INFORMATION REPORT

TO:	Chair and Members General Issues Committee
COMMITTEE DATE:	June 16, 2021
SUBJECT/REPORT NO:	2022-2024 Multi-Year Outlook and Capital Financing Plan Update (FCS21057) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky (905) 546-2424 Ext. 1335 Duncan Robertson (905) 546-2424 Ext. 4744
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

COUNCIL DIRECTION

Not Applicable.

INFORMATION

Executive Summary

The 2022 budget process has begun internally for programs, services and capital infrastructure investments for the City of Hamilton's Tax Supported Operating and Capital Budgets, as well as, programs, services and capital infrastructure investments of the Rate Supported Operating and Capital Budgets. The purpose of Report FCS21057 is to provide information regarding the process and a preliminary estimate of the pressures the City is facing for 2022.

The 2022 budget outlook has been updated with the most current information available. There are still many unknown variables related to the impact of COVID-19 on municipal service delivery in 2022 and whether there will be additional support payments from senior levels of government to mitigate these pressures. The Senior Leadership Team is working on a recovery plan that will appear before Council in the summer. Staff will continue to monitor the impacts of COVID-19 while preparing the 2022 Tax Operating Budget and

review all City provided services in an effort to generate efficiencies, improve revenues and reduce costs.
In recent years, staff has been directed to work towards full cost recovery for user fees in program areas where it is reasonable to expect that users can afford to pay. This will again be a focus in the 2022 Budget to help reduce financial pressures on the tax base and to ensure continuity of essential services.

The preliminary outlook for the 2022 Tax Supported Budget is an estimated 3.6% total average residential tax increase and the preliminary outlook for the 2022 Rate Supported Budget is a 4.05% average rate increase. Staff will continue to update and revise estimates throughout the budget process as more information comes available and efficiencies can be generated.

There are many financial challenges in the multi-year outlook to consider in the development of the annual budget and Capital Financing Plan. Report FCS21057 provides background information on several constraints faced by the City and strategic priorities that are underway in the short to medium term. While some have been provided for in the existing Multi-Year Outlook and Capital Financing Plan, others may require additional resources or re-prioritization of existing financial planning. These include:

- COVID-19 economic recovery;
- Debt capacity;
- Leveraging of reserves;
- Forecasted increase in inflation for municipal goods and services;
- Forecasted growth; and
- Advancing the term of Council priorities.

Budget Direction

Staff will be preparing the preliminary 2022 Budget and the corresponding Multi-Year Outlook and Capital Financing Plan in accordance with the principles outlined in the "Budget Principles" section below. Staff will prepare the preliminary budget at an increase required to maintain existing levels of service, as well as, recommend business cases that advance the Term of Council priorities, in alignment with the 2016-2025 Strategic Plan and other corporate initiatives. This will be done in consideration of the overall impact on tax and water rates, recognizing the financial impact the global pandemic has had on residents and businesses in the community.

There are still many unknown variables related to the impact of COVID-19 on municipal service delivery in 2021 and the impact of these variables on future years. Staff is monitoring the impacts of COVID-19 and the recovery plan while preparing the 2022 Tax Operating Budget and will continue to review all City provided services in an effort to generate efficiencies and reduce costs.

A transfer of $20.3 M from the 2020 operating budget surplus to the COVID-19 Emergency Reserve (Reserve #110053) was approved as part of the year-end disposition, through Report FCS20069(b), for the purposes of funding ongoing pressures related to economic recovery and resumption of services beyond the funding commitments made by senior levels of government to the end of 2021.

At this time, staff is not seeking a recommended budget direction for the preparation of the 2022 budget from City Council but will come forward with a recommendation report in the fall for consideration once the ongoing financial pressures, in relation to the pandemic, are better known.

2022 Budget Process Timeline

The Rate Operating and Capital Budgets and Tax Capital Budget are scheduled to be deliberated on November 21, 2021 and November 26, 2021, respectively. The Tax Supported Operating Budget deliberations (which sets the tax increase) will commence in January 2022 with an expected approval in March 2022. All budgets will be deliberated at meetings of the General Issues Committee and a detailed budget schedule will be provided in the recommendation report coming forward in the fall of 2021.

Budget Principles

Staff will begin preliminary preparations of the 2022 budget and 2023-2025 Multi-Year Outlook in accordance with the following principles:

- The annual budget reflects and supports the 2016-2025 Strategic Plan and Term of Council Priorities;
- The annual budget is aligned with the financial policies approved by Council;
- The City's strong financial position and prudent financial management of debt is prioritized to ensure the City's AA+ credit rating is maintained;
- All growth-related infrastructure costs that can be recovered under the *Development Charges Act, 1997* will be supported from development charge revenue, including dedicated development charge exemption funding for Council approved exemptions and interim financed through debt or reserves, as necessary;
- The annual budget accounts for the investment required to maintain infrastructure in a state-of-good-repair in accordance with the Strategic Asset Management Policy and the Asset Management Plan;
- All grants available to municipalities will be investigated;
- Reserves are maintained per policy in order to repair / replace infrastructure, fund identified priorities and ensure long-term sustainability;
- Use of the Tax Operating Budget Capital Levy is maximized and debt capacity is leveraged to finance capital infrastructure projects in order to limit the impact on taxpayers;
- Total tax and rate supported debt as a percentage of City own-source revenues does not exceed 60% unless approved by Council;

- Total development charge supported debt as a percentage of the total development charge eligible costs for the forecast period of the latest Development Charge Background Study does not exceed 25% unless approved by Council;
- Ongoing expenses are funded from sustainable revenue sources to ensure continuity of services;
- COVID-19 related financial pressures in 2022 will be offset by either federal or provincial funding or contribution from the COVID-19 Emergency Reserve;
- New services, service level enhancements or reductions, increases or decreases to the full-time equivalent staff complement and changes in user fees beyond Council direction require a Business Case to be considered by Council as part of the annual budget process; and
- All 2022 capital projects require an accompanying Capital Detail Sheet to be considered by Council as part of the annual budget process.

Multi-Year Outlook

Multi-year budgeting strengthens the link between budgeting and strategic priorities and enables Council to implement a multi-year vision, assessing the long-term financial implications of current and proposed operating and capital budgets and policies.

During the 2021 budget process, staff prepared a 2022-2024 Multi-Budget Year Outlook which was included in the budget book and presented by the General Managers and City Manager.

The initial outlook for 2022 prepared during the 2021 budget process resulted in a projected levy increase of $37.7 M and a 3.4% municipal tax increase. This projection, however, needs to be re-evaluated to identify opportunities and pressures that have materialized since the preparation of the initial outlook during the 2021 budget process, such as, negotiated contractual agreements, legislated changes or pre-approved impacts. Actions taken to mitigate the pressures in the 2022 budget should not include postponing expenditures to future years but rather, they should be geared towards finding sustainable solutions.

During the 2022 budget process, the multi-year budget outlook will also be updated to include the 2025 budget year.

2022 – 2024 Preliminary Tax Budget Pressures (Outlook)

Based on updated information, the initial projection for 2022 has been revised to a levy increase of $44.7 M, which is estimated at a 3.6% total average residential tax increase.

Table 1 outlines the estimated total average residential tax impact for 2022 to 2024 based on assumptions for assessment growth, reassessment, tax policy changes and education tax adjustments. The current value assessments for 2023 and 2024 are not known at this time. Details on the pressures requiring the levy increase are detailed below.

For years 2023 and 2024, a forecasted range has been provided. It is currently unknown what residual impacts there may be for financial pressures as delivery of municipal services change to support economic recovery and there are currently no commitments from senior levels of government beyond 2022. The forecasted “low” scenario assumes no further financial pressures from COVID-19 in years 2023 and 2024, while the “high” scenario assumes that 25% of the forecasted pressures in 2022 will continue will a subsequent net levy impact.

Table 1
Total Average Residential Tax Impact
2022 - 2024

		2023		2024	
	2022	**Low**	**High**	**Low**	**High**
Levy Increase	4.7%	3.1%	4.5%	3.3%	4.7%
Assessment Growth	(1.0%)	(1.0%)	(1.0%)	(1.0%)	-1.0%
Reassessment	0.0%	0.5%	0.5%	0.5%	0.5%
Levy Restrictions	0.1%	0.1%	0.1%	0.1%	0.1%
Tax Policy	0.2%	0.0%	0.0%	0.0%	0.0%
Education Impact	(0.3%)	(0.3%)	(0.3%)	(0.3%)	-0.3%
Total	**3.6%**	**2.4%**	**3.8%**	**2.6%**	**4.0%**

Note: Anomalies due to rounding

Assumptions:

Assessment Growth - Based on intitial projections and continued construction activity in the City.

Reassessment: 0% for 2022 as announced by the Province and 2023-2024 based on tax policy tools (transitional tax ratios) used to adjust for higher impacts

Levy Restrictions: Based on historical results

Tax Policy: Assumes adoption of small business subclass

Education Impact: Based on historical results

2023 and 2024 provide an outlook range:

1) Low - no residual financial impacts of COVID-19 are assumed

2) High - assumes 25% of the forecasted COVID-19 pressures in 2022 will remain through recovery in 2023 and 2024

Table 2 provides the most up-to-date projections for 2022 through 2024, by department, showing the total net levy requirement by year using the “low” scenario for years 2023 and 2024.

Table 2
2022-2024 Operating Budget Outlook

Department	2021 Revised Budget $	2022 Outlook $	% Change	2023 Outlook $	% Change	2024 Outlook $	% Change
Planning and Economic Development	$30,357,480	$31,514,130	3.8%	$32,298,330	2.5%	$32,932,680	2.0%
Healthy and Safe Communities	$255,023,200	$270,584,260	6.1%	$278,579,860	3.0%	$286,786,790	2.9%
Public Works	$266,803,330	$282,387,720	5.8%	$296,315,340	4.9%	$308,056,530	4.0%
Legislative	$5,164,412	$5,249,752	1.7%	$5,342,022	1.8%	$5,433,892	1.7%
City Manager	$13,016,920	$13,300,140	2.2%	$13,596,590	2.2%	$13,900,190	2.2%
Corporate Services	$37,210,120	$37,967,210	2.0%	$38,911,130	2.5%	$39,856,510	2.4%
Corporate Financials / Non Program Revenues	($27,940,780)	($28,759,180)	2.9%	($29,617,520)	3.0%	($30,527,040)	3.1%
Hamilton Entertainment Facilities	$4,037,180	$4,095,980	1.5%	$0	(100.0%)	$0	0.0%
Total City Expenditures	**$583,671,862**	**$616,340,012**	**5.6%**	**$635,425,752**	**3.1%**	**$656,439,552**	**3.3%**
Hamilton Police Services	$176,587,027	$181,884,638	3.0%	$187,341,177	3.0%	$192,961,412	3.0%
Other Boards and Agencies	$48,529,804	$49,597,460	2.2%	$50,688,604	2.2%	$51,803,753	2.2%
City Enrichment Fund	$6,088,340	$6,088,340	0.0%	$6,088,340	0.0%	$6,088,340	0.0%
Total Boards and Agencies	**$231,205,171**	**$237,570,437**	**2.8%**	**$244,118,121**	**2.8%**	**$250,853,505**	**2.8%**
Capital Financing	$139,541,860	$145,238,860	4.1%	$150,409,860	3.6%	$156,738,860	4.2%
Total Levy Requirement	**$ 954,418,893**	**$ 999,149,310**	**4.7%**	**$ 1,029,953,730**	**3.1%**	**$ 1,064,031,920**	**3.3%**
Net Levy Increase Year over Year	**$ -**	**$ 44,730,417**	**4.7%**	**$ 30,804,420**	**3.1%**	**$ 34,078,190**	**3.3%**

Net Levy Pressures

Staff has identified levy pressures of approximately $44.7 M, $30.8 M, and $34.1 M for the years 2022 through 2024, respectively, using the “low” scenario for years 2023 and 2024. This increase includes the following drivers as shown in Table 3 and described below.

Table 3
City of Hamilton
2022 to 2024 Outlook – Summary of Budget Pressures

Budget Pressure	2022 Increase	2023 Increase	2024 Increase
Current Service Level			
Employee related and misc. other current service-level pressures	$ 24,975,027	$ 16,787,960	$ 21,719,950
Enhancements/Service Level Adjustments			
Capital Levy for Discretionary Blocks	$ 4,500,000	$ 4,500,000	$ 4,500,000
10-Year Transit Strategy	$ 4,144,000	$ 3,315,000	$ 3,085,000
Expected loss of Public Health annual service plan funding	$ 2,215,800	$ -	$ -
Sidewalk Snow Clearing	$ 1,776,000	$ 2,664,000	
DARTS	$ 1,720,000	$ 1,820,000	$ 1,950,000
Area Rating for Fire Services	$ 1,400,000		
Capital Levy for New Debt Related to ICIP – Transit and West Harbour	$ 1,197,000	$ 671,000	$ 1,829,000
Affordable Housing - Roxborough	$ 1,047,000	$ -	$ -
Child Care Provincial Funding Ageement	$ 1,001,800	$ -	$ -
Social Housing – provincial benchmarks	$ 753,790	$ 1,046,460	$ 994,240
Hamilton Entertainment Facilities	$ -	$ (4,095,980)	$ -
Total Enhancements/Service Level Adjustments	$ 19,755,390	$ 9,920,480	$ 12,358,240
Total	**$ 44,730,417**	**$ 30,804,420**	**$ 34,078,190**

- **Employee Related and Miscellaneous Other –** for general maintenance and inflation including salaries and benefits increases. This includes previously approved contract adjustments, performance increments, job evaluation changes, as well as, employer provided benefits, Canada Pension Plan, Employment Insurance and Workers’ Safety and Insurance Board changes.

- **Capital Levy for Discretionary Blocks –** the $4.5 M pressure represents a net levy increase of 0.5% for the purpose of state-of-good-repair infrastructure.

- **Ten-Year Local Transit Strategy –** Financial Impact of Year 6, 7 and 8 of implementation of the Transit Strategy. The 2022 pressure includes $990 K pressure due to one-time contribution from reserve in 2021.

- **Public Health Funding –** expected loss of the Mitigation Subsidy for the Public Health Annual Service Plan in 2022.

- **Sidewalk Snow Clearing –** the level of service for winter sidewalk snow removal will be enhanced as approved by Council on April 28, 2021, defined as Scenario 2 in Report PW19022(c). This scenario includes the clearing of an additional 783 km of sidewalk along transit routes. The total cost of the enhancement is estimated at $4.4 M annually with a $1.8 M impact in 2022 and a $2.7 M impact in 2023.

- **DARTS –** contractual increases are expected in DARTS as ridership is projected to increase in 2022 after the fall of ridership in 2021 due to COVID-19.

- **Area Rating for Fire Services –** at its meeting on May 12, 2021, Council approved a two-year phase-in for the impact of rural fire area rating, which amended the 2021 Tax Operating Budget with a $1.4 M contribution from the Tax Stabilization Reserve and a corresponding reduction in the 2021 net levy. This $1.4 M impact for the provision of Fire Services will hit the 2022 net levy.

- **Roxborough Housing Incentive Program (RHIPP) –** as approved in Report HSC19034, the RHIPP allows developers of affordable rental or ownership housing units to receive grants to offset the cost of the City's development charges and parkland dedication fees for 10 years after the issuance of a building permit. Total cost of the program is estimated at $10.47 M over five years. The pressure in 2022 represents the annualization of year one of the 10-year program that began in 2021.

- **Child Care Provincial Funding Agreement –** due to the unique circumstances resulting from the COVID-19 outbreak, the ministry provided a one-time Transitional Grant in 2021 to offset and assist with the new required 50/50 cost share for provincial child care administration, including Wage Enhancement / Home Child Care Enhancement Grant administration funding. This one-time Transitional Grant could also be used to assist with the provision of child care programs and services, as well as, other increased operating costs related to COVID-19. The pressure identified in 2021 is the elimination of this one-time grant.

- **Capital Levy for New Debt (ICIP – Transit and West Harbour) –** to support the annual debt servicing requirements for new debt issuance in ICIP, Transit and the West Harbour Waterfront Development planned capital investments, a net levy increase of $1.2 M is required in 2022.

- **Social Housing – Provincial Benchmarks –** Forecasted 2022 – 2024 provincial benchmarks are based on a moving five-year historical average. Based on these estimates of the minimum operating costs of the City's social housing units covered by the Province, the pressures identified in the next few years are based on the remaining amounts the City is responsible to cover over and above what is covered by our Housing Service Providers.

- **Hamilton Entertainment Facilities (HEF) –** the City of Hamilton will enter into an agreement with the Hamilton Urban Precinct Entertainment Group (HUPEG) to redevelop the First Ontario Centre, Hamilton Convention Centre and First Ontario Concert Hall. In addition to taking on all capital costs for the renewal of Hamilton's downtown entertainment facilities, HUPEG will take over responsibility for operations and maintenance, which is expected to yield a net reduction to the annual tax levy of $3.0 M by the year 2023 ($4.1 M in gross operating costs of the existing facilities less unavoidable and one-time expenditures).

COVID-19 Economic Recovery and Financial Pressures

The COVID-19 pandemic has resulted in many changes affecting human behavior and impacting the world's economic condition. Municipalities were hit particularly hard as they managed service continuity for essential services and infrastructure during the lockdown period. While financial pressures for municipalities in 2020 and 2021 are expected to be fully mitigated through the historic Safe Restart Agreement, Social Services Relief Fund and many other funding announcements, it is anticipated that health risks will continue to remain on an ongoing basis and economic activity is not expected to return to pre-COVID-19 levels beyond 2022.

As the economy reopens, municipalities will play a crucial role in implementing public health safeguards and community support for the most vulnerable. It is essential that municipalities continue to provide service continuity for front-line workers and to play a key role in local economic recovery through rebuilding growth and providing stimulus.
The City will continue to face many financial pressures in 2022 including the loss of revenue from transit operations and recreation user fees, as well as, increased costs for Public Health and housing for the most vulnerable.

Since the onset of the COVID-19 pandemic, there have been numerous announcements from the Federal and Provincial governments regarding funding opportunities to address financial pressures for individuals and organizations including the Safe Restart Agreement, the Social Services Relief Fund and the 2021 COVID-19 Recovery Funding for Municipalities Program. A summary of the forecasted pressures and funding announcements in 2021, as well as 2022, is provided in Appendix "A" to Report FCS21057.

i. Safe Restart Agreement – Transit

On August 12, 2020, the City received confirmation of $17.2 M of immediate funding through the Safe Restart Agreement: Municipal Transit Funding – Phase 1 to support COVID-19 pressures incurred from April 1, 2020 to September 30, 2020. These financial pressures include reduced revenues from farebox, advertising, parking and contracts, as well as, added expenses related to cleaning, new contracts, labour, driver protection, passenger protection and other capital costs.

Based on reporting instructions received from the Province, savings in specialized transit (DARTS) was netted against the 2020 operating deficit for conventional transit. A net amount of $12.2 M was recognized in 2020, with the remaining $5.0 M set aside in the Safe Restart Agreement Reserve to be utilized to fund ongoing COVID-19 financial pressures for Transit for the period from January 1, 2021 to March 31, 2021.

The City of Hamilton received an allocation of $21.5 M in Phase 2 funding, which covers the period from October 1, 2020 and March 31, 2021. It is currently anticipated that the carry over funds from Phase 1 will be sufficient to offset transit pressures during this period and that Phase 2 funding will not be leveraged.

Phase 3 funding was confirmed in a letter from the Ministry of Transportation on March 3, 2021 for the period between April 1, 2021 and December 31, 2021 for a total allocation to the City of $16.8 M. The City will be required to return any unused funding, including interest, at the end of the eligibility period. The Province may also, at its sole discretion and on a case-by-case basis, grant extensions to the Phase 3 eligibility period for costs incurred after December 31, 2021 to January 1, 2023.

ii. Safe Restart Agreement – Municipal

In a letter dated August 12, 2020, the Province advised the City of Hamilton of its Phase 1 funding allocation of $27.6 M under the Safe Restart Agreement to support the operating costs and pressures related to COVID-19. Based on eligible expenses and lost revenues, the City recognized $17.4 M in 2020 and carried the remaining $10.2 M in Safe Restart Funding forward to 2021 to address ongoing pressures as a result of the pandemic.

An additional $11.7 M was provided to the City under the Phase 2 allocation for the purpose of assisting with COVID-19 operating costs and pressures in 2021 on December 16, 2020. Combined with the unused portion from Phase 1, $21.9 M of Safe Restart Agreement – Municipal funding will be available to December 31, 2021.

iii. 2021 COVID-19 Recovery Funding for Municipalities Program

Additional to the Safe Restart Agreement, the Province of Ontario announced a $500 M funding commitment to municipalities under the 2021 COVID-19 Recovery Funding for

Municipalities Program. The City of Hamilton's share under this program is $18.7 M, which can be used to address general municipal COVID-19 costs and pressures in 2021. Remaining funds at the end of 2021 will be put into a reserve to support potential COVID-19 costs and pressures in 2022.

iv. Social Services Relief Fund

In late March 2020, the Province announced the $200 M Social Services Relief Fund (SSRF) in response to the ongoing COVID-19 crisis to allow communities to expand a wide range of services and supports for vulnerable populations, based on local need, to better respond to the emergency. The City of Hamilton received an initial $6.9 M under this program.

On August 12, 2020, the SSRF was expanded by an additional $362 M as part of the federal-provincial Safe Restart Agreement. Under Phase 2 of the program, the City of Hamilton has received an allocation of $11.3 M, as well as, an application for an additional $6.4 M. The SSRF Phase 2 includes an operating component and two new capital components with the objectives of mitigating ongoing risk for vulnerable people, encouraging long-term housing-based solutions to homelessness post COVID-19 and enhancing rent assistance provided to households in rent arrears due to COVID-19. In accordance with program guidelines and eligibility requirements, $13.0 M in revenue from the SSRF was recognized in 2020 and the remaining amount was carried over for use in 2021.

On March 10, 2021, the City received a letter from the Ministry of Municipal Affairs and Housing announcing Phase 3 of the SSRF and the City's allocation of $12.3 M for the period of March 1, 2021 up to December 31, 2021. Combining this with the carryover amounts from Phases 1 and 2, a total of $23.9 M will be available for use in 2021 and is expected to be fully leveraged.

v. Other Funding

There have been various other funding announcements, outside of the Social Services Relief Fund and Safe Restart Agreement, to assist municipalities in the delivery of critical programs and services throughout the pandemic as detailed in Appendix "A" to FCS21057. This includes funding from the Ministry of Health for the COVID-19 response and vaccination programs, mental health and addictions funding, enhancements to the Reaching Home Initiative, the CMHC Rapid Housing Initiative, the ICIP – COVID-19 Resilience Infrastructure Stream, as well as, funding for other emergency response and essential services such as paramedics, long-term care and children services.

vi. Forecasted Pressures in 2022 due to the COVID-19 Pandemic Response

Based on current information, staff is projecting additional financial pressures related to COVID-19 in 2022 of $57.2 M. Details of potential impacts and corresponding assumptions are itemized in Appendix "C" to Report FCS21057. Staff will continue to monitor these assumptions and how they are impacted by changes in various COVID-19 prevention measures through the balance of the year. In the 2022 outlook, it is assumed that these pressures will be funded from the available funding carried forward from 2021 under the Safe Restart Agreement, the 2021 COVID-19 Recovery Funding for Municipalities Program and the funds set aside in the COVID-19 Emergency Reserve from the 2020 tax operating budget surplus.

Based on the funding announcements received to date and the funds set aside from the 2020 operating surplus for COVID-19 recovery, it is anticipated that the financial pressures related to COVID-19 will be mitigated to the end of 2022 as outlined in Appendix "A" to Report FCS21057. However, it is expected that the City will continue to face many challenges in the medium term (2023-2025) as the economy begins to recover. At this point, there is no committed funding from senior levels of government beyond 2022 and it is yet to be determined what impact is to be seen on municipal services moving forward. The pandemic may have several lasting effects as it relates to transit, recreation, parking and tourism revenues depending on many socio-economic factors during the recovery period that the City must prepare to mitigate in order to limit the impact on taxpayers.

Boards and Agencies

Based on historical trends and updated information, staff has preliminary projected budget pressures / risks for Boards and Agencies of approximately $6.3 M, $6.5 M and $6.6 M for 2022 through 2024, respectively (refer to Table 4). The Police budget pressures are based on a five-year average operating budget increase. The other Boards and Agencies are based on a projected 2% per year increase.

Table 4
Boards and Agencies Levy Impact

	Net Levy Increase			
Board / Agency	**2022**	**2023**	**2024**	**Basis of Increase**
Police	$ 5,297,611	$ 5,456,539	$ 5,620,235	5 Year Average (3%)
Conservation Authorities	$ 169,195	$ 172,579	$ 176,031	2%
Library	$ 643,927	$ 656,805	$ 669,941	2%
Other Boards and Agencies	$ 157,474	$ 160,624	$ 163,836	2%
Total Impact	**$ 6,268,207**	**$ 6,446,547**	**$ 6,630,044**	

Staff will be seeking direction from Council later in the budget process on the 2022 Tax Operating Budget guideline for Boards and Agencies.

Capital Financing

The multi-year outlook for Capital Financing includes an annual tax levy increase of 0.5% for discretionary block funding related to state-of-good-repair asset replacement, as well as, additional increases for debt servicing requirements for the municipal share of the Investing in Canada Infrastructure – Public Transit Stream (ICIP) and West Harbour Waterfront Development strategic initiatives. Table 5 provides the forecasted net levy pressures related to the financing of the Tax Capital Budget from 2022 to 2024.

Table 5
Capital Financing Net Levy Impact

Capital Financing	2022			2023			2024		
		($)	(%)		($)	(%)		($)	(%)
Discretionary Block Funding	$	4,500,000	0.5%	$	4,500,000	0.5%	$	4,500,000	0.5%
West Harbour Development	$	374,000	0.0%	$	626,000	0.1%	$	1,773,000	0.2%
ICIP - Transit	$	823,000	0.1%	$	45,000	0.0%	$	56,000	0.0%
Total Impact	**$**	**5,697,000**	**0.6%**	**$**	**5,171,000**	**0.5%**	**$**	**6,329,000**	**0.7%**

Note - Anomalies due to rounding

During the 2021 budget process, the Capital Financing Plan was updated with new assumptions around the cost to borrow given recent changes in the investment market, cash flow assumptions required for debt servicing upcoming transit and affordable housing projects and leveraging of existing capacity from reserves. This provided additional capacity to fund capital investments over the 10-year period in comparison to the previous Financing Plan.

Preparation of the Capital Financing Plan prioritizes that the City maintain its AA+ credit rating. This is an important aspect of the overall budget as it reduces the City's cost to borrow and limits the tax impact on residents and businesses. The Capital Financing Plan balances the financial obligations required for the effective management of infrastructure in a state-of-good-repair, support growth and development and advance Council's and the City's strategic priorities while limiting the overall impact of taxpayers and staying within Council's approved debt limits.

A. Debt

Based on the capital investment pressures for the Tax Capital and Rate Capital Supported Budgets over the next 10 years, tax and rate supported debt is projected to exceed Council's approved debt limit in 2024 and development charge supported debt is projected to exceed Council's approved debt limit in 2026 as illustrated in Figures 1 and 2. While total debt would still be within legislated requirements in accordance with the provincial Annual Repayment Limit, exceeding the debt limits approved by Council could adversely affect the City's AA+ credit rating. Figure 3 shows the City's projected debt levels in comparison to the provincial Annual Repayment Limit.

Figure 1

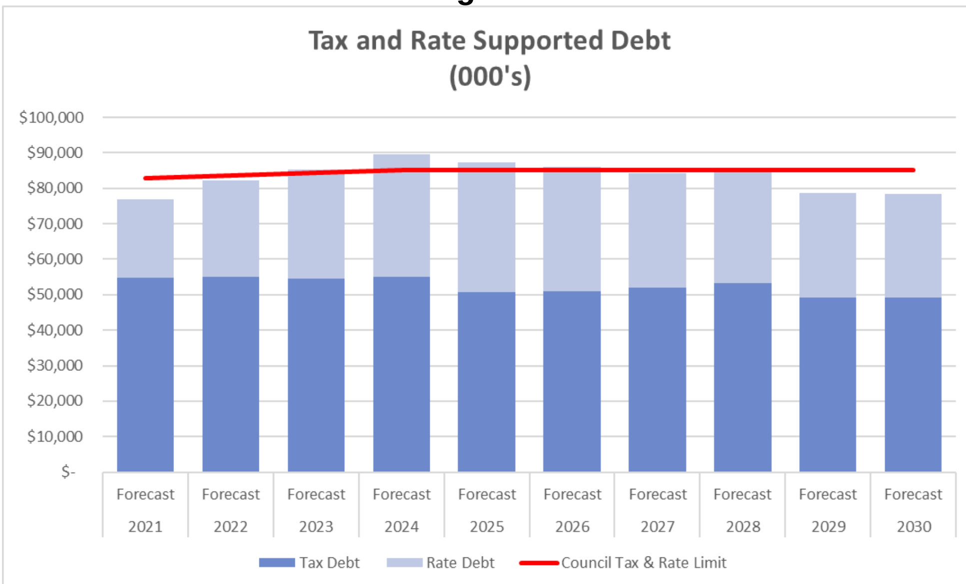
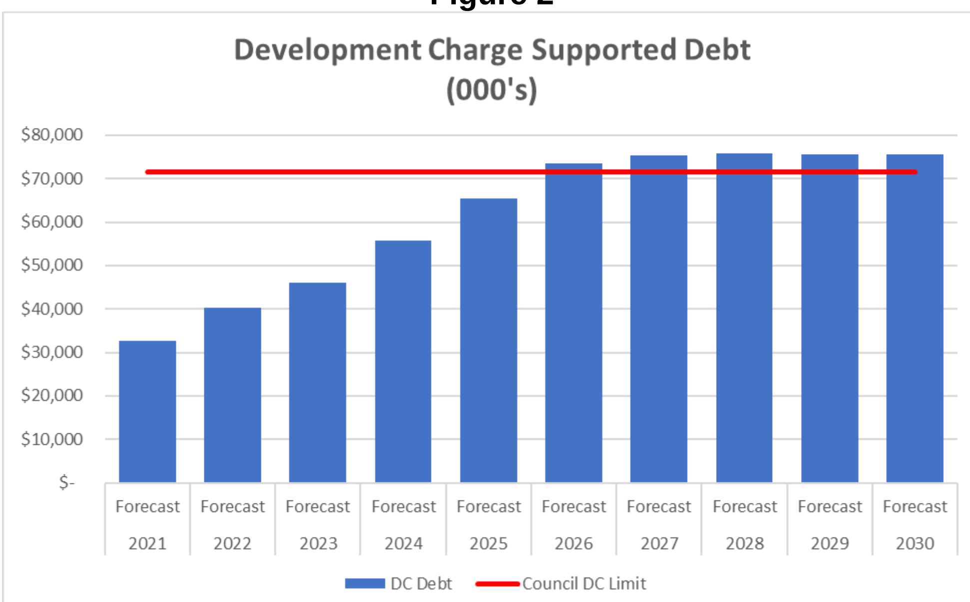
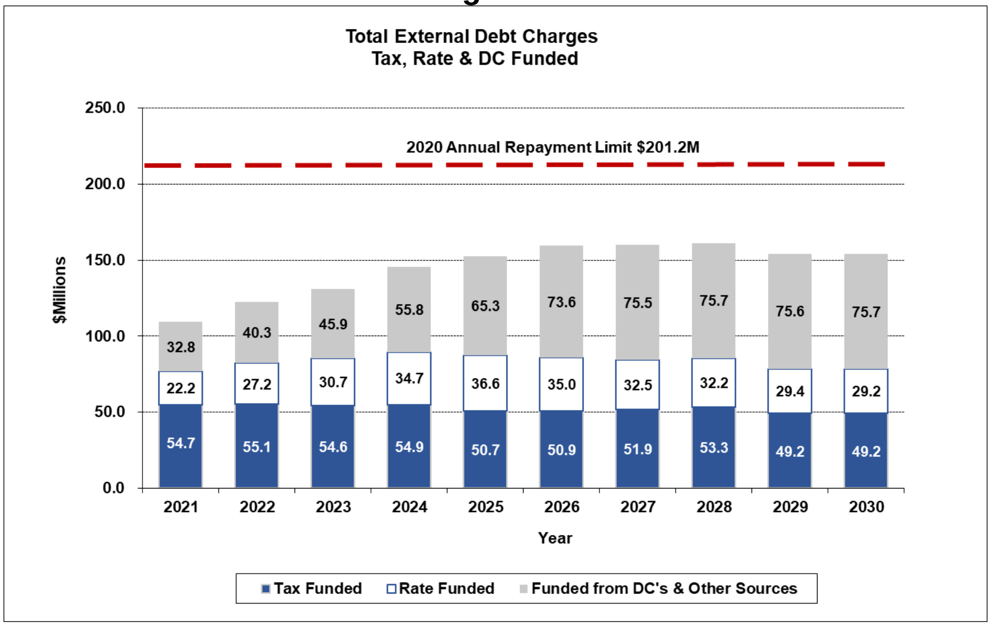


Figure 2



During the 2022 budget process, staff will continue to update assumptions as it pertains to interest rates, timing of issuance and the financing strategies for various initiatives. This may mean revisiting capital funding strategies that previously leveraged debt financing, introducing alternative funding sources to the Capital Financing Plan, such as, reserves or Federal Gas Tax or the deferral of previously planned capital works in order to best position the City for financial stability to support economic recovery over the next few years.

Figure 3



B. Reserves

Based on current projections, capital reserve balances are expected to decrease from $683 M at the end of 2020 to $632 M in 2022 as shown in Table 6. The decrease is the result of draws on the Parkland Acquisition and Dedication Reserves, Rate Supported Reserves and Transit Vehicle Replacement Reserves in order to meet planned requirements in the capital program over the next three years. These decreases partially offset by an increase is the result of anticipated DC collections exceeding capital financing requirements over the next two years, as well as, an additional one-time top-up payment of Federal Gas Tax in 2021 or 2022. Initial indication is that the COVID-19 pandemic has not drastically affected growth in the short-term. Staff will continue to monitor for any declines in development over the next year and adjust growth related infrastructure forecasts accordingly, as well as, develop a financing strategy for the injection of additional Federal Gas Tax funds.

Table 6
Projected Reserve Balances

CITY OF HAMILTON	Projected Balances December 31		
RESERVES	2020	2021	2022
CAPITAL RESERVES			
DEVELOPMENT CHARGES	285,421	322,678	349,023
PARKLAND RESERVES	70,638	38,413	49,022
VEHICLE & EQUIPMENT RESERVES	47,768	41,558	19,138
UNALLOCATED CAPITAL LEVY	37,209	21,886	24,800
RATE RESERVES	164,976	95,907	71,832
FEDERAL GAS TAX RESERVE	59,102	86,415	88,626
OTHER	17,463	19,707	29,878
TOTAL CAPITAL RESERVES	**682,577**	**626,564**	**632,319**
NON- TAX CAPITAL RESERVES			
TAX STABILIZATION	65,917	17,888	18,250
SAFE RESTART AGREEMENT	15,276	18,682	-
COVID-19 EMERGENCY RESERVE	-	20,277	2,615
EMPLOYEE RELATED RESERVES	108,267	110,705	111,965
PROGRAM SPECIFIC RESERVES	101,596	94,450	92,905
OTHER	114,721	118,428	124,669
TOTAL NON- TAX CAPITAL RESERVES	**405,777**	**380,430**	**350,404**
FUTURE FUND RESERVES			
HAMILTON FUTURE FUND A	56,420	60,498	66,040
HAMILTON FUTURE FUND B	2,047	1,879	1,669
TOTAL FUTURE FUND RESERVES	**58,467**	**62,377**	**67,709**
TOTAL ALL RESERVES	**1,146,821**	**1,069,371**	**1,050,432**

Reserve Funds have been established either through legislation or by Council to be used for specific future liabilities. The reserve amounts available to fund tax supported capital in future years will vary depending upon operating transfers, senior level government funding and the financing implications of large, multi-year capital projects. Staff will continually review existing reserve and reserve fund balances and make appropriate recommendations to Council during the annual capital budget process.

C. Development Charges

As the City of Hamilton moves forward with its growth infrastructure plans, current policies must sustain the *Places to Grow Act, 2005* (Places to Grow) growth patterns. The City's 2019 Development Charge (DC) By-law was based on 2006 Provincial forecasts, which projected Hamilton's population to 660,000 by 2031.

In August 2020, the Province released Amendment 1 to A Place to Grow: the Growth Plan for the Greater Golder Horseshoe ("Growth Plan, 2019, as amended"). The Growth Plan, 2019, as amended, has extended the planning horizon to 2051 and identifies a 2051 population forecast of 820,000. In August 2020, the Province released a revised land needs assessment methodology to be used by all municipalities in allocating the 2051 employment and population forecasts based on the Growth Plan targets.

The City is in the process of completing the land needs assessment which will identify how population and employment growth to the year 2051 will be accommodated and how much additional land may be required to be added to the urban boundary to accommodate the 2051 growth. Through the Growth-Related Integrated Development Strategy (GRIDS 2), the City will identify the preferred growth option to accommodate any additional land need. This preferred growth option will inform the infrastructure masterplan updates.

To date, the City is falling short of the 2006 Places to Grow projections used in the 2019 DC Background Study. To illustrate, the 2006 Places to Grow had forecast that the City's population would reach approximately 565,000 by 2016 (linear assumption based on 540,000 by 2011 and 590,000 by 2021), yet the 2016 census shows that the City's population had only reached 537,000 (547,000 if adjusted for the Statistics Canada under coverage estimate of 1.9%).

Since the City is not experiencing growth at the rate envisioned under the Places to Grow Provincial Targets, the City has not collected enough DC revenues to fund the infrastructure according to the timelines considered in the plans.

In order to balance the growth revenue shortfalls with infrastructure requirements, the City has prioritized its growth infrastructure in a "Staging of Development Report". The Staging of Development Report is an important tool to guide growth in an orderly manner by balancing the infrastructure needs with the costs of extending or upsizing new servicing, co-ordinate growth infrastructure with development approvals and guides the pace of growth across the City. This program, which encompasses a financing strategy of limiting DC reserve exposure and debt financing of growth projects, will ensure that the City's overall DC reserve balance is sustainable and that growth projects proceed in a thought out and systematic order.

The growth shortfall is not the only challenge around the financing of growth infrastructure. The City's DC By-law provides for several Council directed exemptions. These exemptions, such as reduced non-residential rates and a reduction for properties located within the Downtown Hamilton Community Improvement Project Area, are provided with the goal of acting as development incentives. The amounts exempted must be recouped through the tax and rate budgets and current funding levels are not enough to cover all the exemptions.

The Province has also introduced legislation which provides for both a freezing of DC rates and statutory deferrals of DCs for specified forms of development. While the City will eventually receive the funds, these changes affect the City's cash flow and may result in a need to increase reliance on debt. Since the provincial changes are new, the City does not yet have a robust forecast model to be able to quantify the cash flow impacts.

Compounding this challenge, COVID-19 presents an unknown impact on achieving future development targets. In an abundance of caution, the City errs on the side of over forecasting DC debt issuances. Prior to issuing the debt, the DC reserve status is assessed and if the amounts can be cash funded at that time, then no debt will be issued. This conservative process ensures that should debt be needed, the appropriate approvals are in place and at the same time allows the City to avoid interest on approved, but unnecessary, debt should the cash inflows be sufficient to cover the growth projects.

Table 7 illustrates the development shortfall in residential and non-residential growth.

Table 7
Development Forecast

Average Single Detached Unit Equivalent Construction, City Versus Provincial Forecast (Places to Grow)				
	2020	**2021**	**2022-2031**	**Total 2022-2031**
City (Staff Budget)[1]	1,800	1,800	1,800	18,000
Places To Grow (2006)	2,566	2,566	2,567	25,673
Shortfall	**766**	**766**	**767**	**7,673**
Average Square Footage Non-Residential Construction City versus Provincial Forecast (Places to Grow)				
	2020	**2021**	**2022-2031**	**Total 2022-2031**
City (Staff Budget)[1]	950,000	950,000	950,000	9,500,000
Places To Grow (2006)	2,048,700	2,048,700	2,048,700	20,487,000
Shortfall	**1,098,700**	**1,098,700**	**1,098,700**	**10,987,000**

[1] Note that staff budget figures may update annually based on available forecast data and reflect the constraints in place when planning future Capital requests

An amending By-law to the 2019 Development Charges Background Study was prepared and reported to the Audit, Finance and Administration Committee on June 3, 2021 in response to the changes in legislation affecting DCs. While some of the legislated changes were adopted at the time of the change, others required an update to the DC By-law for the City to adopt the changes.

The main impacts from the Amending By-law and accompanying 2019 DC Background Study Update is the removal of the 10% statutory deduction. The removal of the 10% statutory deduction means that 100% of growth-related capital costs are now eligible for inclusion in the DC calculations allowing the City to collect more for DC eligible services. The annualized effect of implementing the changes in the Development Charges Update Study is an estimated increase in forecasted 2021 DC collections of $3.1 M (to $114.1 M from $111.0 M).

Concurrent with the changes to DC legislation, the Province introduced a new tool through the *Planning Act*, namely a Community Benefits Charges (CBC) regime. In effect, the CBC replaces the former Density Bonusing Provisions (Section 37) of the *Planning Act* and moves some services from the DC legislation over to the newly created CBC regime with a two-year transition period. Accordingly, the City will no longer be able collect DCs for those services as of the CBC By-law adoption or September 18, 2022. The effect of removing the ineligible services (Airport Lands and Parking Services) has an estimated annual decrease in forecasted collections of $1.1 M. The loss of $1.1 M in annual DC collections will occur regardless of whether the City's 2019 DC By-law is amended or not.

Therefore, ignoring the potential replacement of Airport and Parking services through a CBC By-law, the net effects on annual DC collections, after considering the future reduction due to the loss of Airport Lands and Parking Services becoming ineligible, is an estimated increase of $2.0 M.

The City has yet to adopt a CBC By-law as staff continues to prepare a workplan to meet the transition deadline of September 18, 2022. While it is anticipated that a CBC By-law will be able to offset some or all of the annual DC collections previously captured for Airport and Parking growth costs, that analysis has yet to be completed.

D. Federal Gas Tax

In recognition of the extraordinary pressures faced by municipalities during the ongoing pandemic, the federal government introduced legislation that would provide an additional $7.2 B in support for urgent health care needs introduced through Bill C-25 on March 25, 2021.

Included in the proposed funding was $2.2 B to address short-term infrastructure priorities in municipalities and First Nations communities. The funds would flow through the Federal Gas Tax Fund. The federal government also proposed to rename the fund as the Canada Community-Building Fund.

The City of Hamilton's expected allocation as a one-time transfer payment in 2021 is $32.7 M. Staff will report back through the budget process on the leveraging of these funds in the 2022 Capital Financing Plan.

2022-2025 Preliminary Rate Budget Pressures (Outlook)

The 2021 Rate Supported Budget approved by Council in November 2020, resulted in a combined rate increase of 4.28%. The budget also included a projection for 2022 to 2025. The Rate Supported Budget reflects Council's ongoing commitment and dedication to implement a sustainable financing plan while bridging the divide between the funding shortfalls for necessary infrastructure with affordable rates.

A number of pressures / risks have been identified for 2022 to 2025 (refer to Table 8).

Table 8
2022-2025 Preliminary Rate Supported Budget Outlook

	2022	2023	2024	2025
Rate Budget Pressures	**$ M**	**$ M**	**$ M**	**$ M**
City Division (Hamilton Water)				
Energy and Other Operating Costs	$1.8	$1.8	$1.9	$1.9
Capital Financing	$9.1	$10.2	$10.7	$10.8
Preliminary Pressures / Risks	**$10.9**	**$12.0**	**$12.6**	**$12.7**
Combined Rate Impact	**4.05%**	**4.29%**	**4.35%**	**4.16%**

The preliminary outlook for the 2022 Rate Operating Budget projects an operating expenditure increase for Hamilton Water Division of approximately $1.8 M or 2.0% over the 2021 Budget.

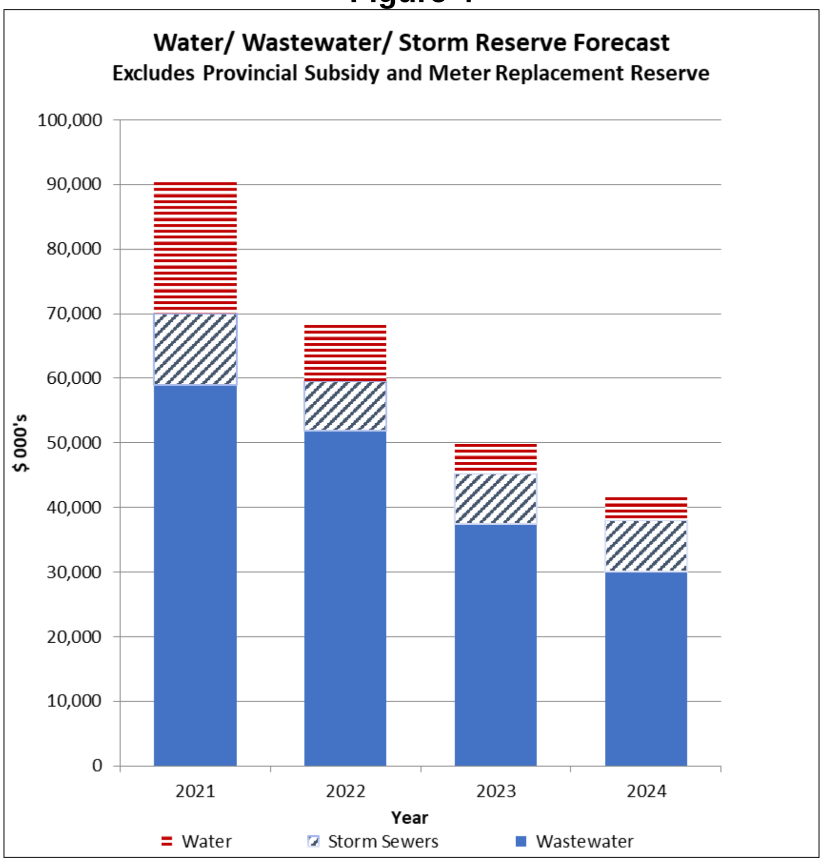
The recommended rate increase of 4.05% is largely comprised of capital financing requirements. Net capital costs are estimated at $172.7 M in 2022 versus $173.4 M in 2021.

During 2021 budget deliberations, City Council directed staff to perform a comprehensive evaluation of all City stormwater programs to identify existing gaps, immediate needs, risks to the City, including risks from climate change and extreme weather, outline the levels of service that the City should strive to achieve, quantify funding requirements along with options for long-term maintenance, second cycle replacements and financing alternatives. This work is underway and depending on the results of the evaluation, may provide additional pressures that were not identified in the multi-year rate budget outlook.

The City continues to face upward pressure on water rates to maintain infrastructure in a state-of-good-repair and sustain service delivery. In response, Hamilton Water is undertaking a review of the Water, Wastewater and Stormwater budget process to better understand long-term sustainability and provide greater transparency to customers and Council. The scope of work includes a review of the prioritization process and risk portfolio for decision making, impacts of corporate strategic priorities and sustainable infrastructure investment needs to maintain the desired level of service. Further information will be shared with Council prior to the 2022 Water, Wastewater and Stormwater Rate Budget deliberation process.

The current Rate Financing Plan has leveraged debt to its full extent in accordance with Council's debt limits, as well as, forecasts drawing reserves down to minimum required balances in the medium term as illustrated in Figure 4. There is little capacity within the existing financial constraints to absorb unexpected events or leverage federal and provincial subsidy programs that may come available.

Figure 4



An update on the Woodward Wastewater Treatment Plant Upgrade project was provided to the Hamilton Water Sub-Committee on May 3, 2021. Overall, construction is progressing well with Contract 1 – Main Pumping Station approximately 85% complete, Contract 2 - Electrical and Chlorination Upgrades approximately 91% complete, and Contract 3 - Tertiary Treatment Upgrades approximately 60% complete.

There have been recent challenges that the project team has encountered during construction including restrictions surrounding COVID-19, as well as, the excavation and management of a significant amount of both hazardous and contaminated soils. As a result, the project team developed a detailed soil and segregation program and met with the

Ministry of Environment, Conservation and Parks and gained their approval. Table 9 provides the most recent forecast for the project.

Table 9
Woodward Wastewater Treatment Plant Upgrade
Gross Capital Forecast ($ Millions)

	Pre-2022	2022	2023	2024	2025	2026	2027	2028	Total
Phase 1 - Clean Harbour	386.8	25.2							412.0
Phase 2 - Expansion	5.1	2.5	2.5	3.1	3.1	94.3	92.9	92.9	296.4
Total WWTP	**391.9**	**27.7**	**2.5**	**3.1**	**3.1**	**94.3**	**92.9**	**92.9**	**708.4**

In 2018, the City of Hamilton had discovered that one of its combined sewer overflow tanks was discharging combined sewage into Chedoke Creek. The City immediately stopped the discharge, began clean-up activities in the area and contacted the Provincial Spills Action Centre.

The City has been working closely with the Ministry of the Environment, Conservation and Parks to investigate the incident, respond to Orders related to the spill and plan for remediation efforts in the Creek and Cootes Paradise. Currently, the City is working with the Ministry of the Environment, Conservation and Parks, as well as, various stakeholders on remediation activities in the watershed. The City has recently submitted a workplan to the Ministry of the Environment, Conservation and Parks outlining targeted dredging activities in Chedoke Creek and a report proposing remediation and mitigation methods for Cootes Paradise and the Western Hamilton Harbour Area.

Inflationary and Other Pressures

A. Inflation

Year-over-year consumer price growth (+3.4%) in April rose at its fastest pace since May 2011 amid the third wave of the COVID-19 pandemic, mostly because prices fell sharply during the early months of the pandemic. As some regions extended restrictions to limit the spread of COVID-19, causing employment losses for some Canadians, prices grew 0.5% month over month in April 2021, the same growth rate as in March 2021.
Prices rose in every major component on a year-over-year basis. Transportation prices (+9.4%) increased in April, mainly because of higher gasoline prices compared with April 2020.

The price of gasoline rose 62.5% on a year-over-year basis in April, the largest year-over-year increase on record. The gain in gasoline prices was mainly driven by steep price declines in April 2020, when gasoline fell 15.2% month over month as a result of limited travel, temporary business closures and lower levels of international trade, which created an oversupply of gasoline in the market.

In addition, the rise in gasoline prices was partially attributable to the maintenance of production cuts by OPEC+ countries (countries from the Organization of Petroleum Exporting Countries Plus) amid increased demand.

Shelter prices were up 3.2% year over year in April after rising 2.4% the previous month. The homeowners' replacement cost index (+9.1%) continued to trend upwards, posting its largest gain since April 1989. Higher building costs and demand for single-family homes contributed to an increase in prices for newly built homes.

In Ontario, prices for electricity rose 18.3% compared with April 2020 when the provincial government set all time-of-use electricity prices to the off-peak rate, resulting in lower prices for on-peak and mid-peak electricity usage.

While consumer goods, such as gasoline and electricity, have an impact on municipal operations, costs for municipal services are most significantly impacted by the construction price index in the delivery of capital works. Construction prices have been significantly impacted in the past several months due to the demand of structural lumber. Table 10 shows the trend over the past year in the residential and non-residential construction price index.

Table 10
Construction Price Index Trends

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Construction Price Index Non-Residential	3.0%	2.6%	2.5%	2.2%	3.1%
Construction Price Index Residential	2.0%	1.8%	4.0%	7.6%	15.0%

B. Information Technology

The Information Technology Division engaged an independent consultant to review and make recommendations required to ensure stability of the City’s use of technology and applications, ensure the stability of the underlying software, hardware and network infrastructure, review processes and resources for vendor and financial management including consideration for contractual complexities with cloud deployment, conduct a review of our security policies, processes and resources to ensure we continue to protect ourselves from cyber security violations and review future skillsets focusing on cloud deployment.

The assessment findings identified that the Information Technology Division does not have sufficient resources with the skillsets required to effectively manage the scope and complexity of the systems and cloud deployment projects, vendor contracts and processes within its portfolio. A recommended minimum of six additional staff to be phased in over the next three years was determined as required to effectively manage the increasing demand on Information Technology resources with considerations given to ensuring the additional staff have experience in managing and delivering services where cloud deployment is required.

This recommendation was made based on an assessment of planned projects identified as high priority by City Departments, operational sustainability workload and current resource capacity and skillsets. The recommended course of action would phase in the additional six staff over a three-year period from 2021 to 2023. The first two of the six positions were approved in the 2021 budget process.

C. User Fees

For the purposes of preparing the preliminary multi-year outlook, staff has estimated user fee increases of 2% per year for 2022 to 2024, as well as, planned additional user fees pertaining to the implementation of the Ten-Year Local Transit Strategy.

During 2021 budget deliberations, Council approved the freezing of certain Recreation and Planning and Economic Development user fees at 2020 rates in response to economic hardship as a result of the pandemic. To minimize the impact on taxpayers, in some instances the City will require increases in user fees beyond the traditional 2% to make up for the lost increase in 2021 and appropriately maintain targeted subsidy or cost levels for these services.

D. Advancing Council's Strategic Priorities

The 2016-2025 Strategic Plan is a ten-year plan that supports the community vision and encompasses all services delivered by the City. While the focus of the annual budget process will be to continue to identify the resources needed to deliver services, aligning staff and additional resources around a few key areas allows for more focused efforts towards the achievement of specific goals for this term of Council (2018-2022). A summary and update on the 2018 to 2022 Term of Council Priorities is attached as Appendix "D" to Report FCS21057.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS21057 – 2021-2022 COVID-19 Financial Forecast

Appendix "B" to Report FCS21057 – Memorandum from Ministry of Health regarding 2021 COVID-19 Extraordinary Costs

Appendix "C" to Report FCS21057 – Projected 2022 COVID-19 Financial Impacts

Appendix "D" to Report FCS21057 – Advancing Council's Strategic Priorities

KP/DR/dt