020	2021	2022	2023	2024	2025
West-Harbour Waterfront							
Strategic Initiatives	0.00	0.13	0.04	0.00	0.06		0.25
Public Transit							
Infrastructure Fund (PTIF)	<u>0.02</u>	<u>0.27</u>	<u>0.47</u>	<u>0.47</u>			
Total Additional Levy Impact	0.02	0.40	0.51	0.47	0.06	0.00	0.25
Annual Capital Levy	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>
Grand Total	0.52	0.90	1.01	0.97	0.56	0.50	0.75

Details of other major capital investments including growth related projects will be provided in 2019 Tax Capital Budget Books 1 and 2 and during presentations to the General Issues Committee.

Staffing: The operating budget and FTE impacts related to the proposed 2019 Tax Supported Capital Budget totals \$2,742,490 and 24.244FTE as identified in Appendix “C” to Report FCS18097.

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 approved Ontario Regulation 588/17 of the *Infrastructure for Jobs and Prosperity Act* (Bill 6), 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 2019 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. 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.

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Under direction from the Council, the City's staff is 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 four years, 2019-2022.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Report FCS18097 meets the requirements of the City of Hamilton's Debt Policy, whereby Council authority is required to issue debt.

Asset management regulation O. Reg. 588/17 under the *Infrastructure for Jobs and Prosperity Act, 2015* (Bill 6) came into effect on January 1, 2018. The regulation requires development and adoption of a strategic asset management policy by July 1, 2019. The Tax Capital Budget forecasts in Report FCS18097 are based on the best available information as the impact of these asset management regulations is not fully known.

RELEVANT CONSULTATION

The 2019 Tax Supported Capital Budget is prepared from submissions from departments and consultation with all departments / program areas.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The 2019 Tax Supported Capital Budget & Financing Plan in the amount of \$226,035,000, attached as Appendix "A" to Report FCS18097, includes the gross costs and sources of financing.

Staff are recommending a 2019 Capital Levy of \$116,451,000 representing an increase of \$4,357,000 over the 2018 Capital Levy of \$112,094,000 in the Tax Supported Operating Budget. The increase of \$4,357,000 represents a 0.52% increase to the tax impact of the City's Preliminary 2019 Tax Supported Operating Budget which equates to an increase of \$18 on an average residential property.

Funding from Reserves of \$41,283,000 is provided in Appendix "D" to Report FCS18097. The remaining sources of financing the 2019 Gross Tax Supported Capital Budget are summarized in Appendix "A" to Report FCS18097.

Staff have submitted a number of projects that are not included in the 2019 Tax Supported Capital Budget and Financing Plan. A list of these projects is included in 2019 Tax Supported Capital Budget Book 1 which will be available prior to the General Issues Committee meeting on December 7, 2018.

Debt Management

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 FCS18087. Staff will ensure these ratios 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 23.2% in 2017, forecasted 29% in 2018 and forecasted 24.1% for 2019 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 2.0% in 2017 and forecasted 1.4% in 2018 and forecasted 2.0% for 2019 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 5.1% in 2017 and forecasted 4.7% in 2018 and forecasted 5.5% for 2019 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 6.1% for 2017 and forecasted 4.8% 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 FCS18097 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 to the City Treasurer, is the 2018 ARL in the amount of \$267,321,748 and is based on 2016 Financial Information Returns.

Using this 2018 ARL, the City Treasurer has calculated an updated ARL of \$204,747,217, shown on page two of Appendix “F” to FCS18087. The 2018 ARL was adjusted for possible debt service charges of \$50,965,070 corresponding to approximately \$529,000,000 of debt which has been approved by Council in 2018 and prior years but not yet issued. The 2018 ARL was then further adjusted for debt service charges assumed or discharged on debt since December 31, 2016 to the end of this fiscal year 2018. According to this calculation, the updated ARL of \$204,747,217 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 \$2,100,000,000 of additional borrowing which the City could undertake (assuming a 15-year term and 5% interest rate).

ALTERNATIVES FOR CONSIDERATION

Beyond the recommended rate increase, staff can direct changes to this budget submission albeit any changes, in all likelihood, would require a review of the 2019 Capital Budget submissions.

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.

Healthy and Safe Communities

Hamilton is a safe and supportive city where people are active, healthy, and have a high quality of life.

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.

Our People and Performance

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

APPENDICES AND SCHEDULES ATTACHED

Appendix “A – 2019 Tax Capital Budget Project List

Appendix “B” – Discretionary Tax Supported Net Capital Funding 2019 – 2028 Forecast

Appendix “C” – 2019 Tax Capital Budget Operating Budget and FTE Impact for Projects included in the Financing Plan

Appendix “D” – 2019 Tax Capital Budget Reserve Funding by Reserve and Project

Appendix “E” – 2019 Tax Capital Budget WIP Funding

Appendix “F” – City of Hamilton Debt Policy Ratios

Appendix “G” – Complement Transfer

MZ/MC/JC/dt