



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

TO:	Chair and Members General Issues Committee
COMMITTEE DATE:	August 8, 2022
SUBJECT/REPORT NO:	Increase in Capital Project Expenses (FCS22067) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Matt Hilson (905) 546-2424 Ext. 1444
SUBMITTED BY:	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That Appendix "A" attached to Report FCS22067 detailing work-in-progress capital projects requiring additional funding as a result of extraordinary inflation and supply chain impacts be received;
- (b) That the financing plan recommending total additional funding of \$27,322,634 outlined in Appendix "B" to Report FCS22067 to address budgetary shortfalls in work-in-progress capital projects be approved;
- (c) That the General Issues Committee direction to report back on any and all approved Capital Projects that will require additional funding related to the economy and correlated supply and demand issues that have created the current economic crisis be removed from the Outstanding Business List;
- (d) That the General Manager, Finance and Corporate Services, be authorized to negotiate and confirm the terms, placement and issuance of all debenture issue(s), and / or private placement debenture issue(s), in either a public or private market and / or bank loan agreements and debenture issue(s) and / or variable interest rate bank loan agreements and debenture issue(s), in an amount not to exceed \$13,098,000 Canadian currency in Development Charges funded municipal debt for the projects outlined in Appendix "B" to Report FCS22067;

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- (e) That the 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 Recommendation (d) including, but not limited to, external legal counsel, fiscal agents and Infrastructure Ontario's Loan Program and the cost of such services be funded from one of the following sources as deemed appropriate by the General Manager, Finance and Corporate Services: Development Charge Reserves, Non-Obligatory Reserves, and other approved funding sources;
- (f) That the General Manager, Finance and Corporate Services, is authorized and directed to enter into and administer, on behalf of the City of Hamilton, all agreements and necessary ancillary documents to implement Recommendation (d) and in order to secure the terms and issuance of the debenture issue(s) described in Recommendation (e), on terms and conditions satisfactory to the General Manager, Finance and Corporate Services, and in a form satisfactory to the City Solicitor;
- (g) That the additional \$298,750 required from the Investment Stabilization Reserve for the completion of the Waterfalls Viewing project (#4401856819) be added to the principal outstanding on the existing internal loan;
- (h) That the additional \$1,014,300 required from the Investment Stabilization Reserve for the completion of the Dewitt – Highway 8 to Barton project (#4031911025) be added to the principal outstanding on the existing internal loan.

EXECUTIVE SUMMARY

At its meeting on May 16, 2022, the Public Works Committee directed staff to report back on any and all approved capital projects that will require additional funding related to the economy and correlated supply and demand issues that have created the current economic crisis.

Appendix "A" to Report FCS22067 presents all approved work-in-progress capital projects that staff has identified as requiring additional funds due to the economy and correlated supply and demand issues. The list does not include projects where additional funding is expected to be needed but is unable to be quantified at this time. The additional funding is unable to be quantified due to uncertainty surrounding input costs and current project timelines.

Appendix "B" to report FCS22067 outlines the recommended financing plan to address the expected variances in each capital project. In most cases, the financing plan recommends funding from the original funding source where funds are available in accordance with the Capital Closing Policy for funding projects in a deficit position. Additional funding was applied at the specific Ward Councillor's discretion for projects that were originally funding

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from the Area Rating Special Capital Re-Investment Reserves. Any remaining deficit was funded by the Unallocated Capital Reserve (#108020).

Alternatives for Consideration – See Page 7

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: As outlined in Appendix “A” to Report FCS22067, a total of \$27,322,634 in additional funding requirements has been identified due to the economy and correlated supply and demand issues that have created the current economic crisis.

Table 1 represents the additional funding requirements by variance category.

**Table 1
City of Hamilton
Projects Requiring Additional Funds by Variance Explanation**

	Number of Projects	Approved Budget (\$)	Estimated Final Project Cost (\$)	Estimated Variance (\$)
Project deferred due to lack of funds	0	-	-	-
Tendered and awarded with additional funding required	2	4,094,705	5,352,000	(1,257,295)
Tendered and not awarded due to lack of funds	2	1,854,000	3,354,000	(1,500,000)
Projects in progress with estimated shortfalls due to inflation or supply chain issues	20	111,296,530	127,265,918	(15,969,388)
Funding Commitments required to address supply chain concerns	5	44,340,000	52,240,000	(7,900,000)
Project is funded through grants (e.g. ICIP) that require the City to fund cost overruns	3	3,548,928	3,795,223	(246,295)
Project has been changed in scope as a result of inflationary pressures	4	1,495,344	1,945,000	(449,656)
TOTAL	36	166,629,507	193,952,141	(27,322,634)

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Table 2 represents the projects requiring additional funds by Department.

**Table 2
City of Hamilton
Projects Requiring Additional Funds by Department**

	Approved Budget (\$)	Estimated Final Project Cost (\$)	Estimated Variance (\$)
Healthy and Safe Communities	8,521,650	9,178,196	(656,546)
Planning and Economic Development	42,152,858	50,766,000	(8,613,142)
Public Works	115,954,999	134,007,945	(18,052,946)
TOTAL	166,629,507	193,952,141	(27,322,634)

As outlined in Appendix “A” to Report FCS22067, the total additional funding required in the amount of \$27,322,634 only includes funding requirements that can be quantified at this time. Appendix “A” does not include projects where additional funding is expected to be needed but is unable to be quantified. The additional funding is unable to be quantified due to uncertainty surrounding input costs and current project timelines. The expectation is that additional funding beyond the amount outlined in Appendix “A” will be required in the future and submitted in future capital budgets.

Appendix “B” to Report FCS22067 recommends the projects to receive additional financing, totalling \$27,322,634 and the following sources required to fund the budget variance:

- Development Charges \$1,570,650;
- Development Charges Supported Debt \$13,098,000;
- Area Rating Special Capital Reserves \$125,000;
- Internal Loans from Investment Stabilization Reserve \$1,313,050;
- Unallocated Capital Levy Reserve \$4,769,047; and
- Other Reserves \$6,446,887.

If approved, the uncommitted balance in the Unallocated Capital Levy Reserve would be \$11.9 M versus a target balance of \$33.0 M. In accordance with the Capital Closing Policy, any surplus balances remaining at the time of completion of the capital projects identified in Appendix “B” to Report FCS22067 would be returned to the source reserve.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

At its meeting on May 16, 2022, the Public Works Committee directed staff to report back on any and all approved capital projects that will require additional funding related to the economy and correlated supply and demand issues that have created the current economic crisis.

At its meeting on July 6, 2022, the Public Works Committee referred this Outstanding Business List item to the General Issues Committee.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Report FCS22067 meets the requirements of the City of Hamilton’s Debt Policy, whereby Council authority is required to issue debt.

The proposed financing plan in Appendix “B” to Report FCS22067 recommends funding from the original source where funds are available in accordance with the Capital Closing Policy for funding projects in a deficit position.

RELEVANT CONSULTATION

Staff from the following departments provided the information summarize in Report FCS22067 and the details in the appendices:

- Public Works Department
- Planning and Economic Development Department
- Corporate Services Department
- Healthy and Safe Communities Department

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Staff has identified a list of approved work-in-progress capital projects outlined in Appendix “A” to Report FCS22067 where additional funds are required to continue with the approved scope due to the economy and correlated supply and demand issues that have created the current economic crisis. The list does not include projects where additional funding is expected to be needed but is unable to be quantified at this time.

An estimated final project cost, an estimated variance and an explanation for the variance has been provided for each of the capital projects in the listing. Staff has identified seven categories for variance explanations to summarize the requirements for additional funds:

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- Project deferred due to lack of funds;
- Tendered and awarded with additional funding required;
- Tendered and not awarded due to lack of funds;
- Projects in progress with estimated shortfalls due to inflation or supply chain issues;
- Funding Commitments required to address supply chain concerns;
- Project is funded through grants (e.g. ICIP) that require the City to fund cost overruns; and,
- Project has been changed in scope as a result of inflationary pressures.

Staff is recommending additional capital financing of \$27,322,634 to provide sufficient budget to the projects outlined in Appendix “B” to Report FCS22067 necessary for work to continue as planned.

The capital financing plan, outlined in Appendix “B” to Report FCS22067, recommends the following sources of additional funding:

- Development Charges \$1,570,650;
- Development Charges Supported Debt \$13,098,000;
- Area Rating Special Capital Reserves \$125,000;
- Internal Loans from Investment Stabilization Reserve \$1,313,050;
- Unallocated Capital Levy Reserve \$4,769,047; and
- Other Reserves \$6,446,887.

The recommended financing plan was arrived at upon the basis of availability of original source funding. Where Development Charges Reserves are not available, Development Charge Supported Debt has been recommended. Projects originally funded from internal loans are recommended to have the loan principal increased to fund the deficit in the project.

According to Ontario Regulation 403/02, Council shall, before giving authorization for capital 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 2022 ARL in the amount of \$293.3 M and is based on the 2020 Financial Information Return.

The City Treasurer has calculated an updated ARL of \$194.2 M, included as Appendix “C” to Report FCS22067, which adjusts the 2022 ARL for approximately \$1,135.9 M of debt which has been approved by Council but not yet issued, as well as, debt that has been assumed or discharged in 2020 and 2021. The updated ARL of \$194.2 M is the maximum amount that the City has available to commit to annual debt servicing payments before the statutory limit is breached and corresponds to approximately \$2.1 B of additional borrowing that the City could undertake (assuming a 15-year term and 4.5% interest rate).

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Within the City's Debt Policy, total tax and rate supported debt must not exceed 60% of City own-source revenues. For 2022, the current forecast of the City's issued long-term debt as a percentage of own-source revenues is 33%. Therefore, the debt required to complete this project will not significantly increase the risk of exceeding the Council approved limit in the short-term.

ALTERNATIVES FOR CONSIDERATION

As an alternative to approving the proposed financing plan outlined in Appendix "B" to Report FCS22067, City Council could choose to refer the decision on the financing strategy to the 2023 capital budget process. This would result in the deferral of all projects listed in Appendix "A" to Report FCS22067 to future years as determined through the approval of the 2023 Tax and Rate Capital Budgets.

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.

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" to Report FCS22067 – Approved Capital Projects Requiring Additional Funds

Appendix "B" to Report FCS22067 – Financing Plan

Appendix "C" to Report FCS22067 – City of Hamilton Treasurer's Updated 2021 Annual Repayment Limit