



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

TO:	Chair and Members General Issues Committee
COMMITTEE DATE:	November 25, 2022
SUBJECT/REPORT NO:	2023 Tax Supported Capital Budget (FCS22081) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Duncan Robertson (905) 546-2424 Ext. 4744 Tran Trang (905) 546-2424 Ext. 4371
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the 2023 Tax Supported Capital Levy in the amount of \$142,959,430 be approved, inclusive of the following increases to the net levy;
 - (i) \$5,000,000 (0.50%) for discretionary block funded projects principally for rehabilitation and replacement investments and to transition to the expected outcomes of the Strategic Asset Management Policy and Asset Management Plan;
 - (ii) \$2,500,000 (0.25%) for dedicated annual funding towards the implementation of the Climate Change Action Strategy;
 - (iii) \$53,140 (0.01%) to fund the debt servicing costs associated with the City's share of the approved Investing in Canada Infrastructure Program Transit Stream projects for 2023;
 - (iv) \$774,290 (0.08%) to fund the debt servicing costs associated with the West Harbour Waterfront strategic initiatives in 2023;
 - (v) \$869,000 (0.09%) to fund the debt servicing costs associated with the Hamilton Paramedic and Central Stores facility project approved in 2022;

- (b) That the 2023 Tax Supported Capital Budget and Financing Plan, attached as Appendix “B” to Report FCS22081, in the amount of \$251,838,300 be approved with the following funding sources:
- (i) \$2,692,000 from government grants and subsidies;
 - (ii) \$2,485,200 from other external sources;
 - (iii) \$18,771,150 from Development Charges Reserves;
 - (iv) \$454,750 from Community Benefit Charges Reserve;
 - (v) \$6,250,000 from Rate Supported Revenues;
 - (vi) \$40,702,910 from Reserves;
 - (vii) \$3,792,000 from Work-in-Progress and other internal transfers;
 - (viii) \$101,598,290 from the 2023 Tax Supported Capital Levy;
 - (ix) \$183,000 from the 2023 Hamilton Police Service Operating Budget;
 - (x) \$5,300,000 from Hamilton Utilities Corporation (HUC) / Alectra Dividends;
 - (xi) \$35,537,000 from Canada Community Building Fund Reserve (112213);
 - (xii) \$6,500,000 from the Unallocated Capital Levy Reserve (108020);
 - (xiii) \$7,772,000 from Tax Supported Debenture Financing;
 - (xiv) \$19,800,000 from Development Charge Supported Debenture Financing;
- (c) That the Tax Supported Discretionary Net Capital Funding Forecast 2024–2032, attached as Appendix “C” to Report FCS22081, which assumes the following, be approved, in principle, and re-visited by Council each budget year:
- (i) \$11,180,000 (1.12%) in each year from 2024 to 2032 to transition to the expected outcomes of the Strategic Asset Management Policy and Asset Management Plan;
 - (ii) \$645,000 (0.06%) in 2024, \$2,463,000 (0.25%) in 2025, \$938,000 (0.09%) in 2026, \$59,000 (0.01%) in 2027, \$2,513,000 (0.25%) in 2028, \$118,000 (0.01%) in 2029, \$9,119,000 (0.91%) in 2031 and \$8,042,000 (0.80%) in 2032 to fund additional debt servicing costs;

- (d) That the operating budget and full-time equivalent (FTE) impacts of the 2023 Tax Supported Capital Budget, estimated at \$3.2 M and 15.39 FTE positions, included in Appendix “D” to Report FCS22081 be referred to the 2023 Tax Supported Operating Budget and 2024 to 2026 Multi-Year Outlook deliberations for consideration;
- (e) That the General Manager, Finance and Corporate Services, be authorized and directed to negotiate and confirm the terms for the placement and issuance of all debenture issue(s), in either a public or private market and / or bank loan agreements and debenture issue(s), in and / or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$29,072,000 Canadian currency, as attached in Appendix “B” to Report FCS22081, which includes \$7,772,000 in Tax Supported municipal debt and \$19,800,000 in Development Charges municipal debt;
- (f)
- (i) 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 (e) and (g) including, but not limited to, external legal counsel and fiscal agents;
- (ii) That the General Manager, Finance and Corporate Services, is authorized and directed, on behalf of the City of Hamilton, to enter into and / or execute, all agreements and necessary ancillary documents to secure the terms and issuance of the debenture issue(s) described in recommendations (e) and (g), on terms satisfactory to the General Manager, Finance and Corporate Services and in a form satisfactory to the City Solicitor;
- (g) That staff be authorized and directed to prepare all necessary By-Law(s) for Council’s consideration, for the purpose of authorizing debenture issue(s) described in Recommendation (e).

EXECUTIVE SUMMARY

Report FCS22081 provides the recommendations required to approve and implement the 2023 Tax Supported Capital Budget. The complete details of the capital budget are provided in the 2023 Tax Supported Capital Budget Book attached as Appendix “A” to Report FCS22081.

The City of Hamilton’s 2023 Tax Supported Capital Budget and 10-year Tax Supported Capital Program were prepared in accordance with the following principles in support of the City’s Strategic Plan and Long-Term Financing Plan:

- The annual budget reflects and supports the 2016-2025 Strategic Plan;
- The annual budget is aligned with the financial policies approved by Council;

- The City's financial position and prudent financial management of debt is prioritized to maintain the City's strong credit rating;
- 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 is investigated;
- Reserves are maintained per policy in order to repair / replace infrastructure, fund identified priorities and ensure long-term sustainability;
- Total tax and rate supported debt as a percentage of City own-source revenues does not exceed 60% unless approved by Council; and,
- 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.

The proposed gross capital investment by the City of Hamilton in 2023 is \$285.7 M. This amount includes the \$251.8 M recommended for approval through Report FCS22081, as well as, \$33.9 M of previously approved funding for 2023 that includes reserve transfers and leveraging of grant funding made available from senior levels of government.

In order to support the \$285.7 M in capital investment, the Capital Financing Plan detailed within Report FCS22081 incorporates a \$9.3 M increase to the Capital Levy, or a 0.92% increase to the net levy. The increase in the Capital Levy is broken down as follows:

- \$5.0 M, or 0.50%, increase for discretionary block funded projects to be used principally for rehabilitation and replacement investments in the City's 10-year Capital Financing Plan;
- \$2.5 M, or 0.25%, increase for annual contributions to the Climate Change Reserve in order to provide sustainable financing for initiatives coming out of the Climate Change Action Strategy; and,
- \$1.7 M, or 0.17%, increase to fund the debt servicing costs associated with the City's share of the ICIP – Transit approved capital investments (0.01%), West Harbour Waterfront strategic initiatives (0.08%) and the Paramedic and Central Stores facility (0.09%). The total cost of the approved ICIP – Transit projects for the City is \$28.9 M in 2023, with the City's share amounting to \$8.8 M with \$0.5 M to be funded through tax supported debt with the remainder from development charge revenue and program reserves.

The proposed 2023 Tax Supported Capital Budget and 2024-2032 Capital Forecast is supported through the Capital Financing Plan that prioritizes the capital investment required to transition to the expected outcomes of the Strategic Asset Management Policy and Asset Management Plan, as well as, to support growth and development and service level targets outlined in the City's Strategic Plan, while maintaining the City's strong financial position and AAA credit rating. Elements of this plan include the following:

1. Annual increases to the Capital Levy (0.5% in 2023 and 1.1% in subsequent years) to meet the required asset reinvestment needs and inflationary increases to maintain infrastructure in its current state, as well as, a transitional plan to address the \$94.7 M annual funding gap for transportation assets that was identified in the Transportation Asset Management Plan over the next 10 years;
2. Increases to the Capital Levy equal to the annual debt servicing charges for all new debt to be issued over the 10-year planning period. It is necessary to increase the Capital Levy at least in proportion with the amount needed to finance new debt in order to ensure continuity of the level of funding available for replacement and rehabilitation, as well as, the proportion of debt repayments to City own-source revenues in order to maintain the City's AAA credit rating;
3. All discretionary program blocks have been increased by the cumulative Non-Residential Construction Price Index for the years 2012 through 2021 and at an estimated rate of inflation for all subsequent years beginning in 2022. This ensures that program areas maintain the same level of investment in capital infrastructure over the planning period and purchasing power is not eroded by inflation. Discretionary block allocations and service level targets will be revisited with the presentation of Asset Management Plans by the July 1, 2025 legislated deadline. The inflationary increases in capital block allotments have been funded through the reprioritization of debt paid by the Capital Levy that will be retired over the next few years;
4. The Capital Financing Plan has been updated with a strategy to address the \$54 M funding shortfall in discretionary DC exemptions. Beginning in 2023, the Capital Financing Plan incorporates an additional \$6.5 M per year over an eight-year period (ending in 2030) as dedicated funding for DC exemptions. Updates were made to the 10-year forecast for the timing of debt issuance, which provided the funding required over the eight-year period;
5. The Capital Financing Plan has prioritized funding for growth and development, such as, the West Harbour Waterfront and Airport Employment Growth District, that will provide both economic and socio-economic advantages to businesses and residents while also increasing the City's non-residential assessment; and,
6. The Capital Financing Plan advances key priorities of the 2016-2025 Strategic Plan through investment in strategic initiatives including Transportation, Transit, Housing and Homelessness, Park Development, Integrated Growth and Development and others.

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FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2023 Tax Supported Capital Budget and Financing Plan in the amount of \$285.7 M attached as Appendix “B” to Report FCS22081, includes the gross costs and sources of financing. The 2023 Capital Levy of \$143.0 M will be incorporated into the 2023 Tax Supported Operating Budget, representing a \$9.3 M increase from 2022 or a net levy increase of 0.92%.

The Discretionary Tax Supported Net Capital Funding Forecast 2023–2032, attached as Appendix “C” to Report FCS22081, provides details of the Capital Financing Plan for the next ten years in the total amount of \$2.2 B.

The 2023–2032 Capital Financing Plan assumes increases to the Capital Levy for discretionary block funding of 0.50% in 2023 and a 1.12% increase in each subsequent year (2024 to 2032). Additionally, a 0.25% increase has been incorporated into 2023 to support the Climate Change Action Strategy, as well as, additional increases for debt servicing requirements for new debt issued over the planning period.

Table 1 details the anticipated future net levy impacts for Capital Levy increases required to support the 2023-2026 Capital Financing Plan.

**TABLE 1
Tax Supported Capital Financing Plan 2023-2026**

	2023	2024	2025	2026
Asset Management	0.50%	1.12%	1.12%	1.12%
Climate Change Action Strategy	0.25%	0.00%	0.00%	0.00%
ICIP - Transit Stream (City Share - debt)	0.01%	0.01%	0.00%	0.00%
West Harbour Strategic Initiatives (debt)	0.08%	0.03%	0.25%	0.04%
Paramedic Services and Central Stores Facility (debt)	0.09%	0.00%	0.00%	0.00%
Library Expansion (debt)	0.00%	0.03%	0.00%	0.06%
Total Levy Impact	0.92%	1.19%	1.37%	1.22%

In order to accommodate capital spending requirements, \$29.1 M has been allocated to debt financing in the 2023 Tax Supported Capital Budget. This amount includes \$7.8 M in Tax Supported debt and \$19.8 M in Development Charges Tax Supported debt.

Some capital projects, especially those that provide new or expanded services, have an impact on operating costs on an ongoing basis once the projects have been completed. The estimated operating budget impacts of the recommended 2023 capital projects is \$3.2 M and 15.39 FTE positions. The operating impacts are detailed in Appendix “D” to Report FCS22081 and recommended to be referred to the 2023 Tax Supported Operating Budget and 2024 to 2026 Multi-Year Outlook deliberations for consideration by Council.

Staffing: Final consideration and impact of the operating budget and FTE positions related to the proposed 2023 Tax Supported Capital Budget will occur through the 2023 Tax Supported Operating Budget deliberations.

Legal: N/A

Alternatives for Consideration – See Page 29

HISTORICAL BACKGROUND

The City of Hamilton employs a hybrid Capital Block Funding Prioritization methodology that has evolved over the years, aligning with the City’s Strategic Plan. This has been accomplished by senior staff in all program areas endorsing a corporate capital funding program focused on meeting a base level financial requirement. This process ensures stable long-term capital funding for infrastructure program areas and facilitates effective costing and priority planning outcomes.

Council, through the 2022 Tax Supported Capital Budget Report (FCS21096), approved, in principle, the Tax Supported Discretionary Net Capital Funding forecast for 2023–2031. An update on the Capital Financing Plan was provided through the 2023-2025 Multi-Year Outlook and Capital Financing Plan Update Report (FCS22064) at General Issues Committee on August 8, 2022. Staff did not seek a recommended budget guideline related to the Capital Levy at that time due to the end of that term of Council. Staff prepared the 2023 Budget and Financing Plan in accordance with the City of Hamilton’s budget principles and Council approved financial policies.

Table 2 provides a summary of the historical tax supported net levy increases for the Capital Levy over the past three years in comparison to the proposed increase for 2023 based on the recommendations in Report FCS22081.

**TABLE 2
Historical Tax Supported Capital Levy Increases**

	2020	2021	2022	2023
	Approved	Approved	Approved	Proposed
Discretionary Block Funding / Asset Management	0.50%	0.00%	0.50%	0.50%
Capital Levy Increase Climate Change Action Strategy	0.00%	0.00%	0.00%	0.25%
ICIP - Transit Stream (City Share - debt)	0.21%	0.18%	0.11%	0.01%
West Harbour Strategic Initiatives (debt)	0.03%	0.00%	0.04%	0.08%
Downtown Office Accommodations Strategy (debt)	0.14%	0.00%	0.00%	0.00%
Paramedic Services and Central Stores Facility (debt)	0.00%	0.00%	0.00%	0.09%
Library Expansion (debt)	0.00%	0.00%	0.00%	0.00%
DC Exemptions	0.00%	0.22%	0.00%	0.00%
Total Levy Impact	0.88%	0.40%	0.65%	0.92%

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POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Asset Management

The municipal asset management planning regulation (O. Reg. 588/17) under Bill 6, *Infrastructure for Jobs and Prosperity Act, 2015*, was adopted on January 1, 2018. On June 26, 2019, City Council adopted a Strategic Asset Management Policy (Report PW19053). On March 15, 2021, O. Reg. 588/17 was amended to extend regulatory timelines for phases 2, 3 and 4 by one year:

1. July 1, 2019: Date for municipalities to have a finalized strategic asset management policy that promotes best practices and links asset management planning with budgeting, operations, maintenance and other municipal planning activities.
2. July 1, 2022: Date for municipalities to have an approved asset management plan (AMP) for core assets (roads, bridges and culverts, water, wastewater and stormwater management systems) that identifies current levels of service and the cost of maintaining those levels of service.
3. July 1, 2024: Date for municipalities to have an approved asset management plan for all municipal infrastructure assets that identifies current levels of service and the cost of maintaining those levels of service.
4. July 1, 2025: Date for municipalities to have an approved asset management plan for all municipal infrastructure assets that builds upon the requirements set out in 2024. This includes an identification of proposed levels of service, what activities will be required to meet proposed levels of service and a strategy to fund these activities.

Through Report PW22048, Core Asset Management Plan, Council approved Asset Management Plans for transportation and waterworks assets on June 22, 2022 in accordance with the provincial regulations introduced through Ontario Regulation 588/17.

Report FCS22081 meets the requirements of the City of Hamilton's Debt Policy, whereby Council authority is required to issue debt.

Debt Management

I. Council Approved Debt Limits:

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

The City's debt ratio in 2021 was 21.2% and is forecasted to be 17.8% in 2022 and 18.0% in 2023 – well within the limit of 60%.

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

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

The City's DC supported debt in 2021 was 1.2% and is forecasted to be 1.0% in 2022 and 1.5% in 2023, well within the limit of 25%.

II. Statutory Limits:

1. The annual debt and financial obligation limit for the City is calculated in accordance with Section 3 of Ontario Regulation 403/02 as amended.

The City's debt service charges as a percentage of City Own Source Revenue of 4.3% in 2021 and forecasted at 3.6% in 2022 and 3.3% for 2023 are well within the limit of 25%.

2. Outstanding variable interest rate bank loan agreements and variable interest rate debentures, in total, cannot exceed 15% of the total outstanding debt of the City as set out in Ont. Reg. 276/02 s(2).

The City's debt ratios are below the limit of 15% with 3.8% in 2021 and forecasted at 5.0% in 2022 and 4.6% in 2023.

III. Financial Ratios:

The debt related financial ratios will remain well within the affordability range and acceptable levels of prudent financial management in 2023. Appendix "G" to Report FCS22081 provides the results of the following ratios:

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

According to Ontario Regulation 403/02, Council shall, before giving authorization for capital work that would require a long-term debt or financial obligation, have the City Treasurer calculate an updated Annual Repayment Limit (ARL) using the most recent ARL 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 \$293,261,629 and is based on 2020 Financial Information Returns.

Using this 2022 ARL, the City Treasurer has calculated an updated ARL of \$174,199,608, shown on page two of Appendix “G” to Report FCS22081. The 2022 ARL was adjusted for potential debt service charges of \$112,204,852 corresponding to approximately \$1 B of debt which has been approved by Council in prior years but not yet issued. The 2022 ARL was then further adjusted for debt service charges assumed or discharged on debt since December 31, 2020 to the end of 2021 and outstanding debt issuances related to CityHousing Hamilton. According to this calculation, the updated ARL of \$174,199,608 represents the maximum amount that the City has available to commit to payments related to debt and financial obligations before the statutory limit is breached and corresponds to approximately \$1,748,542,669 of additional borrowing capacity (assuming a 15-year term and 5.5% interest rate).

RELEVANT CONSULTATION

The 2023 Tax Supported Capital Budget is prepared in consultation with staff from all departments, as well as, senior leadership to determine the proposed submission and Capital Levy requirements to appropriately address budget pressures and risks while balancing tax affordability.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Preliminary 2023 Tax Supported Capital Budget

The Preliminary 2023 Tax Supported Capital Budget recommends a gross capital investment by the City of Hamilton of \$285.7 M in total. This amount includes the \$251.8 M recommended for approval through Report FCS22081, as well as, \$33.9 M of previously approved funding for 2023.

The detailed 2023 Tax Supported Capital Budget Book, attached as Appendix “A” to Report FCS22081, provides additional information on the capital projects recommended by staff. The 2023 Tax Supported Capital Budget Book includes:

1. A list of all projects included in the 2023 Tax Supported Capital Budget with funding sources;
2. A list of 2023 capital projects that have been previously approved by Council;
3. A list of projects identified by staff for 2023 but insufficient resources in the 10-year capital forecast to finance (unfunded);
4. The operating impacts of the proposed 2023 capital projects;

5. The affordable / unaffordable capital forecast that shows the difference between available capital financing and the 10-year capital project submissions for the 2023-2032 Capital Financing Plan;
6. A breakdown of the discretionary tax supported net capital funding available in the 2023-2032 Capital Financing Plan;
7. A list of capital projects by ward in the 2023-2032 capital forecast; and,
8. The capital summaries and project detail sheets by department and division for the 2023-2032 capital forecast.

Table 3 summarizes the proposed 2023 Tax Supported Capital Budget by program area and compares it to the previous year’s approved capital program. The proposed capital budget incorporates a 0.92% net levy increase (\$9.3 M) dedicated to the Capital Levy.

The 2023 Tax Supported Capital Budget and Financing Plan in the amount of \$285.7 M, attached as Appendix “B” to Report FCS22081, includes the gross costs and identifies the sources of financing for each project recommended.

Staff is recommending a 2023 Capital Levy of \$143.0 M, which represents an increase of \$9.3 M over the 2022 Capital Levy of \$133.8 M and amounts to a net levy increase of 0.92%, or approximately \$41 per average residential household assessed at \$382,000.

**TABLE 3
Tax Supported Capital Budget**

(\$000's)	2022		2023		Difference	
	Approved		CAPITAL PROGRAM			
	GROSS	NET	GROSS	NET	GROSS	NET
Proposed Program Funding						
Energy, Fleet and Facilities	60,450	10,463	30,981	13,999	(29,469)	3,536
Environmental Services	35,927	15,300	18,724	7,928	(17,203)	(7,372)
Waste Management	9,258	7,577	3,206	2,870	(6,053)	(4,707)
Transit Services	1,435	1,200	8,545	2,133	7,110	933
Transit Services (ICIP PW19083/FCS18048(a))	75,952	11,926	24,039	533	(51,913)	(11,393)
Roads / Bridges / Sidewalk / Street Lighting / Traffic	130,233	64,826	110,845	65,852	(19,389)	1,026
West Harbour & Waterfront Initiatives	19,850	16,430	8,172	8,172	(11,678)	(8,258)
Healthy and Safe Communities- Other	160	160	510	510	350	350
Housing Services	3,500	3,500	3,653	3,653	153	153
Fire / Paramedics	10,429	1,000	14,851	1,526	4,422	526
Corporate Services / City Manager	14,442	13,960	26,076	25,205	11,634	11,245
Area Rating	900	-	900	-	-	-
Planning & Development	7,740	2,086	8,100	1,322	360	(764)
Tourism & Culture	3,147	1,702	4,761	2,325	1,614	623
Commercial Districts and Small Business	2,210	2,210	5,994	5,094	3,784	2,884
Total Program Funding	375,633	152,340	269,355	141,122	(106,277)	(11,217)
Other Major Projects						
Parkland Acquisition	1,500	1,500	2,064	2,064	564	564
Council Priorities	-	-	3,500	3,500	3,500	3,500
Climate Change Action Plan	-	-	3,300	3,300	3,300	3,300
Emerald Ash Borer Program	2,600	2,600	-	-	(2,600)	(2,600)
Total Other Major Projects	4,100	4,100	8,864	8,864	4,764	4,764
Total Before Special Levies and Boards	379,733	156,440	278,220	149,987	(101,513)	(6,453)
Special Levies & Boards						
CityHousing	500	500	688	688	188	188
Police Services	3,708	2,625	4,748	4,748	1,040	2,123
Beach Rescue	70	-	70	-	-	-
Hamilton Conservation Authority	2,000	2,000	2,000	2,000	-	-
Total Special Levies & Boards	6,278	5,125	7,506	7,436	1,228	2,311
Total Funded Projects	386,011	161,565	285,726	157,423	(100,285)	(4,142)

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There was a large number of debt and DC funded capital projects in the 2022 Tax Supported Capital Budget within Energy, Fleet and Facilities (Macassa Lodge Redevelopment), Environmental Services (Brightside Park), Waste Management, Transit, Roads / Bridges / Sidewalk / Street Lighting / Traffic, and West Harbour and Waterfront Initiatives leading to the decrease in overall investment year-over-year from \$386 M in 2022 to \$286 M in 2023. These investments represent new assets or asset improvements that support growth and service enhancements. Asset replacement and rehabilitation is funded through the Capital Levy. The recommended increase to the Capital Levy of \$9.3 M in 2023 is primarily to address sustainable annual funding for transportation assets and that new investments in Climate Change, Transit and West Harbour do not erode the ability of other programs to fund existing asset requirements.

In setting the tax supported Capital Levy, the City must balance the need for property tax increases to support capital requirements of existing asset rehabilitation, continuity for municipal services, investments in new projects to support growth and Council’s priorities with the affordability of residents and businesses within the community. The City’s Senior Leadership Team supports a total Capital Levy increase of 0.92%, or \$9.3 M, for 2023 in order to accomplish these objectives. This is in recognition of the need for sustainable funding to begin addressing the annual funding requirements of the Transportation Asset Management Plan and the climate change emergency declared by City Council in 2019, as well as, to support debt servicing requirements for additional debt.

Table 4 illustrates the 0.92% net levy increase and the distribution of the proposed Capital Levy of \$143.0 M between annual debt servicing costs and “dollar-for-dollar” capital reinvestment. As presented in the Capital Financing Plan in 2022 budget deliberations, the 2023 Tax Supported Capital Budget recommends the reprioritization of retired debt towards increasing discretionary blocks for capital programs over the next few years. For 2023, this represents a shift of \$3.3 M of the Capital Levy, that had previously been dedicated towards annual debt repayments, towards direct capital reinvestment in City programs and services. Combined with the proposed Capital Levy increase in 2023, direct “dollar-for-dollar” investment is recommended to increase \$12.5 M year-over-year.

**TABLE 4
Capital Budget Impact on Operating Budget**

(\$000's)	2022	2023	CHANGE	
	Restated	PROPOSED	\$	%
Debt Charges	40,506	37,245	(3,261)	(8.0)
Transfer from Operating	93,257	105,714	12,457	13.4
Total Tax Supported Capital Levy	133,763	142,959	9,196	6.9

Municipal Tax Impact on Average Residential Property Tax 0.92% (\$41)

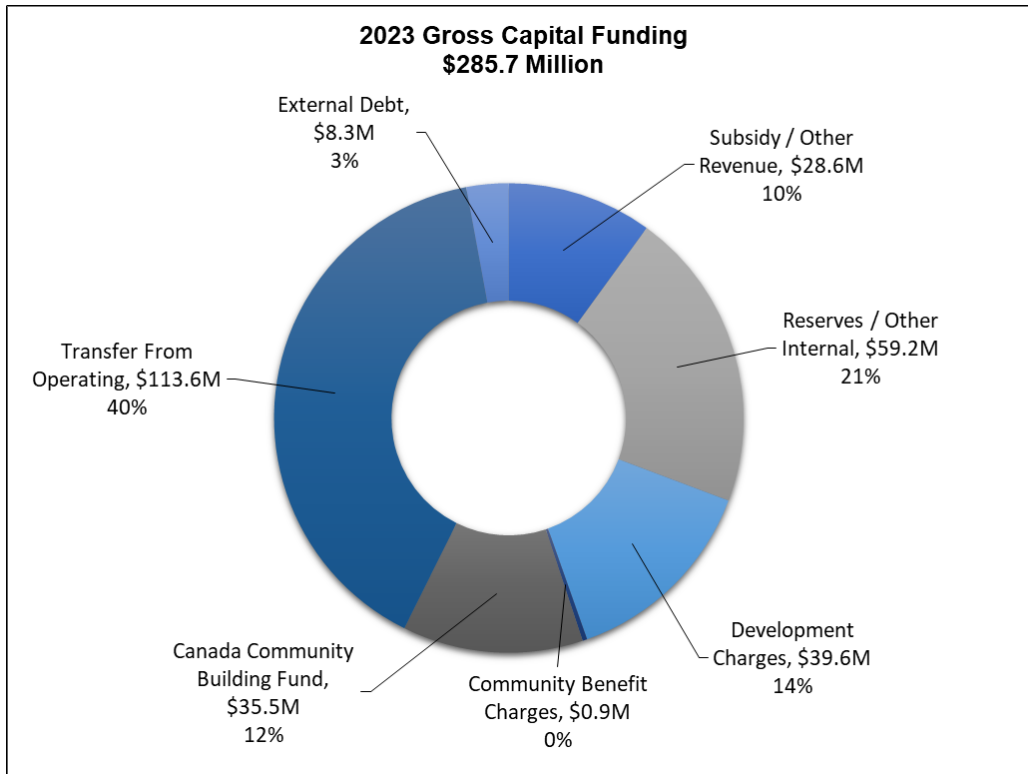
For reference, the ten-year historical Capital Levy increases are provided in Table 5. The proposed 2023 net levy increase related to the capital program of 0.92%, or \$9.3 M, would be an increase of 6.9% to the 2022 Capital Levy of \$133.8 M.

**TABLE 5
10-Year Tax Supported Capital Levy History**

(\$ Millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10 Yr. Average
	Total Tax Levy	727.3	748.3	797.6	827.7	845.4	857.9	886.7	924.2	954.4	
Capital Levy	90.2	90.2	94.6	99.0	102.9	112.0	116.4	123.7	127.4	133.8	
Capital Levy % of Total Levy	12.4%	12.1%	11.9%	12.0%	12.2%	13.1%	13.1%	13.4%	13.3%	13.5%	
Capital Levy Increase	4.0%	0.0%	4.9%	4.7%	3.9%	8.8%	3.9%	6.3%	3.0%	5.0%	4.5%

Figure 1 and Figure 2 illustrate the proposed 2023 capital funding sources and the corresponding recommended allocation across City programs and services.

FIGURE 1

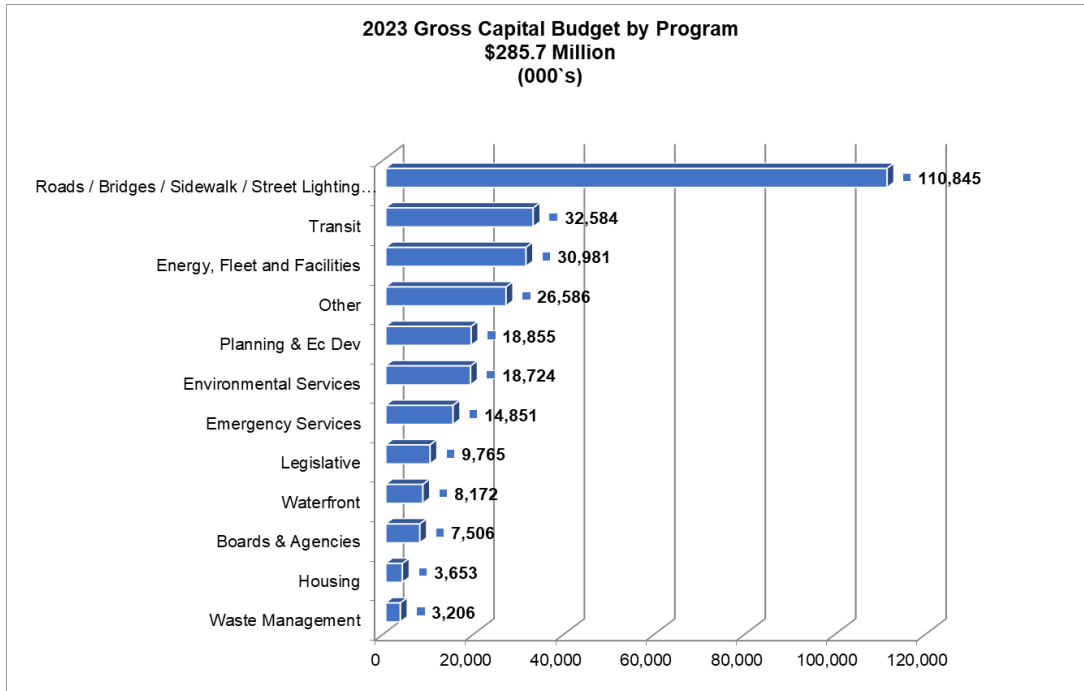


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FIGURE 2



The City of Hamilton’s Preliminary 2023 Tax Supported Capital Budget and 10-year Capital Financing Plan (2023 -2032) focuses on the following strategic objectives;

1. A phased ten-year financing strategy to address the annual \$94.7 M infrastructure gap identified in the Transportation Asset Management Plan (0.50% net levy increase for 2023 and 1.12% in subsequent years until 2032);
2. Sustainable investment to support the municipal funding requirements for infrastructure programs from senior levels of government and for incremental debt requirements in strategic capital programs. The 2023 Capital Budget incorporates an additional 0.17% net levy increase to support the debt servicing requirements of the City’s share of the ICIP - Transit Program (0.01%), West Harbour Waterfront Strategic Initiatives (0.08%) and the Paramedics and Central Stores Facility (0.09%);
3. Managing the total debt burden for the City of Hamilton at levels that will not negatively impact the City of Hamilton’s AAA credit rating, which would result in an increased cost to borrow;
4. Annual sustainable funding to support the implementation of the Climate Change Action Plan (0.25% net levy increase for 2023);
5. Targeting capital investments in rehabilitation programs including traffic, bridges and roads, transit, social housing, corporate and recreation facilities and emergency services;

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6. Supporting strategic investments in the 2016-2025 Strategic Plan and other Term of Council Priorities such as the 10-Year Local Transit Strategy, Affordable Housing and Poverty Reduction Investment Plan, the Solid Waste Management Master Plan, the Transportation Master Plan, Parkland Acquisition and the Climate Change Action Plan; and,
7. Investment in strategic growth initiatives such as the West Harbour Waterfront Strategic Initiatives, Downtown Revitalization, Airport Employment Growth District and Transportation Corridors.

Capital Financing Plan 2023-2032

Table 6 illustrates a four-year snapshot of the proposed Capital Financing Plan. This plan consists of a ten-year phased investment to address the \$94.7 M annual funding gap identified in the Transportation Asset Management Plan resulting in net levy increases of 0.50% for 2023 and 1.12% for 2024 through 2032. Additionally, discretionary capital blocks are increased at the pace of inflation as reported through Statistics Canada for the Non-Residential Construction Price Index over the ten-year Capital Financing Plan. This is to ensure that programs maintain their current rate of investment towards asset replacement and rehabilitation.

The Capital Financing Plan also incorporates additional levy increases for new debt planned within the ten-year outlook. This ensures that funding capacity for the replacement and rehabilitation of existing assets is maintained throughout the Long-Term Capital Financing Plan and that the City maintains its current financial position and AAA credit rating.

**TABLE 6
Discretionary Tax Supported Net Capital Forecast for 2023 – 2026**

Sources of Funding (Net) (\$000's)	2022 <u>Restated</u>	2023 <u>Proposed</u>	2024 <u>Forecast</u>	2025 <u>Forecast</u>	2026 <u>Forecast</u>
Sustainable Funding Sources					
Contribution from Operating	93,257	105,714	110,399	121,449	137,004
Hydro Dividends	2,300	2,300	2,300	2,300	2,300
Hydro Dividends - Poverty reduction	3,000	3,000	3,000	3,000	3,000
Federal Gas Tax	34,057	35,537	35,537	35,537	35,537
Total Sustainable Funding Sources	132,614	146,551	151,236	162,286	177,841
Non-Sustainable Funding Sources					
Unallocated / Other Capital Reserve	2,447	6,500	6,500	6,500	6,500
Total Non-Sustainable Funding Sources	2,447	6,500	6,500	6,500	6,500
Total New External Debt (Principal)	40,885	8,305	15,174	29,400	17,193
Total Funding (Net)	175,946	161,356	172,909	198,186	201,534
Corporate Services	345	1,955	127	130	134
Information Technology	2,990	3,755	3,851	3,950	4,051
Corporate Facilities	4,583	6,308	6,469	6,635	6,805
Cultural Facilities	1,702	2,575	2,402	2,464	2,527
DC exemptions	10,000	12,951	13,283	13,623	13,971
Downtowns & Commercial Districts	2,210	3,042	3,119	3,199	3,281
Economic Development Initiatives	1,956	2,053	2,823	2,895	2,969
Fire / Paramedic Services	1,000	1,376	1,412	1,448	1,485
Forestry & Horticulture	1,345	1,851	1,899	1,947	1,997
Health and Safe Communities - Other Div	160	310	226	232	238
Housing Services	3,500	3,653	3,670	3,687	3,705
Long Term Care Facilities	500	688	706	724	742
Park Development (New/Expansion)	4,211	4,511	4,575	4,692	4,812
Park's Operations	1,138	1,566	1,606	1,647	1,690
Parkland Acquisition	1,500	2,064	2,117	2,172	2,227
Planning / Development	130	1,322	183	188	193
Recreation Facilities	4,580	6,303	6,465	6,630	6,800
Roads / Bridges / Sidewalk / Street Lighting / Traffic	64,826	65,852	74,666	83,833	93,366
Block Funding Total	106,677	122,135	129,599	140,095	150,992
Net Capital Funding (Corporate Initiatives)					
Ash Borer	2,600	-	-	-	-
City Manager	425	44	3,200	500	3,000
DC Exemptions Beyond Block	-	6,500	6,500	6,500	6,500
Stadium Precinct Master Plan	9,576	-	-	-	-
Paramedic Needs	8,700	-	-	-	-
Corporate Facilities Security Program	800	800	800	800	800
Council Priorities	-	3,500	-	-	-
Climate Change Action Plan	-	3,300	2,500	2,500	2,500
Transit & ICIP	13,126	2,666	1,638	974	900
Waste Management	9,054	2,870	13,355	2,895	10,259
West Harbour Development	16,430	8,172	3,207	30,450	5,198
Corporate Initiatives Total	60,710	27,852	31,200	44,618	29,158
Total Block & Major Capital	167,387	149,987	160,799	184,714	180,150
Boards & Agencies					
CityHousing Hamilton	500	688	706	724	742
Hamilton Conservation Authority	2,000	2,000	2,000	2,000	2,000
Library	-	-	3,000	-	7,000
Police Services	2,625	4,565	3,485	600	2,300
Boards & Agencies Total	5,125	7,253	9,191	3,324	12,042
Total Expenditures (Net)	172,512	157,240	169,990	188,038	192,192

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The Capital Financing Plan is an important tool in achieving Council's strategic priorities, continuity of municipal service delivery and in maintaining the fiscal health and financial management of the City. It is an essential component of municipal financial planning and must consider the following objectives and budgeting principles:

- Aligns with the financial policies approved by Council;
- Accounts for the investment required to maintain infrastructure and facilities in a state-of-good-repair;
- Ensures all growth 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 financing through debt or reserves, as necessary; and,
- Reflects and supports the 2016-2025 Strategic Plan and Term of Council Priorities.

In past budget cycles, 0.50% Capital Levy increases have been utilized to keep up with the rising costs of construction and rehabilitation, as well as, to support debt servicing requirements for priority capital investment. The primary emphasis has been on the rehabilitation of the City's road and transportation network, with these programs receiving 4.0% increases to their annual capital block allotments in order to maintain year-over-year asset replacement value as a result of inflation and to support improvements towards overall asset condition for assets in those categories.

In June of 2022, City Council approved the Transportation Asset Management Plan through Report PW22048 which identified an annual funding gap of \$94.7 M for Transportation assets (\$86.6 M for the Road Network and \$8.1 M for Engineered Structures). In order to provide for the annual funding required needed for asset renewal, the annual Capital Levy increase of 0.50% is proposed to increase to 1.12% beginning in 2024 and continuing annually until 2032. This will effectively increase the Roads / Bridges / Sidewalk / Streetlighting / Traffic block from \$65.9 M in 2023 to \$159.1 M in 2032.

The 10-year Capital Financing Plan includes annual inflationary increases to the capital block allotments for all other asset categories managed by the City, in addition to transportation infrastructure, to ensure that all City assets are maintained in their current state until formal Asset Management Plans can be adopted with approved level of service targets by the July 1, 2025 deadline. At that time, the Long-Term Capital Financing Plan will need to reflect required investment to achieve Council approved service level standards.

Discretionary capital blocks have been maintained with no annual increases since 2012, apart from transportation infrastructure and one-time priority investments. The 2023 forecast includes an approximately 30% increase to discretionary capital blocks, which represents the cumulative Non-Residential Construction Price Index for the period of 2012 to 2021, as well as, an estimated increase in subsequent years of the Capital Financing Plan. These increases represent additional capital financing available to City services for funding replacement and rehabilitation infrastructure of approximately \$11 M annually on average for the 2023 to 2032 forecast period.

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The increases to discretionary capital blocks have been accommodated within the existing Capital Levy through the reprioritization of available capital financing from the retirement of debt. City staff expects that the proposed annual Capital Levy increases will be sufficient to manage current infrastructure requirements prior to receiving more informed direction on asset performance and levels of service targets that will be approved in the Asset Management Plans for non-core assets.

Extraordinary inflation pressures over the past several years resulting from global social and economic factors have been a major theme in budget discussions of late and continue to be a theme for 2023. Inflationary pressures of capital expenditures relative to the inflationary capacity of the Capital Levy and property tax increases are illustrated in Table 7. Over the past two years, the inflation on construction activities has far outpaced Capital Levy and property tax increases, which has eroded the City’s ability to deliver infrastructure needs.

Moving forward, it is imperative that the Capital Financing Plan continue to increase program funding blocks at least at the rate of the Non-Residential Construction Price Index in order to maintain consistent reinvestment into the City’s capital program and maintain the current state of infrastructure. Investment beyond the rate of inflation would be required in order to address the current infrastructure gap and provide for new assets related to growth that are ineligible for DC or CBC funding or new assets for enhancements to existing service levels.

**TABLE 7
Inflationary Pressures on Capital Expenditures**

(%)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Non-Residential Building Construction Price Index	0.3	1.4	1.8	2.9	3.2	4.6	3.9	2.6	9.5	15.6
Capital Levy Increase	4.0	-	4.9	4.7	3.9	8.8	3.9	6.3	3.0	5.0
Property Tax Increase	1.9	1.5	3.4	1.7	2.1	1.9	2.2	2.9	1.9	2.8

*forecast

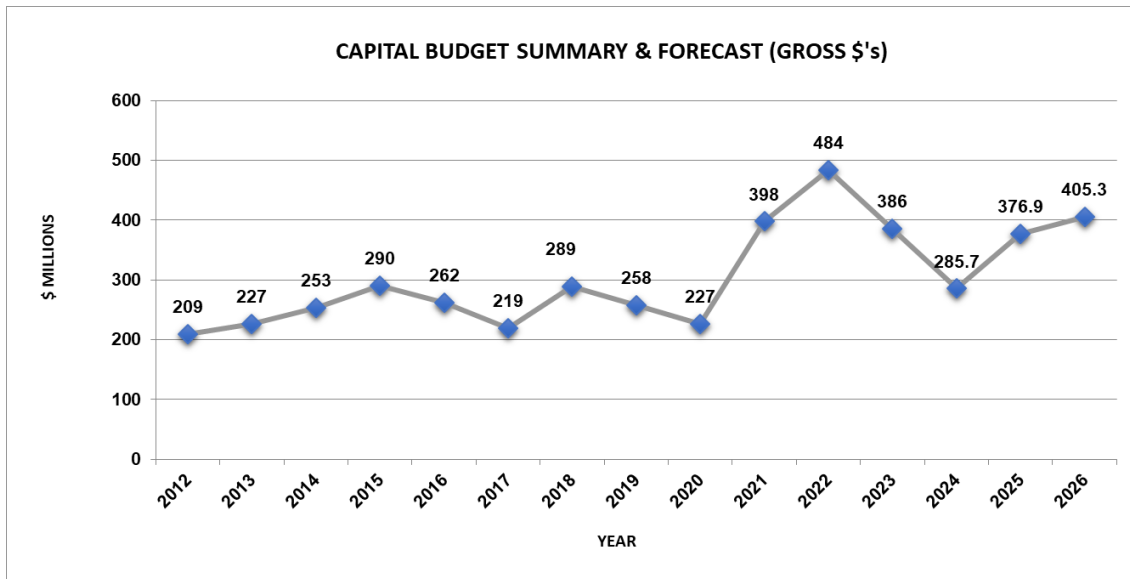
Other key assumptions and highlights of the 2023-2032 Capital Financing Plan include:

1. Budgeted debt financing: For debt financed capital projects, it is assumed that debt repayments start on July 1 at a 5.50% interest rate amortized over 15 years for projects in 2023 and 2024 and at a 3.0% interest rate for projects in 2025 to 2032. For previously approved capital projects (Works-In-Progress – WIP’s), July 1 is also the date that debt repayments start accruing;
2. Federal / Provincial Infrastructure Subsidy – Canada Community Building Fund: Most municipalities cannot adequately fund the cost of infrastructure renewal and rehabilitation on their own. In response, the Federal government contributes over \$2 B annually to 3,600 communities across the country. The City of Hamilton’s allocation in the 2023 Tax Supported Capital Budget is \$35.5 M. This level of subsidy is also assumed, but not yet formally committed, in subsequent years of the ten-year forecast;

3. Hamilton Utilities Corporation Capital Funding Dividend: Based on the Hamilton Utilities Corporation Dividend Policy staff incorporated \$5.3 M in dividends to fund the Capital Program in 2023, as well as, \$5.3 M in each subsequent year thereafter (\$3 M dedicated to capital costs to implement the Poverty Reduction Investment Plan) until 2027 when the funding dedicated to the Poverty Reduction Investment Plan comes to an end;
4. DC Exemptions Backlog: Leveraging \$6.5 M annually between 2023 to 2030 from anticipated savings due to the timing of debt issuances to cover the shortfall (\$54 M) in historical discretionary Tax Supported DC exemptions incurred from 2013 to 2020;
5. Council Priorities: A one-time investment of \$3.5 M has been allocated for Term of Council Priorities in 2023 for unspecified initiatives for the new term of Council; and,
6. Climate Change Action Plan: A one-time investment of \$0.8 M in 2023, in addition to the dedicated levy of \$2.5 M annually or 0.25%, for the implementation of the Climate Change Action Plan.

The following 15-year Capital Budget summary of gross spending (Figure 3) shows historical and forecasted levels of capital investment.

FIGURE 3



Asset Management

The municipal asset management planning regulation (O. Reg. 588/17) under Bill 6, *Infrastructure for Jobs and Prosperity Act, 2015*, was adopted on January 1, 2018. On June 26, 2019, City Council adopted a Strategic Asset Management Policy (Report PW19053). On March 15, 2021, O. Reg. 588/17 was amended to extend regulatory timelines for phases 2, 3 and 4 by one year:

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1. July 1, 2019: Date for municipalities to have a finalized strategic asset management policy that promotes best practices and links asset management planning with budgeting, operations, maintenance and other municipal planning activities.
2. July 1, 2022: Date for municipalities to have an approved asset management plan (AMP) for core assets (roads, bridges and culverts, water, wastewater and stormwater management systems) that identifies current levels of service and the cost of maintaining those levels of service.
3. July 1, 2024: Date for municipalities to have an approved asset management plan for all municipal infrastructure assets that identifies current levels of service and the cost of maintaining those levels of service.
4. July 1, 2025: Date for municipalities to have an approved asset management plan for all municipal infrastructure assets that builds upon the requirements set out in 2024. This includes an identification of proposed levels of service, what activities will be required to meet proposed levels of service and a strategy to fund these activities.

The goal of asset management is to provide a set level of service in the most cost-effective manner through the acquisition, operation, maintenance, renewal and disposal of assets. The effective management of infrastructure involves taking a lifecycle view, ensuring that cost, risk and level of service are all considered in decision making. This view ensures that, with its limited financial resources, the City of Hamilton can effectively sustain service delivery to residents and businesses.

In the future, the Province will require any municipality seeking provincial capital funding to prepare a detailed Asset Management Plan and show how its proposed project fits within the plan. It is reasonable to assume the ability to demonstrate the benefit of a project to the community through quantifiable metrics tied to legislative-based levels of service and costs will be a component of future provincial funding requests.

Beyond compliance, there are further benefits to the establishment of an Asset Management Policy and Plan for the City of Hamilton. Enhancements will provide opportunity to gain perspective on the current service levels being rendered to the community and identify the infrastructure needs to maintain current service levels or achieve proposed service levels. A sound policy along with a robust plan provides Council and staff new tools and information to make informed decisions, by offering:

- The annual requirements for lifecycle management based on asset performance and industry asset management best practices;
- Coordinated efforts for the planning of growth-related infrastructure and the ongoing operating and maintenance requirements for those assets;
- A means towards risk assessment and prevention, as well as, a clearer understanding of the risks involved with deferring or foregoing capital investment;

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- An interpretation of the impacts of capital investment levels on municipal service delivery; and,
- A framework to prioritize capital investment amongst competing priorities for limited resources.

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 0.50% annual tax levy increase (\$4.8 M) to primarily address deficiencies in state-of-good-repair within the road network.

Even with planned increases to the Capital Levy included in the previous Capital Financing Plan, there would still 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 annually, or 0.62%, to the 0.5% annual increase that had previously been included in the Capital Financing Plan for a total Capital Levy increase of 1.12% in years 2024 through 2032 to address the annual funding gap.

Debt Management

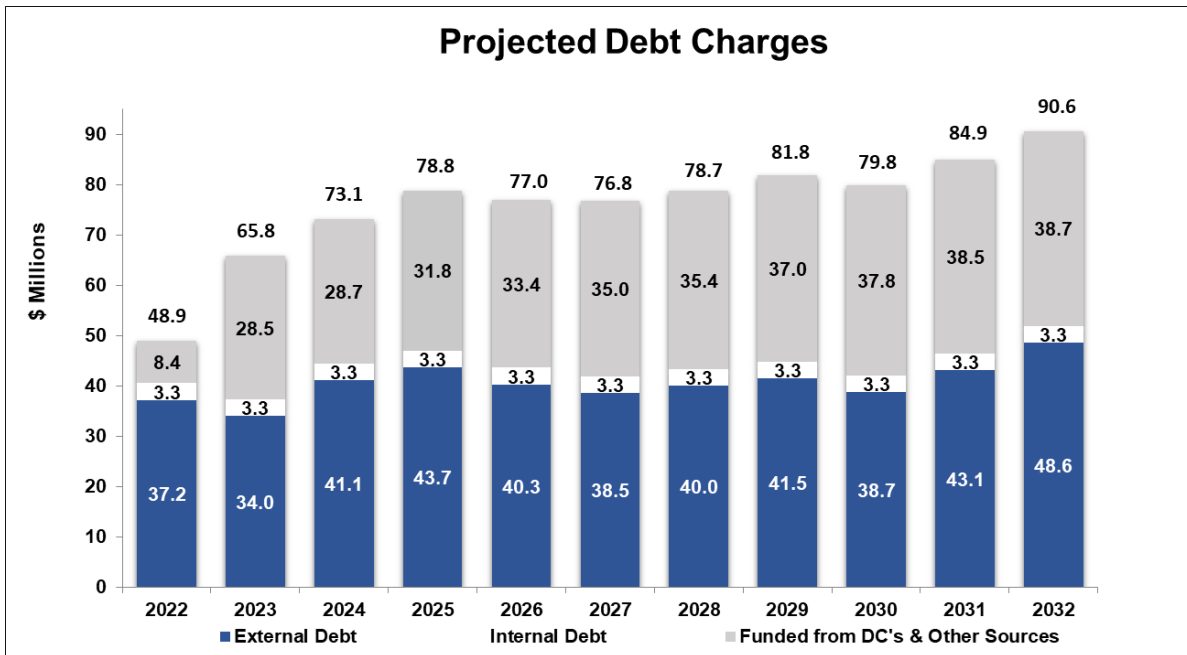
In the proposed 2023-2032, 10-year Capital Financing Plan, tax supported budgeted external-debt levels peak in 2025 at \$576 M. Table 8 and Figure 4 provide the projected tax supported debt forecast and debt charge amounts. The actual debt forecast takes into consideration the many reasons that debt issuance may be delayed (e.g. capital projects require a longer EA process, availability of contractors, lead times on materials, etc.). The City will only issue debt upon substantial completion of associated capital works. In the latter end of the 10-year debt forecast, the City is still issuing debt for previous period capital investments and that is why the budgeted debt is greater than the actual debt. Credit Rating Agencies are most focused on the level of actual external debt in assessing investor risk.

On October 21, 2022, City Council received a communication update that the City of Hamilton maintained its AAA credit rating and stable outlook from S&P Global Ratings. Earlier in 2022, S&P Global Ratings had raised the City of Hamilton's rating from AA+ to AAA following the revision of the Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced. S&P Global Ratings cite that Hamilton continues to show characteristics of a resilient economy, including diversification and continues to have liquidity as a key strength.

**TABLE 8
Tax Supported External Debt Forecast**

(\$Millions)	Balance as of December 31st										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	2023 - 2032 FINANCING PLAN										
TAX SUPPORTED	133	321	301	293	277	245	253	220	197	280	343
FUNDED FROM DC's	31	248	253	282	284	278	290	273	264	238	215
TOTAL BUDGETED DEBT	163	569	554	576	561	523	543	492	461	517	558
PROJECTED ACTUAL	122	427	416	432	421	392	407	369	345	388	419
2022 - 2031 FINANCING PLAN											
TAX SUPPORTED	342	321	322	289	261	233	232	202	178	244	
FUNDED FROM DC's	220	225	218	259	255	240	248	235	214	198	
TOTAL BUDGETED DEBT	562	546	540	548	516	472	480	437	392	441	

FIGURE 4



However, over \$1 B in capital works in progress have been approved for debt funding that has not yet been issued due to timing of completion and cash flow requirements. Given the amount of debt that has been previously approved and the reliance on debt financing for infrastructure improvements needed in the 10-year Rate Financing Plan, the City will exceed Council’s approved DC supported debt limit in 2026 and utilize the majority of debt capacity within the approved tax and rate limit over the next few years as illustrated in Figure 5 and 6.

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Finance staff will continue to monitor cash flow requirements and only issue debt when needed, but there may be a requirement to revisit Council’s approved debt policy in the near future. Staff will minimize the risk associated with DC debt by ensuring that any growth-related debt principal and interest are forecasted to be covered by future growth projections.

FIGURE 5

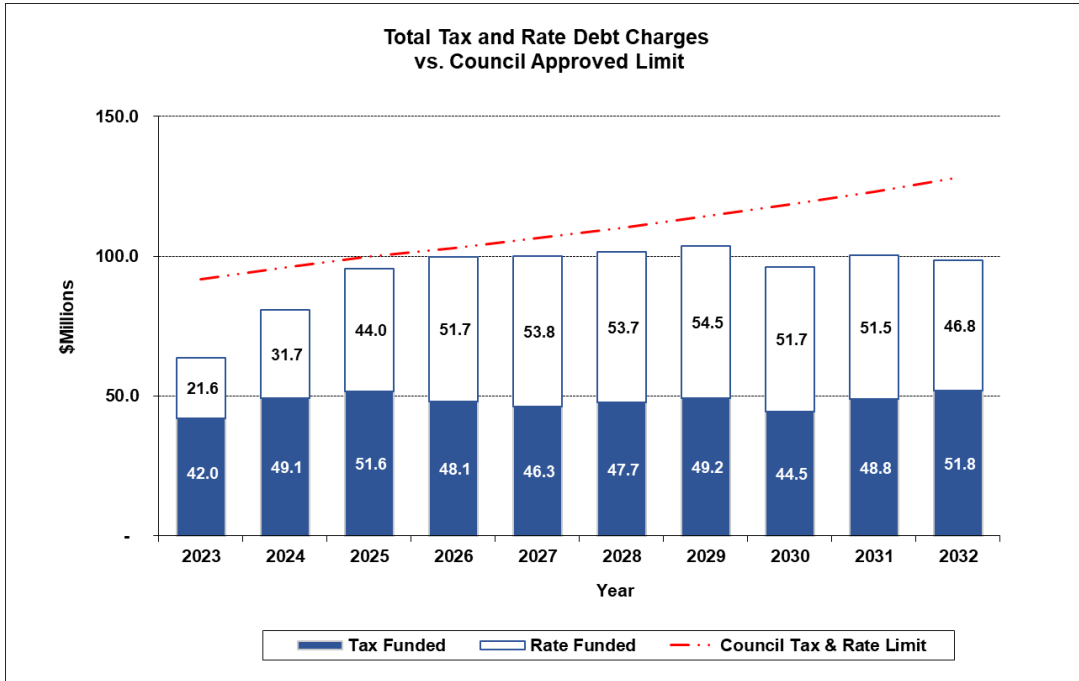
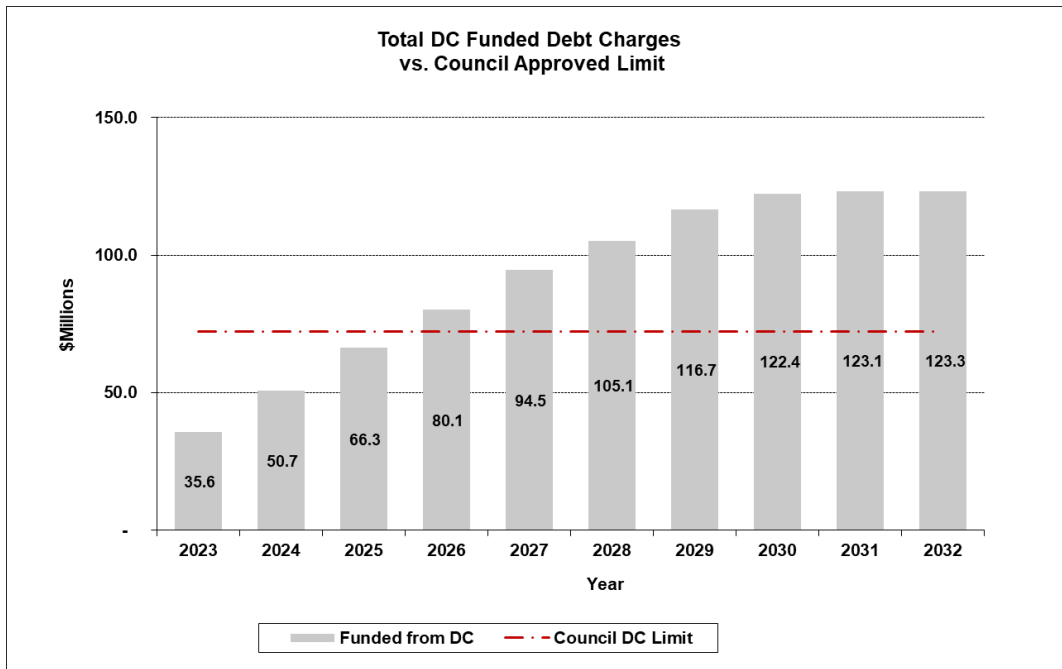


FIGURE 6



Roads, Bridges, Traffic Infrastructure Rehabilitation Program

A key priority of the annual capital budget is to provide sufficient funding to maintain the City’s transportation network. As indicated in the Transportation Asset Management Plan, the road network, alleyways, bridges and structures, street lighting and traffic system assets are valued at approximately \$6.7 B and an annual rehabilitation funding deficit of approximately \$94.7 M, or \$0.9 B over the ten-year planning period.

The sustainable annual investment amount for roads, bridges and traffic capital improvements is approximately \$160 M. The 2023 Capital Financing Plan recommends annual increases to the Capital Levy in a phased approach over the next ten years in order to meet close the infrastructure gap by 2032.

Table 9 shows the four-year Capital forecast for the Roads/Bridges / Traffic Infrastructure Rehabilitation Program. The net City investment for the four programs (roads / bridges / O&M / Development) fluctuates based on where the rehabilitation priority is the greatest.

**TABLE 9
Investment in Roads / Traffic / Bridges**

\$(000's)	2023		2024		2025		2026	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Roads	30,506	23,395	67,413	57,623	81,097	70,223	51,761	33,488
Bridges and Structures	18,259	18,348	32,340	32,504	25,049	25,175	22,963	23,433
O & M/Studies/Traffic Engineering	30,070	23,045	28,230	24,938	25,726	22,212	26,510	19,510
Total Non Growth	78,835	64,788	127,983	115,065	131,872	117,610	101,234	76,430
Development/Growth Related Program	32,010	1,065	56,995	11,393	21,295	6,734	66,294	16,792
Total Roads	110,845	65,852	184,978	126,457	153,167	124,343	167,528	93,223

Table 10 provides increased detail regarding where Roads / Traffic / Bridges dollars are forecast to be expended. The Replacement Program represents complete reconstruction of the roadway while the Urban and Local Road Programs are generally resurfacing only.

**TABLE 10
Investment in Roads / Traffic / Bridges**

\$(000's)	2023		2024		2025		2026	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
Growth Related	32,010	1,065	56,995	11,393	21,295	6,734	66,294	16,792
Replacement Program / State of Good Repair	8,165	5,640	23,334	14,728	33,940	24,342	27,223	10,907
Urban Rehabilitation / State of Good Repair	12,347	8,290	32,702	31,682	22,746	22,246	11,400	9,912
Local Road Program / State of Good Repair	1,550	1,330	1,346	1,346	7,386	7,110	3,127	3,127
Rural Rehabilitation / State of Good Repair	2,600	2,600	3,750	3,750	8,000	8,000	4,000	4,000
Bridges and Structures	16,480	16,260	30,881	30,881	23,987	23,987	21,580	21,580
Operations and Maintenance	9,120	9,030	12,293	12,243	9,774	9,724	7,842	7,792
Technical Studies and Reporting	9,040	5,795	3,780	3,120	3,970	3,610	4,000	3,640
Traffic Operations and Engineering	10,546	6,856	11,507	8,925	11,332	8,228	14,018	7,428
Streetlighting	1,364	1,364	650	650	650	650	650	650
Engineering Services Staffing Cost	4,750	4,750	4,500	4,500	4,500	4,500	4,500	4,500
Council Priority Projects	2,873	2,873	3,240	3,240	5,587	5,213	2,894	2,894
TOTAL CAPITAL RELATED EXPENDITURE	110,845	65,852	184,978	126,457	153,167	124,343	167,528	93,223

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10-Year Local Transit Strategy

The 10-Year Capital Transit Plan, 2023-2032 proposes \$268.2 M in gross capital investments as detailed in Table 11. Within these investments are included a portion of a \$505 M of ICIP – Transit Stream projects that were approved by the federal government earlier over a seven-year period.

In August 2018, Hamilton City Council unanimously approved the Transportation Master Plan (TMP) and the Cycling Master Plan Update (CMP) and, in accordance with those initiatives, the City is committed to providing transportation options that meet legislated standards for both personal travel and good movement in an accessible, convenient, efficient and affordable manner. Along with priority safety measures to support the principles of the Vision Zero Strategy, the City aims to achieve the goal of a 48% non-single occupant vehicle modal split by 2031 with a target of 15% for walk / cycle, 12% for transit and 21% for auto passenger and shared modes.

The Hamilton Street Railway (HSR) operates a fleet comprised of approximately 267 buses and is scheduled to grow by 85 buses by 2025. Due to capacity issues, a new bus storage facility was required and approved by Council. The identified funding sources to support the proposed 10-Year Capital Transit Plan, 2023-2032 include ICIP, new debt, internal reserves, development charges and the Canada Community-Building Fund.

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**TABLE 11
Transit 10-Year Capital Plan**

(\$000's)	Pre 2023		2023		2024-2032		Total 10 Year	
	Gross	Net	Gross	Net	Gross	Net		
Terminal and End of Line Rehabilitation	525	525	75	75	675	675	750	750
Bus Stop Shelter Rehabilitation	250	250	125	125	1,125	1,125	1,250	1,250
Renaming the MacNab Terminal	37	37	-	-	-	-	-	-
Transit Shelter Expansion Program	300	-	150	-	1,350	-	1,500	-
Rapid Ready & Ten Year Local Transit Strategy Implementation	600	500	-	-	-	-	-	-
Nonrevenue Vehicle Replace Program	801	-	138	-	1,148	-	1,286	-
HSR Bus Replacement Program	58,792	-	4,884	-	148,060	-	152,944	-
Operator Washroom Conveniences	300	300	300	300	-	-	300	300
Real-Time Information Infrastructure	2,000	533	-	-	-	-	-	-
Ranger Equipment Replacement	2,000	533	-	-	-	-	-	-
MTC Parking Expansion	-	-	1,225	805	-	-	1,225	805
CNG Dispenser Upgrade	-	-	500	-	-	-	500	-
Bus Operator Equipment Sign-in	-	-	100	-	-	-	100	-
Bus Operator Timekeeping	-	-	100	-	-	-	100	-
Transit Hub and End of Line Development	-	-	60	60	-	-	60	60
Stoney Creek Transit Hub Fencing	-	-	120	-	-	-	120	-
HSR Bus Marker Bench	-	-	30	30	65	65	95	95
HSR Solar Transit Pole Lighting	-	-	38	38	80	80	117	117
Reserve Shortfall - OBR Program	700	700	700	700	24,300	24,300	25,000	25,000
PRESTO Equipment Replacement	5,000	1,333	-	-	-	-	-	-
Non ICIP projects	\$ 71,305	\$ 4,711	\$ 8,545	\$ 2,133	\$ 176,802	\$ 26,244	\$ 185,347	\$ 28,377
Public Transit Stream Project (ICIP):								
Transit Maintenance and Storage Facility (Cash Flow Project)	282,000	37,970	-	-	-	-	-	-
HSR Expansion Buses - Modal Split	21,235	-	7,641	-	15,743	-	23,384	-
HSR Bus Replacement Program	45,198	-	9,304	-	29,151	-	38,455	-
HSR Bus Expansion Program - 10 Year Plan	22,622	5,190	5,094	-	11,379	-	16,473	-
Active Transportation Connections	3,000	-	-	-	-	-	-	-
Birch Avenue Bridge/Road Works	39,965	10,659	-	-	-	-	-	-
Real-Time Operations Management	5,000	1,333	-	-	-	-	-	-
A-Line Priority Bus Corridor	4,000	1,066	2,000	533	2,500	667	4,500	1,200
ICIP projects	\$ 423,020	\$ 56,219	\$ 24,039	\$ 533	\$ 58,773	\$ 667	\$ 82,812	\$ 1,200
Grand Total	\$ 494,325	\$ 60,930	\$ 32,584	\$ 2,666	\$ 235,575	\$ 26,911	\$ 268,159	\$ 29,577

Advancing the Ten-Year Local Transit Strategy and the Transit Capital Plan relies heavily on the ICIP – Transit Stream funding made available through the federal government. Details on the City of Hamilton’s submission through the ICIP – Transit Stream program can be found in Report PW19083 / FCS18048(a).

In addition to supporting the Ten-Year Local Transit Strategy and the BLAST Rapid Transit Network, the Transit Capital Plan provides the following;

- Sustainable reserves to maintain a 12-year life cycle for all buses;
- On-street infrastructure such as shelters and landing pads and associated annual maintenance requirements; and,
- The technology required to monitor the service and deliver customer information.

Addressing Affordable Housing and Homelessness

On May 11, 2016, City Council directed staff to report back to GIC and Council with a plan to increase affordable housing and reduce poverty by investing in people across all wards in the City of Hamilton. The Poverty Reduction and Investment Plan was proposed and approved through Report BOH16034 / CES16043.

The report highlighted that housing must be the cornerstone of any poverty reduction plan including affordable housing and the social supports needed to build a safe and stable home environment to address other needs. Home is the foundation for success in education, employment, health and wellbeing across the life course. Research demonstrates investment in people has the greatest return the earlier we start. Disadvantage grows over the life course and makes it less likely youth in poverty will perform well academically, graduate high school and secure adequate employment as adults. This vicious cycle of poverty is reproduced from one generation to the next, unless critical investments are made to support pathways out of poverty.

Based on research and review of existing initiatives, the Poverty Reduction Investment Plan targets gaps with the highest potential impact toward breaking long-term cycles of Poverty, including:

1. Safe, stable, and affordable housing: investment in safe and secure homes addresses immediate needs and is the foundation for building lifelong health, learning and achievement. Broader poverty reduction goals cannot be addressed until housing needs are met.
2. Pathways out of poverty: early investment in children and families has the greatest impact on education, employment and health outcomes for two generations to escape poverty; and,
3. Indigenous-led poverty reduction: Indigenous people in Canada and Hamilton face multiple barriers that lead to higher rates of poverty, illness, and homelessness. City-wide action is needed to repair the devastating effects of colonial policies and relationships. Poverty reduction can contribute to reconciliation if rooted in respectful dialogue and self-determination.

This investment forms a critical cornerstone and launches development of a broader comprehensive 10-year Poverty Reduction Strategy. The City of Hamilton will continue building on the success of existing inter-agency partnerships to coordinate and leverage poverty reduction initiatives. Aligning existing strategies will also help leverage advocacy for provincial, federal, and private investment in poverty reduction. Taking collective action to reduce poverty improves the health and wellbeing of our whole community. This will help achieve the goal of making Hamilton the best place to raise a child and age successfully.

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

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

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

There are three components to the Poverty Reduction Implementation Plan which were approved by Council on September 27, 2017:

- \$20 M for new affordable rental housing construction at \$4 M annually for five years (2017-2021);
- \$20 M for social housing repairs and renovations at \$2 M annually for 10 years (2018-2027); and,
- \$10 M for general Indigenous poverty reduction at \$1 M annually for 10 years (2018-2027).

The \$20 M total Poverty Reduction Implementation Plan funding allocated for rental construction was divided equally between the Housing Services Division (\$10 M) and CityHousing Hamilton (\$10 M), with \$4 M funded annually starting in 2017 and ending in 2021.

Climate Change Action Plan

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.

A 0.25% special levy (\$2.5 M) has been included in the Preliminary 2023 Tax Supported Capital Budget for Council's consideration along with an additional one-time contribution of \$800 K, which would be contributed towards the Climate Change Reserve to support the implementation of the City's Climate Change Action Strategy. Additional information on the City's Climate Change Action Strategy is available in Report PED22058 / HSC22030, Hamilton's Climate Change Action Strategy.

Development Charges and Community Benefit Charges

Table 12 summarizes the capital projects included in the 2023 Tax Supported Capital Budget that are required to service growth funded from DC and CBC revenues.

**TABLE 12
2023 Development Charges and Community Benefit Charges Funded Projects**

Major Growth Related Investments in 2023 (\$000's)		Gross Cost	DC Funding	CBC Funding	Grants and Subsidies	Program Reserves	WIP Transfers	Capital Levy
4031380360	Waterdown - Burlington Road Upgrades	12,000	12,000					
4031380390	East-West Road Corridor (Waterdown By-Pass)	8,000	7,600					400
5302083001	HSR Expansion Buses - Modal Split (ICIP)	7,641	617		5,603	1,421		
5301783700	HSR Bus Expansion Program - 10 Year Plan (ICIP)	5,094	411		3,736	947		
4031280294	Highway 5 & 6 Interchange EA & Implementation	4,230	4,230					
4140046100	City Share of Servicing Costs in Subdivisions	3,000	3,000					
4031280288	Burke St/Mountain Brow Road - Waterdown	3,000	2,850					150
7202041204	ICIP CCR Children's Museum Expansion Phase 2	2,098	-	468	1,058		300	272
4032280253	Arvin Ave - McNeilly to Lewis	1,500	1,500					
4402156124	Mountain Drive Park Redevelopment	1,500	500			1,000		
Various	All Others	8,855	6,891		-	-	75	1,889
Total 2023 Tax Supported Budget		56,918	39,599	468	10,397	3,368	375	2,710

The total amount of budgeted DC revenue required for the 2023 Tax Supported Capital Budget is \$39.6 M. To facilitate growth, the City requires sizeable investment in up-front infrastructure and must incur debt. This means that a significant part of the 2023 to 2032 growth program will be funded through debt and the debt charges repaid from future DC collections.

Of note, the City of Hamilton has a DC Funding Policy that requires staff to limit the amount of risk in sustaining DC reserves. Therefore, growth projects will only be included in the proposed capital budget if the sustainability of reserves is maintained. The impact of this policy is that some projects may be delayed when compared to their timing in the DC Background Study or infrastructure master plans and debt financing may be required in order to maintain DC Reserve integrity. Staff will minimize the risk by ensuring that any growth-related debt principal and interest will be covered by anticipated future DC revenues.

On October 25, 2022 the Provincial government announced a number of proposed legislative changes that, if passed, will have a significant impact on the amount of DC and CBC funds available to support growth related projects in the future. Staff will be preparing a report for AF&A Committee on December 1, 2022 outlining the changes and potential impacts.

ALTERNATIVES FOR CONSIDERATION

Council can direct changes to the 2023 Tax Supported Capital Budget as long as the approved Capital Financing Plan remains in balance with the forecasted gross cost of all approved capital projects.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Healthy and Safe Communities

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

Clean and Green

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

Built Environment and Infrastructure

Hamilton is supported by state-of-the-art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Culture and Diversity

Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.

Our People and Performance

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

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS22081 – 2023 Tax Supported Capital Budget Book

Appendix “B” to Report FCS22081 – 2023 Tax Supported Capital Budget Project List

Appendix “C” to Report FCS22081 – Discretionary Tax Supported Net Capital Funding 2023–2032 Forecast

Appendix “D” to Report FCS22081 – 2023 Tax Supported Capital Budget - Operating Budget Impacts for Projects Included in the 2023 Financing Plan

Appendix “E” to Report FCS22081 – 2023 Tax Supported Capital Budget Reserve Funding by Reserve and Project

Appendix “F” to Report FCS22081 – 2023 Tax Supported Capital Budget Summary of Work-in-Progress (WIP) and other Internal Funding

Appendix “G” to Report FCS22081 – City of Hamilton Debt Policy Ratios and Treasurer’s Updated 2021 Annual Repayment Limit