



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:	2023-2025 Multi-Year Outlook and Capital Financing Plan Update (FCS22064) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Duncan Robertson (905) 546-2424 Ext. 4744
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the City of Hamilton continue to seek opportunities to partner with senior levels of government in addressing ongoing recovery efforts related to the COVID-19 pandemic in 2022 and 2023;
- (b) That the City of Hamilton appeal to the Province of Ontario for added financial support to address the housing crisis, as well as, additional support for mental health and addiction programs;
- (c) That staff develop a communications action plan to assist ongoing education and advocacy efforts related to the challenges the City of Hamilton is facing in its COVID-19 recovery efforts.

EXECUTIVE SUMMARY

The 2023 budget process has begun internally for programs, services and infrastructure investments for the City of Hamilton's Tax and Rate Supported Operating and Capital Budgets. The purpose of Report FCS22064 is to provide a preliminary estimate of the 2023 to 2025 Tax and Rate Budget outlook, including some description of the factors contributing to the preliminary forecast.

The 2023 to 2025 budget outlook presented to the General Issues Committee (GIC) and Council during 2022 budget deliberations, through Report FCS22002(a), has been updated with the most current information available. This preliminary forecast will continue to evolve as external factors such as inflation, COVID-19 recovery and supply channel challenges unfold and as information that contributes to budget assumptions continue to develop.

Current inflation, supply chain impacts and labour shortages in Ontario continue to pose an issue for municipalities, similarly as it does for households and businesses. The City of Hamilton has experienced many challenges in its ability to purchase items essential to operations such as fuel, chemicals, asphalt and contracted services, as well as, the City's labour, benefits and insurance negotiations. In an effort to combat inflation, the Bank of Canada has increased its overnight rate multiple times this year, most recently a 1.0% or 100 basis points on July 13, 2022, which will put upward pressure on the borrowing rate and the City's ability to finance capital infrastructure. Additionally, at this time, there have been no announcements from senior levels of government for financial support of municipalities in addressing the ongoing pressures and recovery efforts related to the COVID-19 pandemic beyond 2022.

Recognizing that the extraordinary impacts of inflation are also impacting residents and businesses in the community, the focus of 2023 budget preparation is to develop sustainable multi-year balanced budgets that capture the current economic conditions, given the limited tools municipalities have. Beyond the current economic conditions, the continuation of the COVID-19 recovery will require staff to monitor and report back on the expected impacts to the City in 2023 and the level of support from senior levels of government.

The preliminary outlook for the 2023 Tax Supported Budget is an estimated 5.6% municipal net levy increase in order to maintain existing services, provide for legislated changes and introduce enhancements to services that have been previously approved by Council. In addition, there are several projects and program changes that will come before Council for consideration in the 2023 budget that support Council's priorities and the City's Strategic Plan. Inclusive of all known factors, the forecasted total average residential tax increase would be 6.9% in 2023, based on an average assessed value of \$382,000. The preliminary outlook for the 2023 Rate Supported Budget is a 6.5% average increase for water and wastewater fees. 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 and opportunities in the multi-year outlook to consider in the development of the annual Budget and Financing Plan. Report FCS22064 provides background information on several factors faced by the City and initiatives underway to limit the financial impact on tax and rate payers, as well as, strategic investments to enhance or sustain municipal services that have been referred to the budget process. Key themes for the 2023 budget include:

- COVID-19 recovery;
- Extraordinary inflation and supply chain impacts for municipal goods and services;
- Debt capacity and cost of borrowing;
- Amendments in provincial funding;
- Asset Management;
- Affordable housing and homelessness;
- Responding to climate change,
- Investments in emergency response services; and,
- Advancing the strategic priorities of Council.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The Preliminary Tax Supported Operating Budget pressures and risks identified within Report FCS22064 would result in a levy increase of approximately \$56.0 M or 5.6% for the maintenance of current municipal services, legislated changes and enhancements to services previously approved by Council. Additionally, the Preliminary Rate Supported Operating Budget would result in a forecasted combined average rate increase of 6.5%.

Through the approval of Report FCS22064, there are no financial implications. The General Issues Committee (GIC) and Council will deliberate on the 2023 budget and multi-year outlook in accordance with the 2023 budget schedule to be announced later this year.

Staffing: There are no staffing implications as a result of Report FCS22064. During the budget process, staffing changes are highlighted for Council approval.

Legal: N/A

HISTORICAL BACKGROUND

Council, at its meeting on July 14, 2017, approved GIC Report 17-015 and Multi-Year Budget Planning Sub-Committee Report 17-001 (Report FCS17066) adopting the Multi-Year Business Planning and Budget Policy (“Policy”) for City Departments and forwarding the Policy to Hamilton Police Service, Hamilton Public Library and Hamilton Farmers’ Market Boards for consideration.

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.

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During the 2022 budget process, staff prepared a 2023-2025 Multi-Budget Year Outlook, which was included in the budget book Appendix “A” to Report FCS22002, 2022 Budget Overview and presented by the General Managers and City Manager to GIC and then, later amended as a result of decisions made during 2022 budget deliberations and included as Appendix “G” to Report FCS22002(a), 2022 Tax Supported Operating Budget – Recommendations.

The 2023 Tax Supported outlook prepared during the 2022 budget process projected a levy increase of \$41.2 M and a 4.1% municipal tax increase. The information in Report FCS22064 provides an updated estimate of those preliminary numbers, taking into consideration opportunities and pressures that have materialized since the preparation of the initial outlook during the 2022 budget process, such as, negotiated contractual agreements, legislated changes and pre-approved impacts. During the 2023 budget process, the multi-year budget outlook will also be updated to include the 2026 budget year.

The 2023 forecast for the Rate Supported Operating Budget approved, in principle, through Report FCS21088, 2022 Recommended Water, Wastewater and Stormwater Budget, projected a combined average rate increase of 6.49%. Similarly, to the Tax Supported Budget, this preliminary estimate will be updated during the 2023 budget process.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Staff has consulted with operating departments and senior leadership in determining the projected tax and rate budget pressures for 2023.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Budget Direction

Due to the end of this term of Council and the upcoming municipal election, staff is not seeking a recommended budget direction for 2023, which is an approach reflective of what other municipalities have taken. Staff will be preparing the preliminary 2023 Budget and Financing Plan in accordance with the principles outlined in the “Budget Principles” section on page 6 of Report FCS22064 and the multi-year budget and financing plans approved, in principle, through the 2022 budget process.

The preliminary budget will reflect an increase required to maintain existing levels of service and finance previously approved service enhancements, as well as, recommend business cases that advance the strategic goals of the City, 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 / wastewater rates, recognizing the financial impact the current economic environment 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 for the remainder of 2022 and into future years. Staff is monitoring the impacts of COVID-19 and the recovery plan while preparing the 2023 tax and rate supported budgets and will continue to review all City provided services in an effort to generate efficiencies and reduce costs.

As detailed in Report FCS22042, Tax and Rate Operating Budgets Variance Report as at April 30, 2022, presented to the Audit, Finance and Administration Committee on July 7, 2022, the City is forecasting a Tax Supported Operating Budget deficit of \$23.7 M and a Rate Supported Operating Budget deficit of \$2.9 M with both being driven by impacts of the COVID-19 pandemic on municipal services and a lack of funding from senior levels of government to address continued pressures. City staff will continue to work with other municipalities to pursue emergency funding provisions from senior levels of government to address both pressures in the current and ongoing pressures resulting from the pandemic.

Should advocacy efforts be unsuccessful, the City will be required to address the current year deficit and ongoing pressures related to the pandemic through the 2023 budget process. In accordance with the *Municipal Act, 2001*, section 289, the City must prepare a balanced budget and provide for any deficit in the previous year's budget. City Council has set aside \$35.6 M in discretionary funding over the past two years into the COVID-19 Emergency Reserve, resulting from operating surpluses in 2020 and 2021, to address ongoing impacts of the pandemic on municipal operations and recovery efforts. In preparation of the 2023 budget, staff will utilize these funds to the extent possible in order to limit the financial impact of the pandemic response on the 2023 tax rate.

2023 Budget Process Timeline

The Rate Operating and Capital Budgets and Tax Capital Budget are currently scheduled to be presented and deliberated on November 24, 2022 and November 25, 2022, respectively. The Tax Supported Operating Budget deliberations (which sets the tax increase) will commence in January 2023 with an expected approval in March 2023. All budgets will be deliberated at meetings of the General Issues Committee and a detailed budget schedule will be published to the City website (<https://www.hamilton.ca>) and local print media later this year.

Budget Principles

Staff will begin preparations of the Preliminary 2023 Budget, 2024-2026 Multi-Year Outlook and 10-year Capital Financing Plan 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 AAA 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 transition to the expected outcomes of the Strategic Asset Management Policy and the Asset Management Plan;
- All grant funding 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;
- Maximizes use of the Tax Supported Capital Levy 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;
- New services, service level enhancements or reductions, increases or decreases to the full-time equivalent staff complement and changes in user fees that have not been previously approved by Council require a Business Case to be deliberated by Council as part of the annual budget process; and
- All proposed 2023 capital projects require an accompanying Capital Detail Sheet to be considered by Council as part of the annual budget process.

2023 – 2025 Tax Supported Operating Budget

Based on updated information, the initial projection for 2023 has been revised to a potential levy increase of \$56.0 M or 5.6% for the maintenance of current municipal services, legislated changes and enhancements to services previously approved by Council. Inclusive of known Business Cases, Council Referred Items and unfunded COVID-19 recovery, the net levy requirement would be \$80.9 M or 8.1% with a total average residential tax impact of 6.9% after factoring in assumptions for growth, education and tax policy.

Table 1 provides the most up-to-date projections for 2023 through 2025, by department, showing the total net levy requirement by year based on assumptions for assessment growth, reassessment, tax policy changes and education tax adjustments.

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TABLE 1

CITY OF HAMILTON UPDATED TAX SUPPORTED 2023-2025 MULTI-YEAR OUTLOOK							
DEPARTMENT	2022 Council Approved	2023 Outlook	%	2024 Outlook	%	2025 Outlook	%
Planning & Economic Development	31,304,660	32,244,430	3.0%	33,012,380	2.4%	33,747,920	2.2%
Healthy and Safe Communities	266,826,350	280,679,800	5.2%	290,470,000	3.5%	301,079,360	3.7%
Public Works	278,758,310	299,555,506	7.5%	311,500,996	4.0%	323,590,996	3.9%
Legislative	5,284,590	5,389,090	2.0%	5,484,680	1.8%	5,582,750	1.8%
City Manager	13,652,960	14,002,450	2.6%	14,290,590	2.1%	14,556,580	1.9%
Corporate Services	38,824,160	40,394,910	4.0%	41,204,270	2.0%	41,942,470	1.8%
Corporate Financials	22,984,458	32,631,878	42.0%	33,209,868	1.8%	33,278,738	0.2%
Non-program Revenues	(51,256,190)	(51,188,290)	-0.1%	(51,125,010)	-0.1%	(51,057,940)	-0.1%
Hamilton Entertainment Facilities	2,337,710	-	-100.0%	-	0.0%	-	0.0%
Hamilton Police Service	183,542,540	187,415,288	2.1%	193,037,747	3.0%	198,828,879	3.0%
Other Boards & Agencies	55,589,870	57,216,750	2.9%	58,457,600	2.2%	59,649,610	2.0%
Capital Financing	145,688,310	151,159,310	3.8%	163,968,310	8.5%	175,002,310	6.7%
Maintenance and Pre-Approved Net Levy	993,537,728	1,049,501,122	5.6%	1,093,511,430	4.2%	1,136,201,673	3.9%
Business Cases and Council Referred Items		13,882,760	100.0%	15,194,660	9.4%	17,194,620	13.2%
Cumulative Net Levy	993,537,728	1,063,383,882	7.0%	1,108,706,090	4.3%	1,153,396,293	4.0%
Potential COVID-19 Recovery	-	22,920,000	100.0%	17,110,000	-25.3%	12,800,000	-25.2%
Contribution from COVID-19 Reserve		(11,903,000)	100.0%	-	-100.0%	-	0.0%
Cumulative Net Levy	993,537,728	1,074,400,882	8.1%	1,110,621,430	4.8%	1,149,001,673	3.6%
Assessment Growth			-1.0%		-1.0%		-1.0%
Impact of Levy Restrictions / Re-assessment			0.1%		0.6%		0.6%
Tax Policy			0.0%		0.2%		0.0%
Education			-0.3%		-0.3%		-0.3%
Average Total Residential Tax Impact			6.9%		4.3%		2.9%

Increases to the net levy are required in order to maintain municipal services, advance strategic priorities that have been identified by Council, provide for requirements of outside boards and agencies and the local school boards, as well as, finance capital infrastructure.

As outlined in Table 2, approximately 45% of the projected increase for 2023 \$36.8 M or 3.7% is related to maintaining existing municipal services. Additional information on the services provided by the City can be found on the City's website at <https://www.hamilton.ca/government-information/trust-and-confidence-report/service-profiles>. The 3.7% maintenance increase is relatively higher than past years (1.6% in the 2022 Tax Supported Operating Budget) as a result of extraordinary inflation pressures in key drivers such as fuel, contracted services, insurance and employee related expenses.

TABLE 2

CITY OF HAMILTON UPDATED PRELIMINARY 2023 TAX SUPPORTED BUDGET OUTLOOK									
	2022	2023 Outlook			Change				
	Council Approved	Maintenance	Strategic Priorities	Preliminary	Maintenance vs. Council Approved		Preliminary vs. Council Approved		
City Departments	608,717,008	640,036,434	34,889,300	674,925,734	31,319,426	5.1%	66,208,726	10.9%	
Boards & Agencies	239,132,410	244,632,038	1,200,000	245,832,038	5,499,628	2.3%	6,699,628	2.8%	
Capital Financing*	145,688,310	145,688,310	7,954,800	153,643,110	-	0.0%	7,954,800	5.5%	
Net Levy	993,537,728	1,030,356,782	44,044,100	1,074,400,882	36,819,054	3.7%	80,863,154	8.1%	
Assessment Growth						(1.0%)		(1.0%)	
Impact of Levy Restrictions / Re-assessment						0.1%		0.1%	
Tax Policy						0.0%		0.0%	
Education Impact						(0.3%)		(0.3%)	
Total Average Residential Tax Impact						2.5%		6.9%	

Several strategic priorities will be coming before Council for consideration in the 2023 budget process that will enhance the current services provided by the City. In total, strategic investments are forecasted to be \$44.0 M or a 4.4% net levy increase for 2023. When combined with the cost of maintaining existing levels of service, the total net levy requirement would be \$80.9 M or 8.1%.

Other factors impacting the total average residential tax rate include the City’s rate of growth, levy restrictions for protected property classes and the education rate for the district school boards. Inclusive of the assumptions for these items, the total average residential tax impact would be 6.9% for 2023, inclusive of all Business Cases and Council Referred Items yet to be deliberated by Council.

Net Levy Pressures and Opportunities

Staff is forecasting net levy pressures of \$56.0 M (5.6%), \$44.0 M (4.2%) and \$42.7 M (3.9%) for the years 2023 through 2025, respectively, in order to maintain existing services, provide for legislated requirements and fund enhancements to services previously approved by Council. Additionally, staff has identified strategic investments and recovery programs for Council’s consideration in adopting the 2023 budget and multi-year outlook that support the City’s Strategic Plan. The following pressures and opportunities outline key themes in the development of the updated multi-year outlook.

- A. **Extraordinary Inflation, Supply Chain and Labour Shortages** – The City is experiencing significant inflationary pressures in primary resources such as fuel, asphalt, contracted services and employee related costs. The annual budget for fuel is anticipated to increase approximately 50%. Staff is reviewing long-term projections and available options to reduce the impact in 2023 through temporary reserve financing.

Inflation impacts of fuel have also significantly impacted contracted services secured by the City, such as, waste collection which further adds to the pressures the City will face in 2023. Fuel and asphalt prices, as well as, supply chain issues within the construction industry are expected to continue to impact the City's ability to finance capital works.

Low levels of unemployment and increasing inflation have resulted in a very competitive labour market for employers in Hamilton. Staff is looking into various options in order to remain competitive as an employer of choice. While the City continues to see strong candidate interest in many roles at the City, there are some areas that have identified roles that are particularly difficult to fill caused by a shortage in qualified available applicants. Appendix "A" to Report FCS22064 includes a list of current vacancies at the City and the immediate impact those vacancies have on the delivery of municipal services.

- B. Asset Management** – Through Report PW22048, Core Asset Management Plan, Council approved Asset Management Plans for transportation and waterworks assets in accordance with the provincial regulations introduced through Ontario Regulation 588/17. An annual funding gap of \$94.7 M for tax supported programs was identified based on asset renewal needs and planned operations and maintenance. A \$101.1 M annual funding gap was identified for rate supported programs.

During 2022 budget deliberations, City Council approved the 2023-2031 Capital Financing Plan, in principle, which had included a 0.5% tax levy increase (\$4.8 M) to primarily address deficiencies in state-of-good-repair within the road network. Additionally, the Capital Financing Plan was updated with new allocations for discretionary block funding across all other City programs, increasing annual block allocations by approximately 30% to reflect cumulative inflation over the past decade. The increases in capital block allocations are funded through the reprioritization of debt that will be retired over the next few years. The Capital Financing Plan also included a 0.07% tax levy increase for annual debt repayments of West Harbour strategic investments.

Even with planned increases to the Capital Levy included in the Capital Financing Plan, there will be a significant funding gap for the renewal of assets within the road network and engineered structures portfolios of approximately \$900 M over the 10-year capital plan. The Capital Financing Plan has been updated to reflect a phase-in approach to increase the annual funding amounts for those assets over the 10-year planning period beginning in 2024. This results in an additional \$6.2 M or 0.6% to the 0.5% annual increase that had previously been included in the Capital Financing Plan for a total Capital Levy increase of 1.1% in years 2024 through 2033 to address the annual funding gap.

- C. Affordable Housing and Homelessness** – On December 13, 2013, City Council approved the City's 10-year Housing and Homelessness Action Plan (HHAP), which

was revised through the endorsement of the five-year review reported to Council in August of 2020 through Report CS11017(d). The five-year review of the HHAP was a comprehensive overhaul and refocusing of the HHAP necessary due to significant changes in Hamilton's housing system and its context. As provincial and federal programs evolve, and requests for municipal co-investment in housing projects increase, unprecedented pressures on every segment of the housing continuum are felt as a result of increasing costs, our current economic landscape and unprecedented demand for services and supports in order for individuals to be housed successfully, comprehensive strategies across city government and in partnership with upper levels of government and the community are required to address challenges arising since this five year review was completed.

Significant investments in the multi-year outlook and capital forecast have been endorsed by City Council over the past several years in an effort to combat homelessness and address ongoing concerns of housing affordability. Through the 2023 budget process, there will be additional investments put forward with sustainable financing strategies for Council's consideration in order to keep up with demand for service. The initiatives listed below provide a snapshot of the issues faced in this area and is not an exhaustive list. Staff are seeking Council's support in advocacy efforts with the Provincial government to provide financial contribution in addressing current challenges across all sections of the housing continuum. The housing crisis has led to significant demand for local contributions, which can exacerbate the issue in trying to address social reform issues with regressive taxation tools like property taxes. Increases to the property tax rate will further hinder the issue of housing affordability within the community. Furthermore, additional mental health and addiction support is required to ensure successful tenancies for homeless individuals with significant needs.

The Roxborough Housing Incentive Program (RHIPP) was approved through Report HSC19034, which 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. A total pressure of \$1.0 M is required for 2023 to fulfill annual budget requirements of meeting the program.

Through Report HSC22040, Service and Exit Agreements for Community Housing Providers and End of Mortgage, staff has recommended providing additional subsidy to social housing providers for either rent supplements or operating / capital works with an annual net levy impact of \$1.1 M. This item will come before Council in 2023 budget deliberations.

Additionally, development charge exemptions are forecasted as a significant and ongoing challenge faced by non-profit developers and staff will be reporting back to Council in 2023 with program guidelines and financing strategy to provide financial assistance to affordable housing developments by non-profit developers as outlined in

Report HSC22050/FCS22073, Approaches to Addressing the Challenges of Financing Non-Profit Housing Developments.

As identified through Report HSC20020(f), Adaptation and Transformation of Services for People Experiencing Homelessness Update 6, staff has recommended key actions to support the implementation of the first phase of a transition plan until the end of Q1-2023 for the homeless-serving system to support COVID-19 recovery efforts in a planned and gradual manner. It is expected that the phased transition to a more permanent shelter system will occur over the next twenty months and annualized costs associated will be referred to the 2023 budget process.

Since March 2020, there has been unprecedented adaptation to Hamilton's emergency shelter system to work toward better meeting the needs of unhoused residents in Hamilton through various phases of the COVID-19 pandemic. The annual cost of services and supports associated with proposed ongoing service levels for the shelter system emerging out of the pandemic will come before Council in 2023 budget deliberations.

- D. **Climate Change** – City Council declared a climate change emergency in March 2019, at that time, joining 435 municipalities world-wide. Since then, the total number of municipalities has reached more than 800 cities around the world, as well as, the Government of Canada, all acknowledging the scale of the climate crisis and the need for accelerated action.

To support the Corporate Climate Change Task Force and Hamilton's Climate Change Action Strategy, City Council established a Climate Change Reserve and Policy with initial funding of \$1.5 M in the disposition of the 2020 tax operating budget surplus. However, to advance the climate change action goals established by the City of Hamilton, consideration of a sustainable funding source for the reserve must be given in future budget years. An estimated 0.25% special levy (\$2.5 M) has been factored into the 2023 budget outlook, which would be contributed towards the Climate Change Reserve, but final determination will come before Council in the 2023 budget deliberations. Additional information on the City's Climate Change Action Strategy is available in Report PED22058 / HSC22030, Hamilton's Climate Change Action Strategy.

- E. **Ten-Year Local Transit Strategy** – The annualization of year six and implementation of years seven through ten of the Ten-Year Local Transit Strategy have been incorporated into the multi-year outlook and capital plan as approved through Report PW14015(a). For 2023, a net levy pressure of \$3.3 M is anticipated to support the continuation of the Ten-Year Local Transit Strategy.
- F. **Provincial Funding** – Changes in Provincial Funding Agreements are expected to continue to represent a significant budget pressure for 2023. Through 2022, the City has received one-time mitigation funding for Public Health, as well as, Children's

Services and Neighbourhood Development, but there has been no commitment from the Province for 2023 or beyond. In order to ensure service continuity, the City of Hamilton will need to absorb the \$3.6 M of lost annual funding for these programs.

- G. Hamilton Fire Department 10-Year Service Delivery Plan** – Through Report HSC19026, City Council endorsed the Hamilton Fire Department Ten-Year Service Delivery Plan, which includes additional costs for volunteer staffing and equipment, as well as, outfitting and staffing for the Waterdown Station. Based on construction timelines, the outfitting of the Waterdown station will likely occur beyond 2023.

Additionally, 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. During 2022 budget deliberations, staff proposed to continue with the \$1.4 M contribution from reserve to provide time for an equitable solution to be presented to Council for consideration during the 2023 budget.

- H. Hamilton Police Service 10-Year Plan** – Hamilton Police Services presented a 10-year plan commencing with the 2022 tax supported operating budget to enhance its overall staff complement by 13 officers in each of the next 10 years. The strategy was proposed in order to bring City services up to a benchmark standard of officers per population, taking into consideration projected growth rates over the planning period. This investment in emergency support services represents approximately \$1.2 M each year.
- I. Hamilton Paramedic Service Master Plan** – City Council adopted the Hamilton Paramedic Service Master Plan on May 26, 2022 through Report HSC22012. This plan provides direction for the service over the next 10 years through technology advancements, innovation, resource allocation and optimization of operations. The plan identifies 29 objectives with corresponding actions to address current and future needs to ensure optimal service delivery under three scenarios. Assuming Model A, the anticipated net levy impact of implementing the plan in 2023 would be \$2.9 M, which includes staffing and outfitting requirements to meet service demand for growth and existing deficiencies as outlined in the plan.
- J. Hamilton Entertainment Facilities (HEF)** – The City of Hamilton has entered 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. Net levy savings of \$1.9 M was factored into the 2022 tax supported operating budget and the remaining savings will be annualized in the 2023 tax supported operating budget.

- K. **User Fees** – For the purposes of preparing the preliminary multi-year outlook, staff has estimated user fee increases of 2% per year for 2023 to 2025, as well as, planned additional user fees pertaining to the implementation of the Ten-Year Local Transit Strategy.

However, throughout the 2023 budget process, staff will investigate all fees to ensure that user fees are commensurate with the cost of providing the service. As in past years, program areas will work towards full cost recovery, while taking into consideration affordability and equity challenges through targeted subsidy programs.

- L. **COVID-19 Recovery** – 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 the City were fully mitigated in 2020 and 2021 through the historic Safe Restart Agreement, Social Services Relief Fund and many other funding announcements, the City currently faces a substantial deficit of \$23.7 M related principally to the COVID-19 pandemic response and less financial support from senior levels of government. Currently, senior levels of government have not made any financial commitments beyond 2022 to fund ongoing recovery efforts for municipalities related to COVID-19.

The provincial and federal governments were essential partners in tackling the social and economic issues posed by the pandemic as the City of Hamilton has leveraged funding of approximately \$61.3 M in 2020 and \$99.8 M in 2021, as well as, forecasting \$44.7 M in 2022, for essential programs and services needed throughout the pandemic. However, pandemic recovery efforts still pose a major issue for the City, principally within Housing Services and Public Health as detailed in Report FCS22042, Tax and Rate Operating Budget Variance Report, as at April 30, 2022.

It is recommended that Council and staff continue to work with other municipal partners to educate and seek additional support from senior levels of government to address the continued pressures and important role that municipalities play in economic recovery in the aftermath of the COVID-19 pandemic.

In accordance with the *Municipal Act, 2001*, section 289, the City must prepare a balanced budget and provide for any deficit in the previous year's budget. City Council has set aside \$35.6 M in discretionary funding over the past two years into the COVID-19 Emergency Reserve, resulting from operating surpluses in 2020 and 2021, to address ongoing impacts of the pandemic on municipal operations and recovery efforts. Should advocacy efforts be unsuccessful, staff will utilize these funds to the extent possible in order to limit the financial impact of the pandemic response on the 2023 tax levy. However, such an impact would not only require a substantial investment from the community but would also limit flexibility to finance strategic initiatives moving forward.

Boards and Agencies

Based on multi-year budgets submitted by the Hamilton Public Library and Hamilton Police Service, as well as, historical trends for all other Boards and Agencies, staff has projected a net levy requirement of \$6.7 M or 2.8% for Boards and Agencies in 2023. The Police budget pressures are inclusive of an additional 13 officers as indicated in their 10-year plan.

TABLE 3

CITY OF HAMILTON					
UPDATED PRELIMINARY 2023 OUTLOOK FOR BOARDS & AGENCIES					
Board/Agency	2022 Council Approved	2023 Outlook	Change		
			\$	%	
Conservation Authorities	\$ 8,651,200	\$ 8,821,910	\$ 170,710	2.0%	
MPAC	\$ 6,979,670	\$ 7,119,260	\$ 139,590	2.0%	
Hamilton Beach Rescue Unit	\$ 132,870	\$ 135,560	\$ 2,690	2.0%	
Hamilton Farmers' Market	\$ 242,360	\$ 261,110	\$ 18,750	7.7%	
Royal Botanical Gardens	\$ 647,410	\$ 660,620	\$ 13,210	2.0%	
Hamilton Police Services	\$ 183,542,540	\$ 188,615,288	\$ 5,072,748	2.8%	
Hamilton Public Library	\$ 32,848,020	\$ 34,129,950	\$ 1,281,930	3.9%	
City Enrichment Fund	\$ 6,088,340	\$ 6,088,340	\$ -	0.0%	
Net Levy Requirement inclusive of Capital Financing	\$ 239,132,410	\$ 245,832,038	\$ 6,699,628	2.8%	

Not included in the preliminary outlook is an increase to the City Enrichment Fund. At its meeting on June 22, 2022, the Audit, Finance and Administration Committee approved that an increase to the City Enrichment Fund be forwarded to the 2023 budget process for consideration. An updated budget submission will come before Council for deliberation.

Capital Financing

The multi-year outlook for Capital Financing includes an annual tax levy increase of 0.5% in 2023 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. Additionally, a 10-year phase-in has been incorporated to address the annual funding gap identified in the Transportation Asset Management Plan of \$94.7 M starting in 2024. Table 4 provides the forecasted net levy pressures related to the financing of the Tax Capital Budget from 2023 to 2025.

TABLE 4

CITY OF HAMILTON						
UPDATED PRELIMINARY 2023-2025 OUTLOOK FOR CAPITAL FINANCING						
Capital Financing	2023		2024		2025	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Asset Management	\$ 4,800,000	3.3%	\$ 10,980,000	7.1%	\$ 10,980,000	6.6%
West Harbour Development	\$ 626,000	0.4%	\$ 1,773,000	1.2%	\$ 54,000	0.0%
ICIP - Transit	\$ 45,000	0.0%	\$ 56,000	0.0%	\$ -	0.0%
Climate Change	\$ 2,483,800	1.7%	\$ -	0.0%		0.0%
Net Levy Requirement	\$ 7,954,800	5.5%	\$ 12,809,000	8.3%	\$ 11,034,000	6.6%

The Capital Financing Plan has been updated with new assumptions around the cost to borrow given recent changes in the investment market and the Bank of Canada’s response to rising inflation. In 2023 and 2024, an interest rate of 5.5% has been assumed, based on current market rates, with a return to the previously forecasted 3.0% for years 2025 through 2032. This results in approximately \$6.0 M of additional financing costs related to debt.

Preparation of the Capital Financing Plan prioritizes that the City maintain its AAA 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.

2023-2025 Preliminary Rate Supported Budget

The 2022 Rate Supported Budget approved by Council in December 2021, resulted in a combined rate increase of 4.98%. The budget also included a projection for 2023 to 2025 that was approved in principle through the Rate Financing Plan. 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 infrastructure with affordable rates. Table 5 provides detail on the rate supported budget approved in principle for 2023 through 2025.

TABLE 5

CITY OF HAMILTON			
UPDATED RATE SUPPORTED 2023-2025			
RATE FINANCING PLAN (\$000's)	2023	2024	2025
Ave. Total Rate Increase	6.49%	6.45%	6.36%
Total Revenues Available	276,208	296,181	317,368
Debt Charges	28,195	34,380	41,687
DC Exemptions	9,000	9,000	9,000
Operating Expenditures	102,412	106,574	110,905
Net Operating	139,607	149,954	161,592
Required Capital Financing	127,566	141,062	155,458
Reserve Transfers	9,034	5,165	318
Net Capital	136,600	146,227	155,776

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. A recent update of this work was provided through Report FCS22043, which detailed a proposed timeline of July 2022 through to January 2026 for the completion of the three phases outlined in the report: discovery, detailed analysis and implementation.

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.

The Waterworks Asset Management Plan identified an annual funding shortfall of \$101.1 M towards capital renewal needs. Through the 2022 budget, staff had incorporated additional debt financing and rate increases of approximately 6.5% over a four-year period in order to address the deficiency in capital financing. Staff will continue to review and revise the Rate Financing Plan throughout the 2023 budget process.

ALTERNATIVES FOR CONSIDERATION

N/A

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

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 FCS22064 – Summary of Staff Vacancies