Memorandum

To	Dave Heyworth, Director and Senior Advisor – Strategic Growth
From	Daryl Abbs, Watson & Associates Economists Ltd.
Date	June 9, 2025
Re:	Peer Review of Fiscal Impact Analysis for the Elfrida Community Area

Fax ☐ Courier ☐ Mail ☐ Email ☒

1. Introduction

The City of Hamilton received an urban boundary expansion application to remove the Elfrida lands from the rural area and add the subject lands to the urban area. As part of the application requirements, a fiscal impact analysis (F.I.A.) is required to be undertaken. The applicant (Elfrida Community Builders Group) retained Parcel Economics ("Parcel") to complete the F.I.A. as part of the application. The title of the report undertaken by Parcel is "Elfrida Community Area Fiscal Impact Assessment" (hereafter referred to as Elfrida F.I.A.). The purpose of this analysis was to identify the financial impacts to the City of Hamilton (City) as a result of expanding the urban boundary and developing and servicing these lands.

Watson & Associates Economists Ltd. (Watson) has been retained to conduct a peer review of this analysis. The F.I.A. report was reviewed to assess and test the validity of the assumptions utilized in preparing the analysis. The following memo report provides Watson's review and discussion with respect to the study prepared by Parcel.

Note that the analysis presented herein is reflective of applicable legislation prior to the release of *Bill 17, Protect Ontario by Building Faster and Smarter Act, 2025*. Bill 17 was provided Royal Assent on June 5, 2025 and made amendments to the *Planning Act* as well as the *Development Charges Act*. With respect to changes to the *Development Charges Act,* it is not anticipated that the changes would impact the results of this peer review. Future potential changes noted by the Province with respect to standardization of Local Service Policies may impact the results, however, it is not likely that the changes will result in less pressure on property taxes and/or water and wastewater rates.

2. Fiscal Impact Overview

The purpose of undertaking an F.I.A. is to provide a municipality with the anticipated financial impact of development on the tax- and rate-supported budgets. That is, will the anticipated development create upward pressure on tax rates and water/wastewater rates as a result of the net expenditures.

The approach utilized by Watson in undertaking F.I.A.s has been devised by the firm and has been used for over 42 years to evaluate financial impacts for municipalities across Canada, the Ontario Ministry of Municipal Affairs, the Ontario Land Corporation, Canada Mortgage and Housing Corporation (C.M.H.C.), and numerous developing landowners.

Essentially, the methodology involves an operating and capital cost analysis. The operating cost analysis involves calculating the City's tax and non-tax figures with the addition of the proposed development. The revenues and expenditures attributable to the development would be estimated on an incremental basis.

The capital cost analysis discusses the capital requirements and the associated funding sources. This analysis would include costs for all works required due to the development and include annual future replacement (lifecycle) costs attributable to the development.

Watson's full methodology is provided in Figure 2-1 below in schematic format. The review provided herein assesses whether Parcel's analysis appropriately addresses the financial impacts of the development with reference/comparison to Watson's approach. At a high level, the following provides a summary of the components to the analysis:

1. **Development profile (dark blue boxes):** identification/estimation of the population, employment, housing units, and non-residential development to occur in the development area.

2. **Operating revenues (orange boxes):** as new residential and non-residential development occurs, additional property assessment will be added to the City. This property assessment is estimated and used to estimate the anticipated tax revenue to be generated by the newly developed properties. These additional revenues are denoted in the upper orange box of Figure 2-1. The lower box denotes the non-tax operating revenues that are provided from population and employment growth through fees, fares, fines, and other user fees.

3. **Capital Expenditures (purple box):** to ensure proper servicing for the new development area, capital needs are identified such as new roads, watermains, storm sewers, parks, community centres, etc. These capital needs can be separated as follows:

    - Local service costs that the developing landowner is directly responsible for funding and constructing;
    - Growth-related capital costs funded through D.C.s;
    - Non-growth-related capital costs funded by the City; and
    - Future replacement (lifecycle) costs funded by the City.

4. **Capital Revenues (teal box):** this section of the analysis describes how the capital needs identified will be financed by the City. This may include D.C.s, grants,

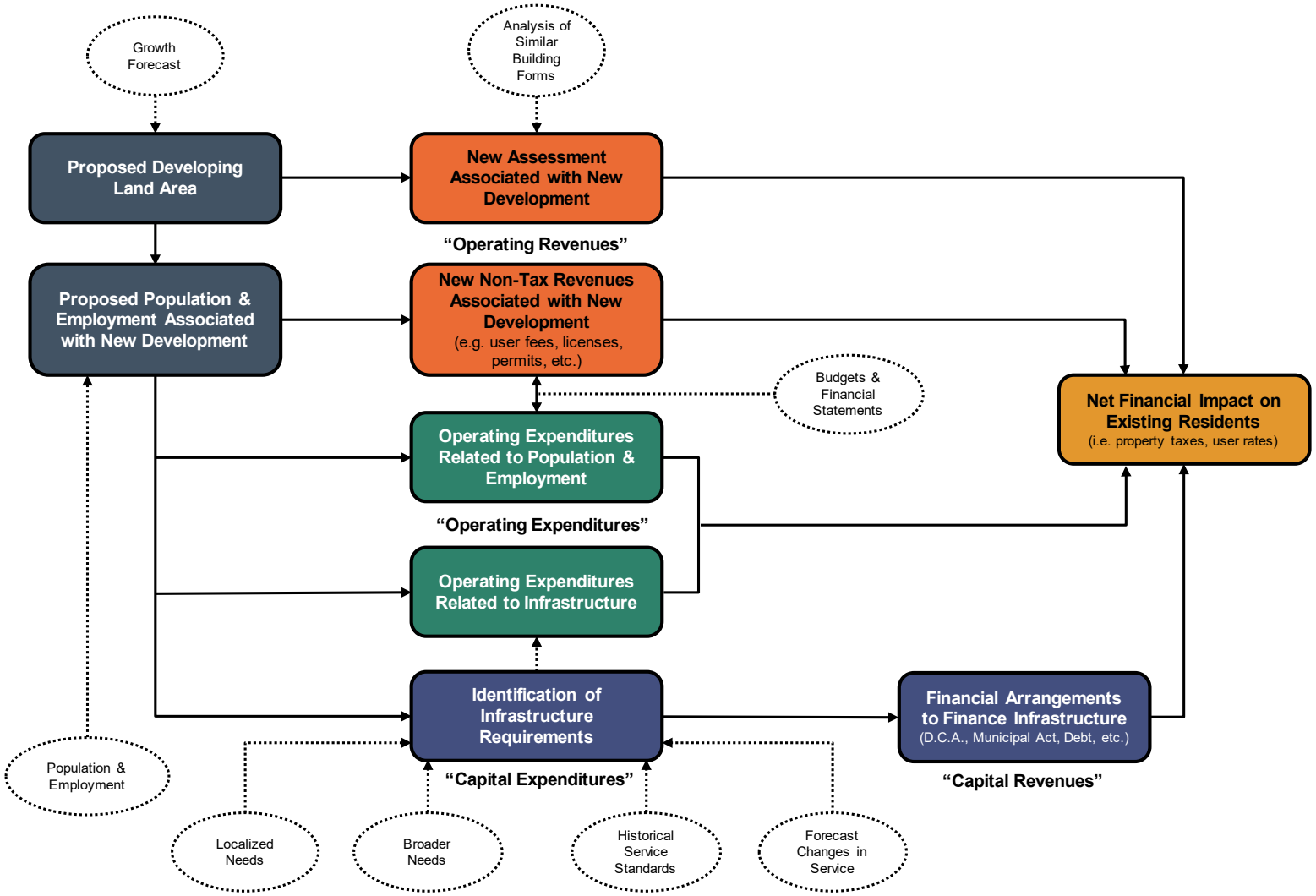
developer contributions, and/or funding from reserves, taxes, and water/wastewater rates.

5. **Operating Expenditures (green boxes):** additional operating expenditures anticipated over time are generally assessed on two different bases: operating costs related to infrastructure and operating costs related to population/employment. The former identifies the specific operating costs to be incurred as additional infrastructure (e.g., roads, watermains, sanitary sewers, etc.) is constructed. The latter identifies program expenditures which are linked to population and employment growth.

6. **Net Financial Impact (yellow box):** combining all of the above provides for a net financial impact to the City's tax- and rate-supported budgets.

In general, Parcel's analysis aligns with Watson's approach, however, there are several areas where additional information is required to provide a more fulsome analysis. The F.I.A. does not include the full capital costs related to developing and servicing the area. Although detailed estimates may not be available, high-level estimates could be utilized for the purposes of this report. Further, Parcel's analysis does not adequately consider costs related to lifecycle replacement, which often has a significant impact on the net financial analysis and is inconsistent with Watson's approach. The suggested revisions/refinements provided in the subsequent section of this peer review seek to enhance the analysis and are provided for consideration.

Figure 2-1
City of Hamilton
Overview of Watsons F.I.A. Methodology



3. Draft Framework for Processing and Evaluating Urban Boundary Expansion Applications

The City of Hamilton has adopted a "no urban boundary expansion" growth strategy to the year 2051, however given recent legislative changes, new privately initiated urban boundary expansion applications can be submitted to the City for approval.

The City has developed a draft framework to assess any applications that are submitted for approval. As part of this framework, specific criteria have been established to assess the fiscal impact analysis. The analysis should, at a minimum, include the following components:

- **An assessment of the initial round of growth-related infrastructure**. An identification of the growth-related costs required to service the area is required.
- **Provisions for operating and replacement costs.** While the initial costs for infrastructure are paid for by developers, the ongoing operations and eventual replacement costs are assumed by the City. These costs should be estimated based on standard replacement costs and average useful lives of each asset.
- **Consideration of broader municipal fiscal implications** including opportunities to narrow the current infrastructure gap, effects on the allocation of servicing to priority areas within the City such as the Downtown and Major Transit Station Areas, maximize existing servicing capacity through conservation, efficiency and/or other innovative approaches.
- **Conclusions on the net fiscal impact**. Has the net impact considered the initial round of growth-related costs, provisions for operating and replacement costs, and more qualitative implications.

The following sections will review each component of the F.I.A. prepared by Parcel. At the end of this memo report, the above criteria will be revisited to determine whether the assessment has addressed each component adequately.

4. Proposed Developing Land Area and Growth Forecast

Based on the preliminary concept plan for the Elfrida Community Area (hereafter referred to as "Elfrida"), the development of these lands would result in additional population and employment of 114,900 and 14,360, respectively, resulting in a density of 135 persons and jobs per hectare. Note: the peer review being undertaken on the Land Needs and Housing Assessment Report may identify refinements to these estimates that would have impacts on the results of the F.I.A.

The overall unit mix and number of units was not identified in the Elfrida F.I.A., however the Transportation Assessment prepared by C.F. Crozier & Associates Inc. as part of the application package identifies the following unit mix and number of units:

- 18,939 low density units;

- 7,444 medium density units; and
- 13,248 low density units[1].

This overall number of units and unit mix should be utilized as a key input for the F.I.A. to assess components such as property assessment generated, tax revenues, and D.C. revenues.

Further, with respect to non-residential development, the F.I.A. has identified the number of jobs to be accommodated at buildout but has not identified the gross floor area associated with this new employment. The Transportation Assessment has identified a total commercial land area of 112 hectares and 40% lot coverage. These metrics would equate to a total gross floor area of 4.8 million square feet (44.8 hectares). This gross floor area should be incorporated into the F.I.A. in order to calculate potential D.C. revenues and property tax revenues.

In general, Parcel's assessment of the growth forecast and the anticipated development profile within the study area is lacking information related to the estimated unit mix, estimated number of units, and commercial gross floor area. The assumptions identified in the Transportation Assessment should be incorporated into the F.I.A. for consistency across the application package.

5. Capital Expenditures

5.1 Growth-Related Capital Costs (D.C.-Eligible Costs)

Parcel's analysis identified the projects in the City's 2023 D.C. background study related to the Elfrida area. Given that the growth in Elfrida is not included in the projections as part of the D.C. background study, the in-period components of these works are related to growth outside of Elfrida. Only the post-period amounts are related to growth within Elfrida. Although the D.C. background study does identify certain projects related to fire protection services, parks, recreation services, library services, and roads, the full costs to accommodate 114,900 people and 14,260 employees are not identified for all services. High-level cost estimates of the full infrastructure needs should be included to provide a fulsome financial analysis.

The growth in population identified for this area would result in a 19% increase in the City's overall population. Given the significant population associated with this development, the capital costs for all services should be reviewed as part of this analysis. This would include an assessment of the need for new police stations, associated vehicles/equipment, operations centres, growth-related studies, etc.

[1] https://www.hamilton.ca/sites/default/files/2024-12/ube-application-elfrida-transportation-study.pdf

Based on the average level of service provided over the past 15-years (as identified in the D.C. background study), Watson has undertaken a high-level analysis in Table 5-1 to estimate the potential capital costs associated with growth in the Elfrida area (i.e. based on a population increase of 114,900). These figures represent the level of investment required for the City to maintain their historical average level of service.

Based on the table below, in order to maintain the current levels of service for Elfrida, the City would be required to spend $1.12 billion (2023 dollars) to accommodate the estimated population of 114,900. Cost estimates similar to the ones calculated above should be factored into the Parcel analysis for all D.C.-eligible services. This would include the lifecycle replacement costs that would impact the overall net impact on the City's tax-supported budget. Note: the above calculations exclude the capital costs related to roads, transit, water, wastewater, and stormwater as these are provided separately in the analysis.

The following subsections provide additional examples and context related to the capital costs identified in the Parcel analysis and how they are likely deficient to provide for the needs related to the anticipated growth.

Table 5-1
Summary of Capital Cost Estimates Based on Average Level of Service (2023 dollars)

Service/Class of Service	Cost per Capita	Level of Investment Required
Public Works Facilities	$840.56	$96,580,344
Public Works Vehicles and Equipment	$242.15	$27,823,035
Total Public Works Services		**$124,403,379**
Fire Protection Services Facilities	$370.08	$42,522,192
Fire Protection Services Vehicles and Equipment	$176.77	$20,310,873
Fire Protection Services Small Equipment and Ge	$43.22	$4,965,978
Total Fire Protection Services		**$67,799,043**
Policing Services - Facilities	$694.60	$79,809,540
Policing Services - Vehicles	$41.71	$4,792,479
Policing Services - Small Equipment and Gear	$28.60	$3,286,140
Total Policing Services		**$87,888,159**
Parkland Development	$567.87	$65,248,263
Parkland Amenities	$629.45	$72,323,805
Parkland Amenities - Buildings	$15.20	$1,746,480
Parkland Trails	$29.99	$3,445,851
Parks Equipment	$0.33	$37,917
Recreation Facilities	$3,634.39	$417,591,411
Indoor Recreation Facilities - Buildings Within Pa	$114.74	$13,183,626
Recreation Equipment	$0.69	$79,281
Total Parks and Recreation Services		**$573,656,634**
Library Services - Facilities	$732.17	$84,126,333
Library Services - Collection Materials	$87.99	$10,110,051
Library Services - Vehicles	$3.28	$376,872
Total Library Services		**$94,613,256**
Ambulance Facilities	$90.41	$10,388,109
Ambulance Vehicles	$40.76	$4,683,324
Total Ambulance Services		**$15,071,433**
Long-Term Care Facilities	$577.53	$66,358,197
Total Long-Term Care Services		**$66,358,197**
Child Care and Early Years Programs - Facilities	$47.78	$5,489,922
Total Child Care and Early Years Programs		**$5,489,922**
POA Facilities	$43.07	$4,948,743
Total Provincial Offences Act Services		**$4,948,743**
Public Health - Facilities	$106.33	$12,217,317
Public Health - Vehicles and Equipment	$1.21	$139,029
Total Public Health Services		**$12,356,346**
Waste Diversion - Facilities	$465.14	$53,444,586
Waste Diversion - Vehicles and Equipment	$103.57	$11,900,193
Waste Diversion - Carts and Containers	$20.95	$2,407,155
Total Waste Diversion Services		**$67,751,934**
Total		**$1,120,337,046**

5.1.1 Fire Protection Services

The D.C. background study identified the need for a new Elfrida/Upper Stoney Creek Growth Area fire station which is to be funded by D.C.s. Vehicles and equipment required for the new station were also identified in the D.C. study. Based on these capital projects, the Elfrida F.I.A. has identified $17.89 million in capital costs related to fire protection services. As noted in Table 5-1, to maintain the current levels of service for the anticipated population in Elfrida of 114,900 people, the City would need to spend approximately $67.80 million. This indicates that to accommodate the growth in Elfrida, there are additional capital costs beyond what was identified in the D.C. background study.

To provide further context, the City of Brantford has a population of approximately 105,000, according to the 2021 Census (i.e., similar to the anticipated population in Elfrida at full buildout) and has an existing inventory of four (4) fire stations, as per the 2021 Development Charges Background Study. Given the similarities in population, it could be assumed that multiple fire stations would be required to accommodate the growth in Elfrida.

5.1.2 Parks and Recreation

The D.C. background study has identified the need for a Community Centre in Elfrida. This facility is considered to be 100% related to growth outside of the forecast period and has not been included in the D.C. calculation. The capital cost of this facility was estimated at $38.30 million, which has been incorporated into the Elfrida F.I.A. In order to maintain the current levels of service for parks and recreations for the growth anticipated in Elfrida, the City would need to spend $573.66 million. This is significantly higher than the capital costs related to the one (1) community centre identified for Elfrida.

As a comparison, the City of Brantford (i.e. similar total population to the buildout forecast for Elfrida) has an inventory of 12 indoor recreation facilities.

Further, the City's Recreation Master Plan[1] identifies provision targets for various recreation facilities as shown in Table 5-2. To meet these targets for the anticipated growth in Elfrida, the following recreation facilities would be required:

- Community/Recreation Centres: 4
- Indoor Pools: 3
- Gymnasiums: 4
- Arenas (ice pads): 4

[1] https://www.hamilton.ca/sites/default/files/2022-11/recreation-master-plan.pdf

A more detailed analysis would be required for recreation facilities including outdoor pools, seniors' recreation spaces, and community halls.

Table 5-2
Provision Targets for Recreation Facilities (Excerpt from City's Recreation Master Plan)

Facility Type	Current Municipal Supply	Provision Target	Recommended New Facilities (2023-2051)	Short-term (2023-2031)	Medium-term (2032-2041)	Longer-term (2042-2051)
Community/ Recreation Centres	23	1:27,500 and up to 2.5km radius	**7**	3	3	1
Indoor Pools (locations)	23	1:30,000 and up to 2.5km radius	**4 (within new CRCs)**	1	2 (plus 1 replacement)	1
Outdoor Pools	10	1:10,000 youth ages 5-19 and up to 2km radius	**2**	0	1	1
Gymnasiums	16	1 gymnasium within each new CRC	**7 (within new CRCs)**	3	3	1
Seniors Recreation Spaces	12	2km radius for Class B centres (shared use)	**5 (most within new CRCs)**	2	2	1
Arenas (ice pads)	25	1:4,500 youth ages 5-19 and up to 2.5km radius	**3**	0	1-2	1-2
Community Halls	27	none (case-specific assessment)	**tbd**	tbd	tbd	tbd

Based on the above considerations, it can be concluded that the full capital costs related to recreation have not been identified.

The City's Parks Master Plan[1] identifies the following municipal parkland targets:

- Neighbourhood Parks: 0.7 hectares/ 1,000 people
- Community Parks: 0.7 hectares/ 1,000 people
- City-Wide Parks: 0.7 hectares/ 1,000 people

To meet these targets for the anticipated growth in Elfrida, 241.29 hectares of parkland would be required as follows:

- Neighbourhood Parks: 80.43 hectares
- Community Parks: 80.43 hectares

[1] https://www.hamilton.ca/sites/default/files/2023-09/masterplansstudies-Hamilton-Parks-Master-Plan.pdf

- City-Wide Parks: 80.43 hectares

An analysis should be undertaken to determine the hectares of parkland that the City would collect through the Parkland Dedication By-law, and the Elfrida F.I.A. should incorporate the remaining capital costs in order to meet the City's targets, if any.

5.1.3 Library Services

The D.C. background study has identified a library facility located in Elfrida, however this was identified for growth outside of the forecast period and as such, the capital costs are not included in the D.C. calculations. The capital cost estimate related to this facility is $11.94 million, which was identified in the Elfrida F.I.A. Applying the average level of service identified in Table 5-1 to the anticipated growth of 114,900 people, the capital costs required to maintain the level of service is $94.61 million. Although the Elfrida F.I.A. concluded that only some of the capital costs were included in the F.I.A., it is important to estimate the potential capital costs for the purpose of understanding the financial impact of development. A calculation similar to the one undertaken above based on average level of service could be utilized to estimate capital costs for the F.I.A.

5.1.4 Services Related to a Highway

D.C. funded road infrastructure has been identified in Appendix E of the Strategic Transportation Network Review undertaken by Arcadis. Although the works related to Elfrida are not included in the D.C. calculations, given that the analysis identifies all road projects beyond the 2041 forecast horizon, it is assumed that all D.C.-funded roads have been identified in this analysis, as part of the post-period works. The approach for identifying D.C.-funded roads appears to be consistent with Watson's methodology.

What may not be identified is any upstream/downstream capacity improvements that may be required to accommodate this level of growth. For example, works Red Hill Valley Parkway, Upper Centennial/Centennial, and other potential upgrades to other escarpment crossings.

5.1.5 Water and Wastewater

Based on the City's Local Service Policy, the water and wastewater linear services that are typically funded through D.C.s would be a direct developer responsibility for this area (i.e. areas outside of the current urban boundary proposed for urban boundary expansions). The analysis acknowledges that water and wastewater services in Elfrida are a direct developer responsibility under the Local Service Policy but does not identify any of these works.

It is recommended that the F.I.A. estimate the capital costs for all water and wastewater infrastructure that would be constructed to accommodate development. It is recognized that any capital costs related to these components would be a direct developer

responsibility as per the City's Local Service Policy, however the annual lifecycle costs for the assets need to be incorporated into the analysis (discussed further in Section 5.3).

Further, the F.I.A. did not consider any capital costs related to water and wastewater treatment needs. Given that the growth in population for this area would result in a 19% increase in the City's overall population, these capital needs should be identified.

5.1.6 Stormwater

The analysis undertaken has identified the gross capital costs for Elfrida as per Appendix G of the D.C. background study. All projects are assumed to be funded directly by the developing landowners. The analysis has identified approximately $142.5 million in capital costs related to stormwater, however further analysis should be undertaken to determine whether there are additional works required to accommodate the development, beyond what is identified in the D.C. background study.

5.2 Local Infrastructure (Direct Developer Responsibility)

The Elfrida Community Area would be classified under Urban Area B, as defined in the City's 2024 D.C. background study, Appendix E, Local Service Policy. Infrastructure required for developments in Urban Area B would be a direct developer responsibility, including but not limited to water, wastewater, stormwater, transit, transportation works (in accordance with the Complete Street definition), any utility relocation/conversion costs, and land acquisition costs to meet City standards.

The Elfrida F.I.A. does not identify the capital costs related to this local infrastructure. The rationale is that the initial costs for construction are the developer's responsibility and will not have a financial impact on the City. Although the initial cost is borne by the developer, the City will assume this infrastructure and be responsible for the long-term operations and eventual replacement of these assets when they reach the end of their useful lives. Given this, these costs should be estimated so that an annual lifecycle replacement cost can be incorporated into the analysis.

The following subsections set out potential cost estimates related to local roads and water and wastewater mains.

5.2.1 Local Roads

To estimate the potential kilometres of local roads to be developed in the Elfrida area, Watson reviewed the kilometres of local roads in an adjacent developed area to estimate the local roads per hectare. This measure was then applied to the total hectares of land in the Elfrida area to determine the potential kilometres of roads that could be developed. The following quantity and capital costs of roads were estimated:

Table 5-3
Summary of Local Roads Capital Cost Estimates

Type of Road	Road kilometres per Hectare[1]	Total Hectares (Elfrida)	Estimated Length of Roads (km)	Cost per km[2]	Capital Cost Estimate
Local	0.0612	1,237	76	$7,000,000	$532,000,000

[1]Based on total length of roads and area in adjacent residential neighbourhood
[2]Based on unit costs in D.C. Background Study – Appendix H – 2 lane collector urban

These capital cost estimates can be utilized to estimate the annual lifecycle costs that the City would assume once these roads are constructed.

5.2.2 Local Water and Wastewater Mains

An estimate for local water and wastewater mains has been developed based on the high-level estimate of local roads provided above. Assuming there are 76 kilometres of local watermains and wastewater mains, the following table provides the estimate of potential capital costs:

Table 5-4
Summary of Local Water and Wastewater Mains Capital Cost Estimates

Infrastructure	Total kilometres	Cost per kilometre*	Estimated Capital Cost
Local Watermains	76	$650,000	$49,400,000
Local Wastewater Mains	76	$1,422,000	$108,072,000

*Based on unit costs from D.C. Background Study – Appendix F. Water based on replacement cost of 300 mm main, wastewater based on replacement cost of 450 mm main.

5.3 Future Replacement (Lifecycle) Costs

Once an asset is constructed by the City and/or assumed by the City (e.g. works constructed by the developing landowner), the asset becomes a liability that the City must replace at the end of its useful life. In Watson's methodology, future replacement (lifecycle) costs would be captured as an annual amount that would be saved/invested for the ultimate replacement of the capital infrastructure constructed for a development area. These costs were not factored into the Elfrida F.I.A. as part of the annual impacts

at buildout. Based on high-level capital cost estimates, it is recommended to include all lifecycle costs (i.e. D.C.-funded works and works constructed by the developing landowner) into the analysis, to fully understand the impacts of growth on the City's budgets.

The Elfrida F.I.A. references a memo provided by Watson as part of the GRIDS 2 work and the associated fiscal considerations. Although the memo states that the initial capital costs related to no urban boundary expansions may be more significant than ambitious density scenarios, this does not take into account the ongoing maintenance and lifecycle costs which would likely be higher given the new infrastructure that is required as part of greenfield development.

Based on the high-level capital cost estimated based on average levels of service identified in Table 5-1 above, the City would incur the following annual lifecycle costs by service:

Table 5-4
Estimate of Annual Lifecycle Contributions

Service	Capital Cost	Useful Life (years)	Annual Lifecycle Contribution
Tax-Supported Services			
Public Works Facilities	$96,580,300	50	$3,073,500
Public Works Vehicles and Equipment	$27,823,000	10	$3,097,400
Fire Protection Services Facilities	$42,522,200	50	$1,353,200
Fire Protection Services Vehicles and Equipment	$20,310,900	20	$1,242,100
Fire Protection Services Small Equipment and Gear	$4,966,000	12	$469,600
Policing Services - Facilities	$79,809,500	50	$2,539,800
Policing Services - Vehicles	$4,792,500	10	$533,500
Policing Services - Small Equipment and Gear	$3,286,100	10	$365,800
Parkland Development	$65,248,300	25	$3,342,000
Parkland Amenities	$72,323,800	25	$3,704,500
Parkland Amenities - Buildings	$1,746,500	50	$55,600
Parkland Trails	$3,445,900	25	$176,500
Parks Equipment	$37,900	25	$1,900
Recreation Facilities	$417,591,400	50	$13,289,100
Indoor Recreation Facilities - Buildings Within Parks	$13,183,600	50	$419,500
Recreation Equipment	$79,300	25	$4,100

Service	Capital Cost	Useful Life (years)	Annual Lifecycle Contribution
Library Services - Facilities	$84,126,300	50	$2,677,200
Library Services - Collection Materials	$10,110,100	7	$1,562,100
Library Services - Vehicles	$376,900	10	$42,000
Ambulance Facilities	$10,388,100	50	$330,600
Ambulance Vehicles	$4,683,300	7	$723,600
Long-Term Care Facilities	$66,358,200	50	$2,111,700
Child Care and Early Years Programs - Facilities	$5,489,900	50	$174,700
POA Facilities	$4,948,700	50	$157,500
Public Health - Facilities	$12,217,300	50	$388,800
Public Health - Vehicles and Equipment	$139,000	10	$15,500
Waste Diversion - Facilities	$53,444,600	50	$1,700,800
Waste Diversion - Vehicles and Equipment	$11,900,200	10	$1,324,800
Waste Diversion - Carts and Containers	$2,407,200	7	$371,900
D.C. Funded Roads	$303,400,000	50	$9,655,200
Local Roads	$532,000,000	50	$16,929,900
Total Tax Supported Services	**$1,955,737,000**		**$71,834,400**
Rate-Supported Services			
Local Water Mains	$49,400,000	80	$2,072,800
Local Wastewater Mains	$108,072,000	80	$2,719,200
D.C. Funded Stormwater	$142,496,135	80	$3,585,300
Total Rate Supported Services	**$299,968,135**		**$7,547,400**
Total All Services	**$2,255,705,135**		**$79,381,800**

6. Capital Revenues

6.1 D.C. Revenues

The D.C. revenues for all services that the City collects for have been calculated and provided in Figure 2.6 of the Elfrida F.I.A. The calculations are consistent with Watson's approach and appear appropriate.

The commentary in the report notes that the D.C. revenues related to roads, library, parks and recreation, and fire are greater than the expenditures directly related to the development of the Elfrida area, however, based on the discussion above, the D.C. does not fully identify the costs related to servicing the development. Further, the

capital costs identified in the D.C. background study that are related to growth in Elfrida are fully allocated to post-period benefit. Given that the full capital costs and the associated growth are not currently factored into the D.C. calculation, it is not accurate to conclude that D.C. revenues will exceed estimated capital costs.

7. Operating Expenditures

Operating expenditures are based on the City's 2022 Financial Information Return data. Net operating expenditures (e.g. excluding debt payments and grants) for each service were allocated between residential and non-residential sectors based on existing population and employment and Parcel's understanding of the service areas. The details of the allocations were not provided and as such, cannot be verified for reasonability. Note, Watson's approach to the allocations between residential and non-residential population and employment are typically based on assumptions utilized for service areas in the D.C. background study.

Once the operating expenditures have been allocated to the residential and non-residential sectors, a "growth-related" factor has been applied to provide a net growth-related operating expenditure. The details on the "growth-related" factors that were utilized were not provided. The Elfrida F.I.A. however does note that general government, planning and development, and solid waste collection services would likely have greater opportunities for economies of scale and thus, a lower growth-related factor. This assumption is consistent with Watson's general approach, however, a detailed breakdown of what factors were utilized is needed to test the validity of the assumptions.

The net growth-related operating expenditures were then divided by anticipated growth in population and employment to provide a per capita and per employee expenditure amount. These amounts were then applied to the growth anticipated in the Elfrida Community Area to determine the total incremental operating expenditures related to the development.

This approach is generally consistent with Watson's methodology; however, the detailed calculations are required to determine whether the assumptions utilized are reasonable.

For certain infrastructure such as watermains, roads, treatment plants, etc., Watson's approach is generally to estimate expenditures on an infrastructure basis (e.g. per kilometre of road, per cubic metre of wastewater treated, etc.). Given the extent of this development and the large infrastructure investments that are required to accommodate development, a more accurate estimate of expenditures may be calculated utilizing this approach for the more significant infrastructure investments.

8. Operating Revenues

The following subsections provide commentary on how property tax revenues and non-tax revenues were calculated in the Elfrida F.I.A.

8.1 Non-Property Tax Operating Revenues

The non-tax revenue analysis recognizes revenues from user fees, fines, charges, penalties, etc. The analysis is presented in a similar format to the expenditures and utilizes the 2022 F.I.R. This is consistent with the methodology utilized by Watson, however, as noted above for the operating expenditures, detailed calculation tables are required to better understand the details and to test the validity of the assumptions.

8.2 Property Assessment and Tax Revenue

Incremental assessment growth and the associated property tax revenues have been forecasted based on recent comparable developments within Hamilton. This is consistent with Watson's methodology. Given the analysis did not estimate a unit mix or number of units, the property tax revenue was estimated based on a per capita approach. Watson's approach is based on applying the average assessment values to the estimated number of units in the area and the corresponding 2024 tax rates.

The average residential assessed values were determined from MLS and MPAC, however the details behind the values were not included. Watson's general approach includes utilizing a large sample size of comparable developments to limit any skewing of the data for each development type. A sample of recently constructed properties in comparable areas across the City was obtained from the MPAC database to compare to the values utilized in the Elfrida F.I.A. In general, the assessed values used in the F.I.A. are slightly understated, which leads to an understatement of tax revenues.

It is noted that the per capita approach utilized by Parcel utilizes persons per unit data from the City of Hamilton Land Needs Assessment to 2051, which is also utilized in the City's D.C. background study, which is a reasonable approach. The persons per unit data is utilized to convert the average per unit assessment values to per capita assessed values.

The analysis applies the average assessed value per capita to the forecasted population growth in Elfrida to estimate the residential property tax revenue for the area (excluding school boards).

For non-residential development, the commercial-related jobs (4,320 of 14,480) were utilized to calculate property tax revenues (i.e. excluding institutional-related employment), which is a reasonable approach. The rationale/details related to the average assessed value per square metre utilized in the F.I.A. were not provided, however, the value appears to be in line with assessed values for commercial employment elsewhere in the City.

Based on a review of the analysis undertaken, the assumptions utilized to calculate property tax revenues appear reasonable, and may even be providing conservative estimates, relative to comparable developments in other areas of the City.

Note: the report refers to a population increment of 114,900 several times throughout the report, however, the property tax revenue calculation was undertaken based on 115,800 people. Although this is anticipated to have a minor impact on the overall fiscal impact, this should be corrected to provide consistency with the rest of the analysis.

9. Net Financial Impact

The net financial impact is provided at buildout for the proposed development. An annual operating surplus has been identified for the City; however consideration should be provided to the above commentary and how these potential refinements may impact the analysis. The major component that is not addressed in the calculation is the inclusion of annual lifecycle (replacement) costs. Based on Watson's high-level calculations provided in the memo herein, the additional annualized costs that should be added to the analysis (e.g. annual lifecycle replacement costs of $79.38 million) would change the positive annual net operating position of $27.59 million to a net fiscal deficit (i.e. this development would create an upward pressure on tax rates and water, wastewater, and stormwater rates).

10. Conclusions

10.1 Assessment of Response to Draft Framework for Processing and Evaluating Urban Boundary Expansion Applications

10.1.1 Assessment of Initial Round of Growth-Related Infrastructure

Although the Elfrida F.I.A. identifies certain growth-related works that have been included in the City's D.C. background study, as noted above, these costs are not reflective of the full costs required to service the development area. For the purposes of the F.I.A., a high-level estimate should be calculated for each service to determine the initial costs related to this development.

Further to the D.C.-funded works, the costs for the local infrastructure that is to be funded by the developer should also be estimated and quantified at a high-level. Although these initial costs will not have an impact on the City's budgets, these estimates are required to evaluate operating and replacement costs as part of the net fiscal impact.

10.1.2 Provisions for Operating and Replacement Costs

This component of the evaluation includes an assessment of whether annual operations and replacement cost provisions have been considered as part of the fiscal impact analysis. The framework goes on to state that the applicant can estimate the long-term operating and replacement costs based on average expected useful life by asset class.

This analysis was not undertaken as part of the Elfrida F.I.A., and based on the commentary provided herein, incorporating these costs into the fiscal impact results in a negative overall position, given the magnitude of the works required to service this population/development area.

10.1.3 Consideration of Broader Municipal Fiscal Implications

The Elfrida F.I.A. notes that the operating surplus generated by the development of this area can be utilized to replace or upgrade infrastructure in other parts of the City, however, as noted above, the inclusion of lifecycle costs into the analysis would result in an operating deficit.

10.1.4 Conclusions on Net Fiscal Impact

Further to the above commentary, it is not anticipated that the development of the Elfrida area would result in a net operating surplus. The analysis should be revisited to incorporate lifecycle costs to determine the full fiscal impact of development.

10.2 General Conclusions

Although the general approach is reasonable and, in some cases, consistent with Watson's methodology, there are a number of assumptions that should be revisited, which would have varying impacts on the annual financial impact to the City:

- Calculations utilizing the Transportation Assessment's unit mix, number of units, and commercial land area;
- Inclusion of capital costs for all services, including the costs for fire protection services, parks and recreation services, and library services beyond those identified in the D.C. study;
- Estimation of costs that are to be funded and constructed by the developing landowners for inclusion into the lifecycle (replacement) cost analysis;
- Inclusion of lifecycle (replacement) costs for all infrastructure to be constructed by the City in addition to works to be assumed from the developer; and
- Assessment of growth-related percentage for operating expenditures related to additional infrastructure (e.g. roads, fire, parks, etc.).

We trust that this memo provides you with the information that you require. We would be pleased to discuss this information further if required.