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1.0 EXECUTIVE SUMMARY:

In 2012, the City of Hamilton levied $705 million in property taxes. Included in this amount was $86.7 million for Capital (Capital Levy). Staff is recommending to Council a 0.5 percent total levy increase for 2013 dedicated to the Capital Levy. This would increase the Capital Levy by $3.45 million or 4.0 percent. This proposed increase represents the 4th consecutive year for a 0.5% total levy increase dedicated to the Capital Levy and is part of a long-term financing strategy to maximize the amount of City funding available for repair and rehabilitation of City infrastructure.

The following highlights the 2013 Tax-Supported Capital Budget.

Highlights

Expenditures

$252 million in gross capital spending

- Gross spending on Roads = $102.8 million ($25m increase)
- $48.5 million (net) for the Road Rehabilitation Block (3rd Year of 4)
- $39.2 million for the Pan-Am Games
- $26.5m for Transit
- Funding for corporate and recreation facilities rehab totals $13.4m
- $6.6 million for West Harbour and Waterfront Strategic Initiatives
- $5.4 million for Vehicle Replacement
- $3.3 million for Seniors Lodges, $2.8m for Downtown, $2.0m for Hamilton Conservation Authority
- $1.0 million for Social Housing Rehab

Revenues

- $112.7 million in reserve funding
- $ 34.6 million in development charge funding
- $7.0 million in external debt funding
- growing requirement for own source capital funding
- significant infrastructure gap that will increase over time

The 2013 Capital Budget sets out to achieve the following goals:

1) Additional municipal funding to address the City's infrastructure deficit backlog, specifically the roads, social housing, corporate and recreation facilities and cultural assets.

2) New investment in strategic capital areas such as the Pan Am Stadium, Downtown Revitalization, Industrial Land Development, West Harbour and Waterfront Strategic Initiatives, Parkland acquisition, Ash Borer program, Randle Reef, etc.

The City's long-term fiscal strategy of 0.5% total levy increases dedicated to the Capital Levy strategy has reversed the trend and has decelerated the rate of annual deterioration of City Infrastructure and caps it at approximately $195 million, net of construction cost inflation for 2011 and 2012 of 4.07% and 1.96% respectively. Table 1 details the 2012 Annual Infrastructure deficit ($195 million) with respect to the various program areas.

TABLE 1

2012 Infrastructure Funding Deficit (Annual)($000's)

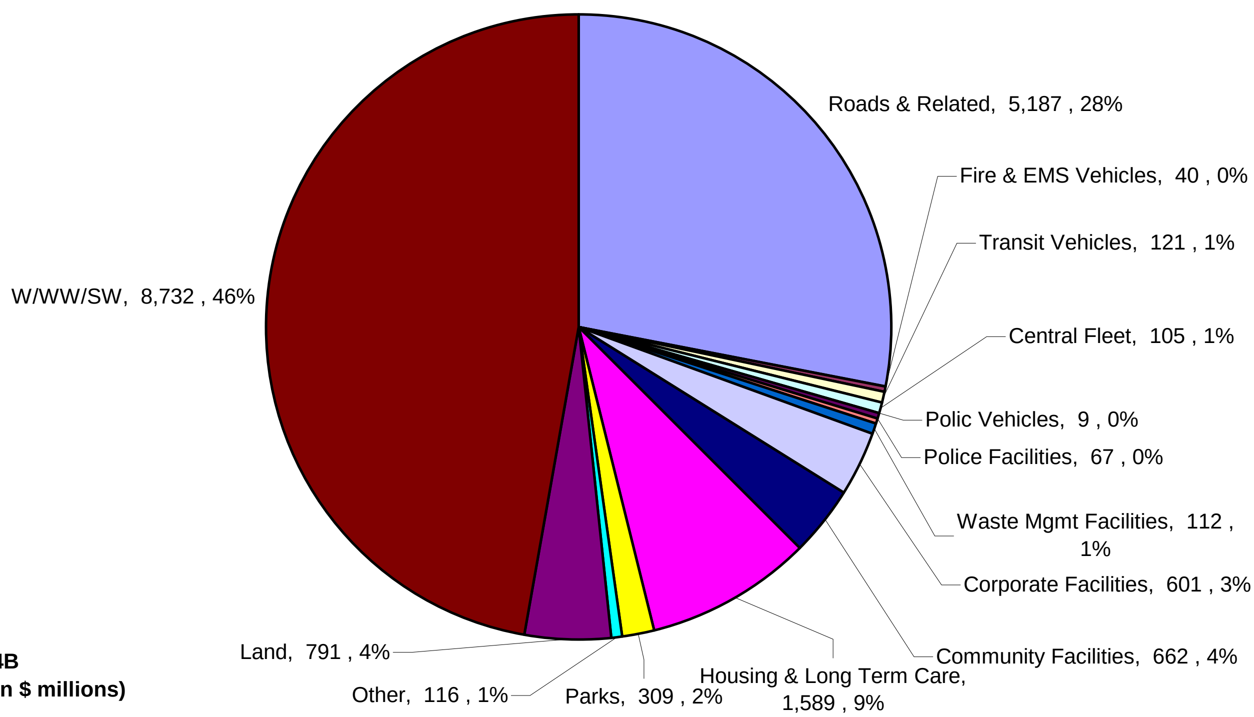
	2012 Required	**2012 Funding**	**Infrastructure Deficit**
Roads/Bridges	179,078	69,490	109,588
Waste Management	16,979	7,270	9,709
Corp Facilities (inc C.H.)	15,645	5,455	10,190
Rec Facilities	10,000	4,000	6,000
Culture Facilities	7,000	4,166	2,834
Housing	37,500	16,000	21,500
Parks / Open Space	10,296	7,927	2,369
Forestry	10,000	1,500	8,500
Fleet	10,820	9,386	1,434
Fire, EMS, Police Fleet	6,171	4,459	1,712
Transit	11,593	11,593	-
Long-Term Care	2,226	1,670	556
Other	10,773	6,143	4,630
Financing Costs	16,404	-	16,404
Total	**344,485**	**149,059**	**195,426**

The City cannot solve its infrastructure funding gap from own source revenue. It will have to rely on significant stable funding from the senior levels of government. The City has and is forecast to continue to make a concerted effort to increase funding for infrastructure rehabilitation through Capital Levy increases. Staff have presented a tax-supported 2013 – 2022 capital forecast which incorporates an annual 0.5% total Levy increase ($3.45 million-2013) dedicated to the Capital Levy. Over a 10-year period, this plan would add $190 million more in capital funding. More Federal/Provincial infrastructure funding as well as increasing the City's own source revenue is the only way the City can get to financial sustainability in terms of existing asset rehabilitation. Otherwise, the City's Capital Program over the next 10 years will increasingly consist of targeted funding to its decaying infrastructure. Exclusive of a sustainable infrastructure program funded by all three levels of government, the City's existing asset base will continue to deteriorate and new capital will only be affordable through increased debt which in turn will leave even less for existing capital repair and maintenance as debt and interest repayments crowd out capital funding capacity.

Tax Capital Budget Background

The City of Hamilton owns hard assets with a total replacement value of approximately $18.4 billion. Fifty percent of the value of these assets represent water, wastewater and storm-water, which is principally funded from the Rate Supported Budget. The other fifty percent are tax-supported infrastructure such as roads, recreation facilities, emergency vehicles and buildings, etc. The repair and replacement costs of the latter are funded from the tax-supported Capital Budget. A detailed breakdown of the City's $18.4 billion infrastructure assets is presented below.

City of Hamilton Infratructure Assets
$18.4 Billion



Total Value = $18.44B
(Values shown are in $ millions)

The City of Hamilton during the past 5 years has accomplished the following Tax Capital Budget objectives;

1. Identified in all program areas the depth of the infrastructure deficit and required funding to achieve existing infrastructure sustainability.

2. Created a much more comprehensive process to determine program area priorities. The process includes consultation through one on one staff ward councillor information sessions, as well as capital prioritization workshops through General Issues Committee.
3. Aligned the City's Capital Budgets with its Strategic Plan and Business Plans. This includes a multi-year Capital Budgeting Model which is an essential tool for the City's long-term financial sustainability. The City has been able to meet its Capital obligations through prudent debt financing strategies while keeping its AA Stable credit rating intact.
4. The City has struck a premium balance between funding valued and sustainable services and supporting growth infrastructure in an effort to grow a prosperous and healthy community. One important tool for achieving this is the Development Staging program which directs the City's funding for growth to areas which will maximise future City revenues.

The four above-mentioned objectives form the core of the City of Hamilton's 2013 Tax-Supported Capital Budget and 2014 - 2022 Capital Forecast. The 2013 Tax Capital Budget represents an effort to address investments necessary to support our existing capital, as well as the need to support municipal investment readiness and economic development and capacity.

Works-In-Progress (WIP) Funding Review:

The City has over the years progressively reduced the number of previously approved but not yet completed Capital projects (Works In Progress – WIP). Over the last 5 years, the WIP completion rate for the Tax-supported WIP's has improved from 77% to 82%. For the 2012 Tax-supported Capital Budget, the corporate-wide staff WIP Review Committee reviewed all WIPs and re-allocated $11.2 million for strategic priorities. For the 2013 Tax-Supported Capital Budget, WIP restatements are approximately $17.8 million, as illustrated in Table 2.

Table 2

2013 Capital Program - W.I.P. Funding By Program (000's)	$
Human Resources	100
Recreation	405
Customer Service Access & Equity	105
Finance	578
EMS (Emergency Medical Services)	280
Open Space Development	225
Roads	15,106
West Harbour & Waterfront Strategic Initiatives	965
Total	17,764

2.0 2013 TAX CAPITAL BUDGET STRATEGIC INVESTMENTS:

A. 2013 Pan-Am Games:

The 2015 Southern Ontario Pan-Am games require funding commitments from the City of Hamilton. To date, the City has committed $61.5 million of which $51.5 million is committed to rebuild Ivor Wynn Stadium and $10 million to the purchase of the West Harbour Lands. Of this amount, $55 million will be financed from the Hamilton Future Fund Reserve, (refer Table 24). As the proposed Pan- Am Velodrome did not proceed, the previously committed funding has been re-directed back to the Future Fund. The remaining $6.5 million for the new Pan Am stadium and Brian Timmis Replacement Stadium will be funded from re-allocating existing forecast capital budget allocation. In addition to the above Pan Am projects, the 2013 – 2015 capital forecast includes an annual commitment of $604,000 to support Pan Am Special Events and Programming.

B. West Harbour and Waterfront Strategic initiatives:

A renewed area of focus for 2013 is the City's waterfront and in particular, the West Harbour. The 2013 Tax Capital Budget has allocated $6.6 million for this priority which provides funding for the following initiatives;

- $2.2 million for Confederation Park (Phase 1 of approved Master Plan). Includes redevelopment of the former campground (various sports-fields)
- $2.5 million for West Harbour re-development (site servicing reviews for piers 5,6,7,8 and Barton-Tiffany lands
- Unallocated $1 million for Council's consideration of Waterfront priorities.
- Various Studies totaling $900,000 (Urban design and development concepts for City's "Setting Sail" Master Plan.

The above mentioned Capital projects are small components of future re-development requirements of the City's waterfront. As the City moves forward in its capital planning forecast, the waterfront will remain a focus of capital prioritization.

C. Road/Bridge Rehabilitation Program:

One of the most significant infrastructure deficits for the City resides in the roads program. The City has a maintenance and re-build backlog of approximately $1.2 billion. Annually, the City should be spending approximately $179 million on road and Bridge repair. In 2013, the City is spending $77.8 million gross ($48.5m net) on non-growth road projects (refer Table 3). The balance of approximately $25 million is for growth-related road infrastructure.

TABLE 3

	($000's)	
2013 Roads Forecast by Program Area	**Gross**	**Net**
Development/Growth Related Program	25,050	1,513
Replacement Program	20,060	11,025
Urban Rehabilitation	12,220	9,059
Rural Rehabilitation	2,000	900
Bridges and Structures	10,480	8,210
O & M/Studies/Traffic Engineering	13,740	8,493
Council Priority Projects	19,290	9,300
Total	**102,840**	**48,500**

3.0 2013 TAX-SUPPORTED CAPITAL LEVY ;

While the City's 2013 budget goal is a zero percent increase in property taxes, the City's Senior Management Team has endorsed a 0.5% Capital Levy increase ($3.45 million). This action is in recognition of the need to increase own source funding which supports the City's Strategic Plan with regards to valued and sustained services financial sustainability. Evidence of the need to increase own source funding of the City's Capital Program is based on the following facts;

a) Capital Levy as a percentage of the total levy (refer Table 4) had declined from 13.4% (2003) to 11.9% (2010) but due to Council's efforts is now climbing back again to 12.3% (2012) (i.e., the reason for the decline was that the operating levy was increasing at a greater rate than the capital levy). A healthy capital to operating ratio is around 15% to 20%. That is where the pre-amalgamation ratio was for the combined City before reserve provision transfers were reduced to provide amalgamation savings.
b) Funding through contribution from operating over the past 5 years increased by an average of 0.34% and ranged from 0% to 0.5%.
c) The City's current infrastructure gap is estimated at $195 million per year.

Staff are recommending the 0.5% Option, in recognition of the potential for limited funding from higher levels of government in 2013 and beyond, as well as the recent trend in a higher reliance of own source funding, and finally the City's Strategic Plan with regards to financial sustainability by meeting its infrastructure needs. Table 5 illustrates the Tax Levy Impact of the 0.5% Option and the components of the proposed tax-supported Capital levy (debt and direct dollar for dollar capital funding (transfer from operating)).

Table 4

Tax Levy Impact Summary ($ Millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Tax Levy	461.3	477.1	495.5	527.4	555.3	574.4	601.6	630.1	649.1	673.0	692.4	705.1
Capital Levy	60.4	62.8	66.3	69.3	71.4	73.5	75.0	77.5	77.5	80.4	83.4	86.7
Capital Levy % of Total Levy	13.1%	13.2%	13.4%	13.1%	12.9%	12.8%	12.5%	12.3%	11.9%	11.9%	12.0%	12.3%

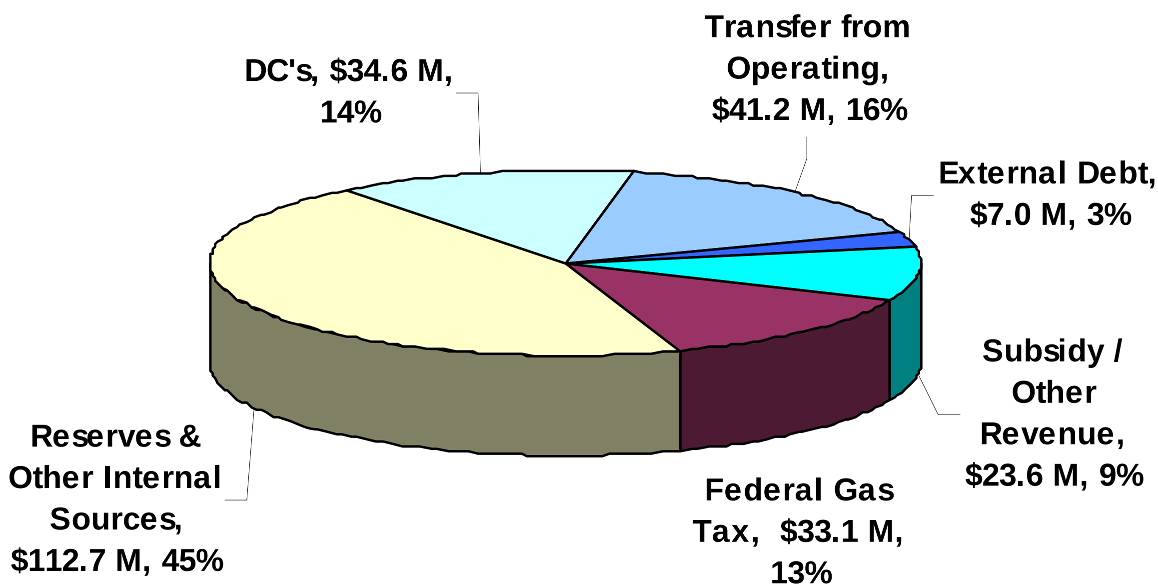
Table 5

CAPITAL BUDGET IMPACT ON OPERATING BUDGET ($000's)	2012 APPROVED	2013 PROPOSED (0.5% Levy Increase)	CHANGE $	CHANGE %
Debt Charges	50,444	48,153	(2,291)	-4.5%
Transfer from Operating	36,283	42,024	5,741	15.8%
Total Impact	86,727	90,177	3,450	4.0%
Impact on Average Residential Property Tax 0.5% ($15)				

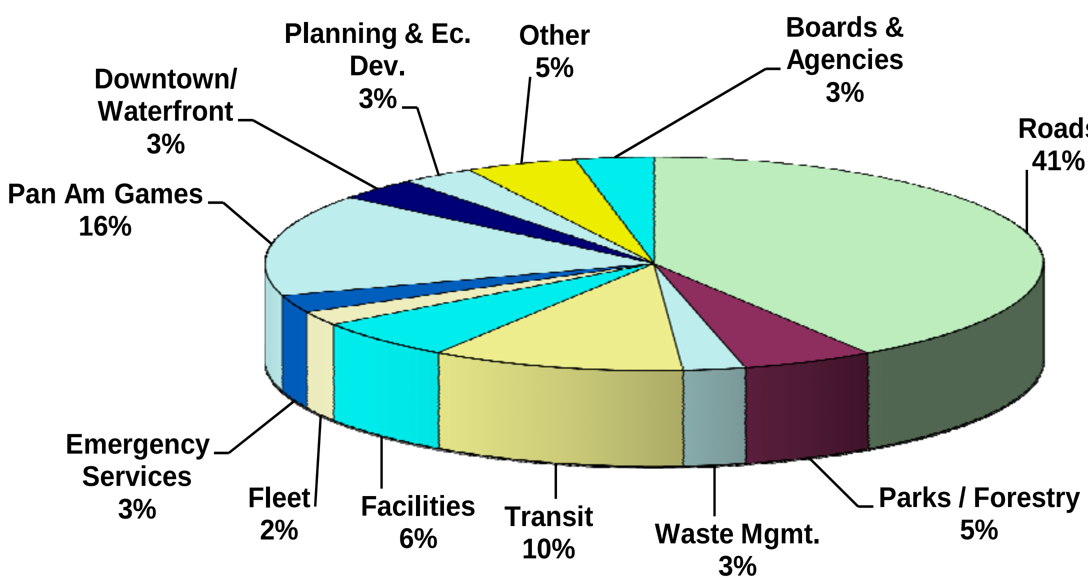
As per Table 5, in 2012, $86.7 million (12.3 % of the City's $705 million tax levy) was used to support capital. For 2012, staff are recommending a $90.2 million capital levy consisting of $48.1 million in budgeted debt charges and a $42 million transfer from operating to capital (direct dollar funding). This is an increase of 4.0% ($3.45 million) over the previous year.

The following 2 pie charts illustrate the 2013 Capital funding sources and the corresponding recommended allocation across programs.

2013 Capital Funding - $252.2 Million



2013 Capital Budget by Program
$252.2 Million



4.0 2013 TAX CAPITAL BUDGET PRIORITIZATION PROCESS:

The City of Hamilton employs a hybrid Capital Block Funding Prioritization methodology which over the years has evolved, 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 hard infrastructure program areas (roads, facilities, housing) which facilitates effective costing and priority planning outcomes. In addition, the taxpayer represented by Council, provides input for the Capital Program through various workshops early and often through the Capital Budget Planning Process. The process for the 2013 Capital Budget was as follows:

- Staff met to determine the discretionary funding available from the most current information available (Discretionary funds are those funds whose use could be directed to any Capital program area). This would not include specific use reserve funds (DC's, Fleet, Transit, etc) or any other funding whose use is limited to a specific purpose.
- Staff met in the third quarter of 2012 to determine needs and create funding strategies based on those needs versus financial constraints.
- Quantitative Block Funding strategies were based on historical funding averages, masterplan requirements and subsidy eligibility.
- Capital projects receiving significant subsidy and/or approved by Council prior to Capital Budget deadlines receive priority in the Block-Funding process.
- Staff also consulted with Council via one on one ward capital sessions and workshops.

5.0 2013 PROPOSED TAX-SUPPORTED CAPITAL BUDGET - OPTION 2:

On September 28, staff met with Council for the second of two Capital Budget workshops in the format of a General Issues Committee. Staff presented to Council two options with regards to capital prioritization. Option 2 is the proposed option contained within the Tables of this report and reflects the following revisions from Option 1;

- $0.5 million reduction of the Recreation facilities block to $5.164m.
- $1.0m increase in funding for Waterfront initiatives to $3.681m.
- $2.0m reduction in funding for Council Strategic Initiatives.
- $1.5m increase in funding for Parkland acquisitions.

Table 6 contains the above revisions and summarizes the 2013 Tax-Supported Capital Budget by program area and compares it to the previous year's approved capital program. The proposed Capital Budget incorporates a 0.5% total levy increase ($3.45 million) dedicated to the Capital Levy.

Table 6

2013 PROPOSED TAX SUPPORTED CAPITAL BUDGET ($000's)				
	2012		2013 PROPOSED	
	GROSS	NET	GROSS	NET
Proposed Block Funding	$	$	$	$
Recreation Program	6,115	6,115	7,094	5,164
Culture Program	1,780	1,780	1,812	1,208
Public Art Program	191	191	182	182
Urban Renewal	3,846	2,215	2,114	2,114
Downtown Renewal - Suburban Downtowns	250	250	239	239
Fleet and Facilities – Corporate Buildings	5,455	5,113	5,690	4,880
Forestry Maintenance Includes Tree Planting)	1,500	1,500	1,492	1,432
Open Space Development	6,222	3,616	6,301	3,451
Housing	2,500	2,500	1,000	1,000
Parks & Cemeteries	1,455	1,270	2,002	1,212
Public Health	78	78	74	74
Corporate Projects	100	100	0	0
Community Services - Other Divisions	100	100	95	95
West Harbour & Waterfront Initiatives	0	0	6,646	3,681
Roads	77,702	51,220	102,840	48,500
Total Block Funding	**107,294**	**76,048**	**137,581**	**73,232**
Special Levies & Boards				
HECFI Renovations & Replacements	700	0	1,200	0
Police Services	250	0	300	0
Hamilton Public Library	0	0	3,500	0
H.C.A\Confederation Park\Westfield	2,060	2,000	2,000	2,000
Total Special Levies & Boards	**3,010**	**2,000**	**7,000**	**2,000**
Other Major Projects				
Council Strategic Initiatives	1,250	1,250	3,645	1,800
Pan Am Games	44,415	340	39,195	2,770
McMaster Health Campus Proposal - City's Contribution	10,000	0	0	0
Long term Accommodations- McMaster Health Campus	2,206	2,206	1,974	705
Economic Development Initiatives	2,000	2,000	2,000	2,000
Corporate Services	0	0	1,378	0
Lodges	1,670	1,670	3,335	3,335
Emerald Ash Borer Program	0	0	2,500	2,500
Transit Services	17,456	3,700	26,493	3,700
Corporate Fleet Services	9,386	0	5,390	0
Hamilton Emergency Services	4,209	540	6,675	1,050
Planning & Development	6,333	390	5,743	440
Waste Management	7,270	7,030	6,495	5,825
Information Technology	1,570	544	1,670	500
Total Other Major Projects	**107,765**	**19,670**	**106,493**	**24,625**
Other Recommended Projects	**2,468**	**1,934**	**1,161**	**0**
Total Affordable Projects	**220,537**	**99,652**	**252,235**	**99,857**

6.0 2013 – 2022 TAX CAPITAL FORECAST ASSUMPTIONS:

1. Budgeted debt financing. For the 2013-2022 debt financed capital projects, it is assumed that debt repayments start July 1 (at 5.00% amortized over 15 years). For previously approved capital projects (Works-In-Progress – W.I.P.'s), July 1 is also the date that debt repayments start accruing.

2. Federal/Provincial Infrastructure Subsidy – Gas Tax Revenues. The majority of municipalities cannot meet the cost of proper infrastructure repair and rehabilitation. In response, the Federal government is contributing 5 cents per litre of gas sold to municipalities for this issue. This subsidy is currently at $30.955 million.

3. Hamilton Hydro Capital Funding Dividend. Based on the Hamilton Hydro Dividend Policy brought before Council on November 1, 2004, we have incorporated $2 million in dividends from Hydro to fund the Capital Program in 2013 and $2 million in each subsequent year thereafter.

Table 7 provides a 5-year discretionary capital forecast for 2013 – 2017 summarized by program area expenditures and the sources of discretionary funding. It does not include non-discretionary capital sources of funding which must be used for a specific purpose (dedicated reserves such as Development Charges, Fleet, etc). The highlights regarding the discretionary funding envelope are;

a) Significant increase in the contribution from operating from $35.5m to $41.2m.
b) 2013 Capital financing surplus stems from calendar year 2011. This amount should decline for 2014 due to financing rate decrease from 6% to 5%.
c) Long-term discretionary revenues indicate a declining trend (especially in comparison to construction cost inflationary pressures) near term due mainly to debt financing commitment constraints.

Discretionary funds may be directed by Council to whatever purpose it deems necessary. Table 7 assumes an annual 0.5% increase of the total tax levy ($3.45m) dedicated to Capital financing annually.

Table 7

Discretionary Tax Supported Net Capital Funding Forecast 2013 - 2017

($000's) **Assumptions: 0.5% Levy Increase for Capital Annually 2013 - 2017**
5.0% Cost of Borrowing on External Debt

Sources of Funding (Net)	2012 Approved	2013 Proposed	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Contribution from Operating	35,483	41,224	38,746	42,059	45,078	54,441
External Debt	8,000	7,000	6,000	5,000	-	-
Hydro Dividends ($2M)	2,000	2,000	2,000	2,000	2,000	2,000
Federal Gas Tax - Roads	27,955	27,955	27,955	27,955	27,955	27,955
Federal Gas Tax - Transit	3,000	3,000	3,000	3,000	3,000	3,000
Total Financing Plan - Discretionary	76,438	81,179	77,701	80,014	78,033	87,396
Previous Yrs. Capital Financing Surplus	7,753	7,000	2,000	2,000	2,000	2,000
Unallocated Capital Reserve	2,434	3,259	1,805	1,026	1,026	1,000
HRPI Dividend				250	250	250
Unallocated Capital Reserve (2011 Parked/Council Strategic)	1,421					
WIP Funding Interest	500	500	500	500	500	500
2011 OMPF Reconciliation	4,076					
WIP Funding (Favourable Road Tenders) (Fed. Gas Tax)		2,094	4,916			
External Debt - Waste Mgmt.			2,902	2,496	5,018	4,486
HFF - to fund Waste	7,030	5,825	3,252			
Total Funding (Net)	**99,652**	**99,857**	**93,076**	**86,286**	**86,827**	**95,632**

Expenditures (net)	2012 Approved	2013 Proposed	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Roads	**51,220**	**48,500**	**48,500**	**40,705**	**39,339**	**45,913**
Corporate Facilities	**5,113**	**4,880**	**4,583**	**4,281**	**4,137**	**4,828**
Recreation Facilities	**6,365**	**5,164**	**3,516**	**3,141**	**5,130**	**5,987**
Pan Am - Ivor Wynne Renovations		**2,166**	**2,167**	**2,167**		
Cultural Facilities	**1,899**	**1,208**	**1,702**	**1,590**	**1,537**	**1,793**
Park Development (New/Expansion)	**3,616**	**3,451**	**3,241**	**3,027**	**2,926**	**3,415**
Hamilton Downtown	**2,215**	**2,114**	**1,986**	**1,854**	**1,792**	**2,092**
Suburban Downtowns (B.I.A.s)	**250**	**239**	**224**	**209**	**202**	**236**
Forestry	**1,500**	**1,432**	**1,345**	**1,256**	**1,214**	**1,416**
Park's Operations	**1,270**	**1,212**	**1,138**	**1,063**	**1,028**	**1,199**
City Housing Hamilton		**500**	**2,241**	**2,093**	**2,023**	**2,361**
Housing Services	**2,500**	**500**				
Public Art	**191**	**182**	**171**	**160**	**155**	**180**
Waterfront Initiatives		**3,681**				
Block Funding Total	**76,139**	**75,229**	**70,814**	**61,546**	**59,483**	**69,420**
Major Capital Initiatives						
Ash Borer		2,500	2,500	2,500	2,500	2,500
Randle Reef		300	300	300	300	300
DC exemptions	-	-	-	-	-	2,500
Lodges	1,670	3,335	500	500	500	500
Community Services - Other	100	95	90	84	81	94
Corporate Projects	100	-	90	84	81	94
Fire / EMS	540	1,050	1,000	2,000	2,000	2,000
Information Systems	544	500	500	500	500	500
Public Health - Long Term Accomodation (re Health Campus)	2,284	779	70	65	63	74
Pan Am Special Events & Programming	340	604	710	710		
Parking / Animal Control	260	100				
Planning / Development	130	340	130	130	130	130
Hamilton Conservation Authority	2,000	2,000	2,000	2,000	2,000	2,000
Economic Development Initiatives	2,000	2,000	2,000	5,000	5,000	5,000
Council Strategic Capital	1,250	-	2,000	3,000	3,000	3,000
Transit (FGT)	3,700	3,700	3,700	3,700	3,700	3,700
Waste Management	7,030	5,825	6,154	2,496	5,018	4,486
Parkland Acquisition		1,500				
Unallocated	1,565		518	1,671	2,471	(666)
Total Expenditures (Net)	**99,652**	**99,857**	**93,076**	**86,286**	**86,827**	**95,632**

1. The forecast information from Table 7 shows that even with a 0.5% total levy increase annually dedicated to the capital levy (which equates to a 4% annual capital levy increase), the City's forecast discretionary funding envelope, over the period 2014-2017, decreases from 2013 levels. The City's capital program to deal with the increasing infrastructure deficit will not get back on track without additional funding from the senior levels of government. However, both the Provincial and Federal governments are now running significant budget deficits and are facing an era of restraint. Exclusive of future sustainable Federal and Provincial funding commitments for municipalities, many of the City's Capital program areas will remain acutely under-funded.

2. Listed below are significant City-wide future capital projects which have not been accounted for or for which only a small fraction of the budget has been dealt with in the financing plans contained within this document. They include the following;

    - Light Rail Transit
    - Master-Plans related to park development which include (Gage Park $30m, Gore Park $6m, John/Rebecca $5m, Battlefield Park re; 1812 $10m, Confederation Park $37m)
    - Police Investigative Building, $15m
    - West Harbour Recreation Master Plan ($75m)
    - Parkland Acquisition Strategy (retired school board properties)
    - Industrial Land Acquisition Strategy

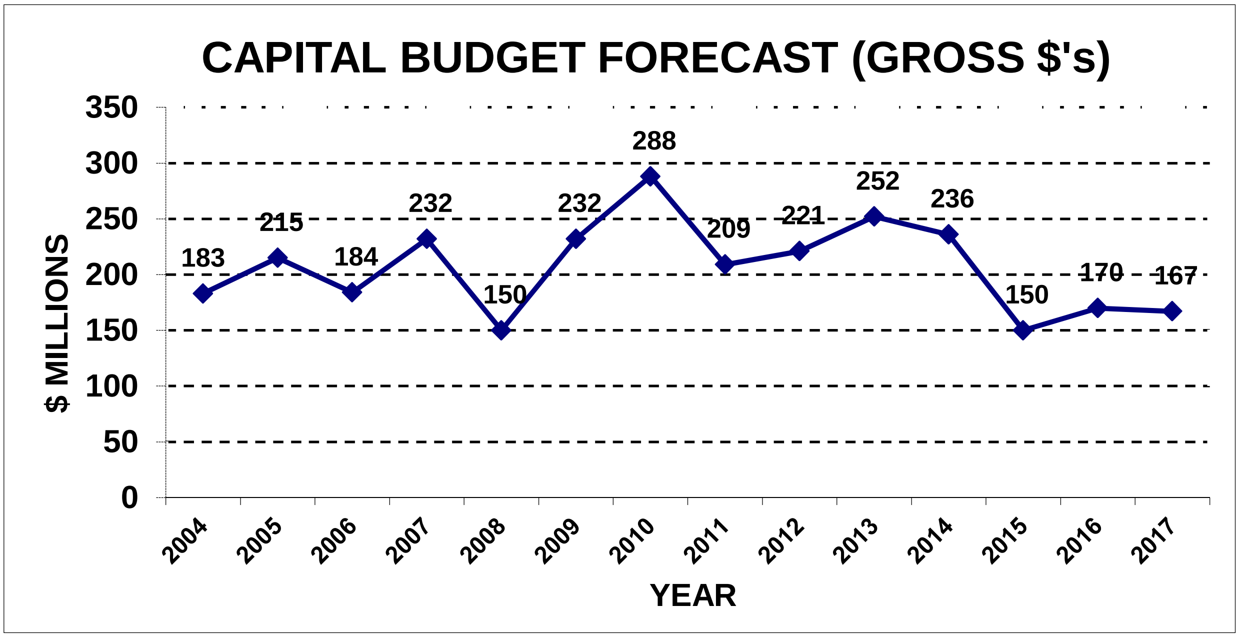
3. 10-year Budgeted Debt Level Forecast Peak (2013 - $381 million) is a 6.3% decrease from last years forecast debt peak of $407 million in 2012 (refer Table 11).

4. Operating Costs. The operating impact of capital projects are identified on the "2013 – 2022 Capital Budget Project List" and on the "Capital Budget Project Detail Sheets." There is normally a one year lag for operating cost inclusion of submitted capital.

5. Staff recommend incorporating the operating impact of capital projects in the 2013 operating budget. In 2012, the operating impact of Capital for inclusion into the 2013 operating budget was $2.6 million. The operating impact of the 2013 Capital Budget for 2014 is $1.3 million (and 4.1 FTE's).

7.0 2013 – 2022 TAX SUPPORTED CAPITAL FORECAST:

The following 12-year Capital Budget graph and corresponding forecast Tables are based on staff's recommended annual 0.5% Total Levy Increase for the Capital Levy. This 10-year plan would add $190 million more in capital over a 10-year period compared to a 0% increase over the same period.



The City's declining capital affordability is due to;

a) Decreased Capital Funding capacity due to major capital project debt commitments (refer Table 8).
b) Aging Infrastructure.
c) A reduced amount of property tax revenue (proportionate) dedicated to capital.
d) Inflationary pressures of capital expenditures.
e) Declining Federal and Provincial Capital grants.

a) Decreased Capital Funding capacity due to major capital project debt commitments (refer Table 8). Past expenditures on the major projects listed below make up a significant portion of the $48 million debt charge component of the Capital Levy (approximately $15.7 million). This is of particular importance in that there are significant future proposed projects (LRT, Pan-Am, park development, Police Forensic Building) which would significantly add to the debt charge component of the Tax-Supported Capital Levy.

Table 8

MAJOR PROJECTS ($ Millions)	2012 & Prior	2013	2014	2015	2016	2017	Total
Red Hill Valley Project	**439.0**						**439.0**
City Hall	**73.9**						**73.9**
Waste Management	**136.5**	**6.5**	**6.2**	**2.5**	**5.0**	**4.5**	**161.2**
Lister Block	**29.8**						**29.8**
Total	**679.2**	**6.5**	**6.2**	**2.5**	**5.0**	**4.5**	**703.9**
Debt Charges on above projects (funded from Tax Levy)		**15.7**	**17.2**	**17.3**	**17.5**	**15.2**	**82.9**

b) Aging Infrastructure. Municipalities, particularly older ones like Hamilton, are experiencing significant annual infrastructure deficits as well as a significant accumulated backlog of repairs which staff estimate at $2 billion (for all programs)(refer City of Hamilton's 2009 "State of the Infrastructure Report). Moving towards a sustainability model is critical for the City as the deficiency in providing capital funding to assets will result in increased incremental operating maintenance costs. This is why staff are recommending a 10-year Tax Capital Funding Plan which calls for 0.5% total tax levy increases dedicated to the Capital Levy for the next 10-years. Increasing the City's own source funding by $190 million (over a 10-year 0% increase) would be a significant factor in dealing with our infrastructure deterioration.

c) A reduced amount of property tax revenue (proportionate) dedicated to capital expenditures (Levy dollars required to mitigate increased operating and program pressures). Refer Table 4.

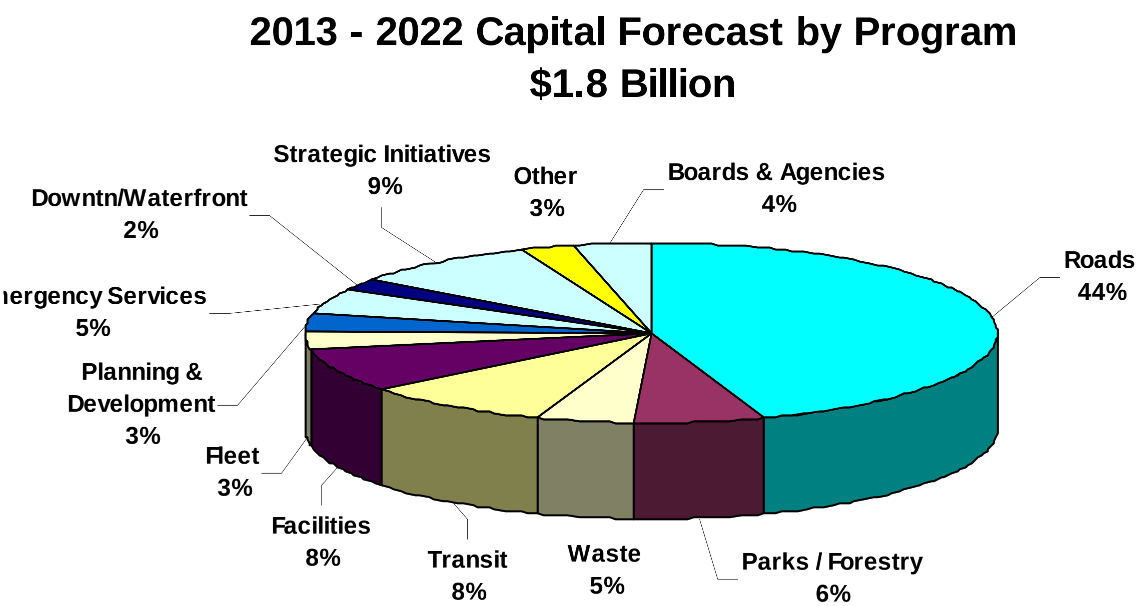
d) Previous years Inflationary pressures of capital expenditures relative to the inflationary capacity of property tax increases. The cost of asset rehabilitation and new construction during the period 2006-2012 has far outpaced the City's property tax increases as evidenced by Table 9.

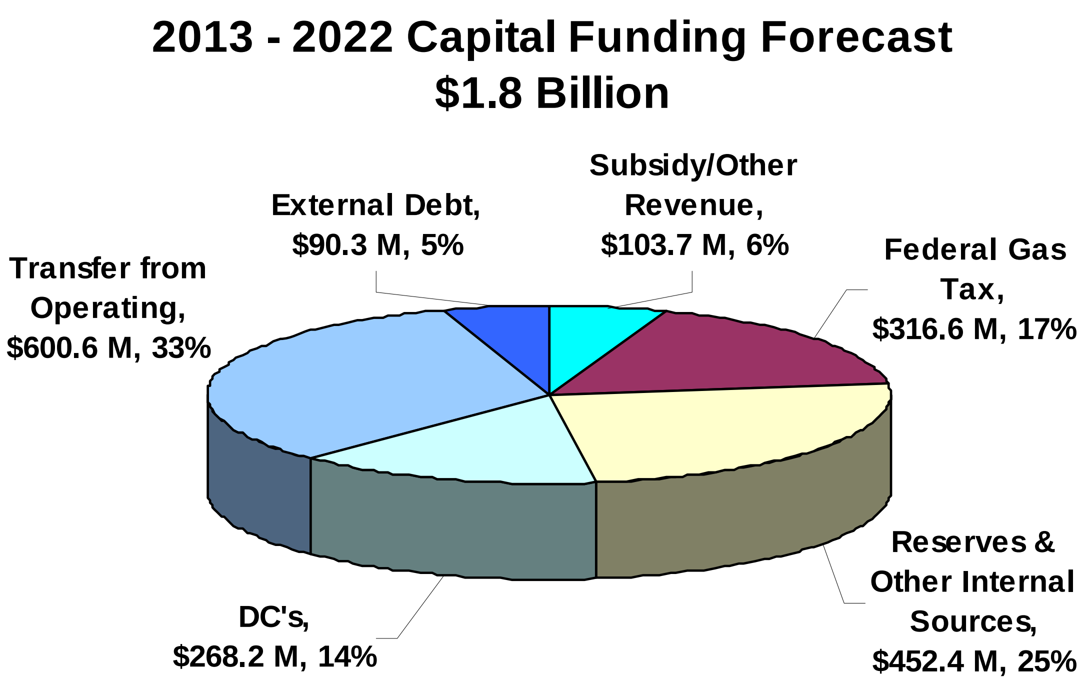
TABLE 9

Inflationary Pressures on Capital Expenditures - (%)

	2006	2007	2008	2009	2010	2011	2012
Non-Residential Building Construction Price Index	6.76	6.74	8.58	-1.93	-0.07	4.07	1.96
Property Tax Increase	2.3	3.4	3.8	1.7	2	0.8	0.9

The following 2 pie charts illustrate the City's 10-year Tax-Supported Capital Forecast by program and the 10-year forecast of the sources of funding.





As has been the case in previous years, a rationing problem exists in the 10 year capital financing plan. While submitted capital projects for the next 10 years total approximately

$2.4 billion, the 2013 - 2022 capital forecast can only support $1.8 billion in new capital projects. This leaves the City with an approximate $600 million funding gap taking into account the required levels of infrastructure repair and rehabilitation. Table 10 examines a 5-year funding forecast and related capital requests. In conclusion, without additional senior levels of government infrastructure subsidies, the City would experience a $268 million funding shortfall for the 5-year period (2013 – 2017).

Table 10

2013 - 2017 CAPITAL FORECAST
PROJECTED GROSS CAPITAL & FUNDING SOURCES

SOURCES OF FINANCING	2012	2013	2014	2015	2016	2017	5 YEAR TOTAL
SUBSIDY / OTHER REVENUE	24,634	23,644	59,804	2,370	2,370	2,400	90,588
RESERVES / OTHER INTERNAL	84,106	87,752	40,624	41,440	43,195	38,827	251,838
DEVELOPMENT CHARGES	10,934	34,591	30,453	24,461	43,180	35,547	168,232
HAMILTON FUTURE FUND	32,580	24,975	12,552	1,000	-	-	38,527
FEDERAL GAS TAX	30,955	33,049	35,870	30,955	30,955	30,955	161,784
TRANSFER FROM OPERATING	35,483	41,224	38,746	42,059	45,078	54,441	221,548
EXTERNAL DEBT	8,000	7,000	17,902	7,496	5,018	4,486	41,902
TOTAL CAPITAL FINANCING AVAILABLE	226,692	252,235	235,951	149,781	169,796	166,656	974,419
TOTAL CAPITAL SUBMITTED	245,598	300,523	298,462	206,811	192,135	246,119	1,244,050
UNAFFORDABLE	(18,906)	(48,288)	(62,511)	(57,030)	(22,339)	(79,463)	(269,631)

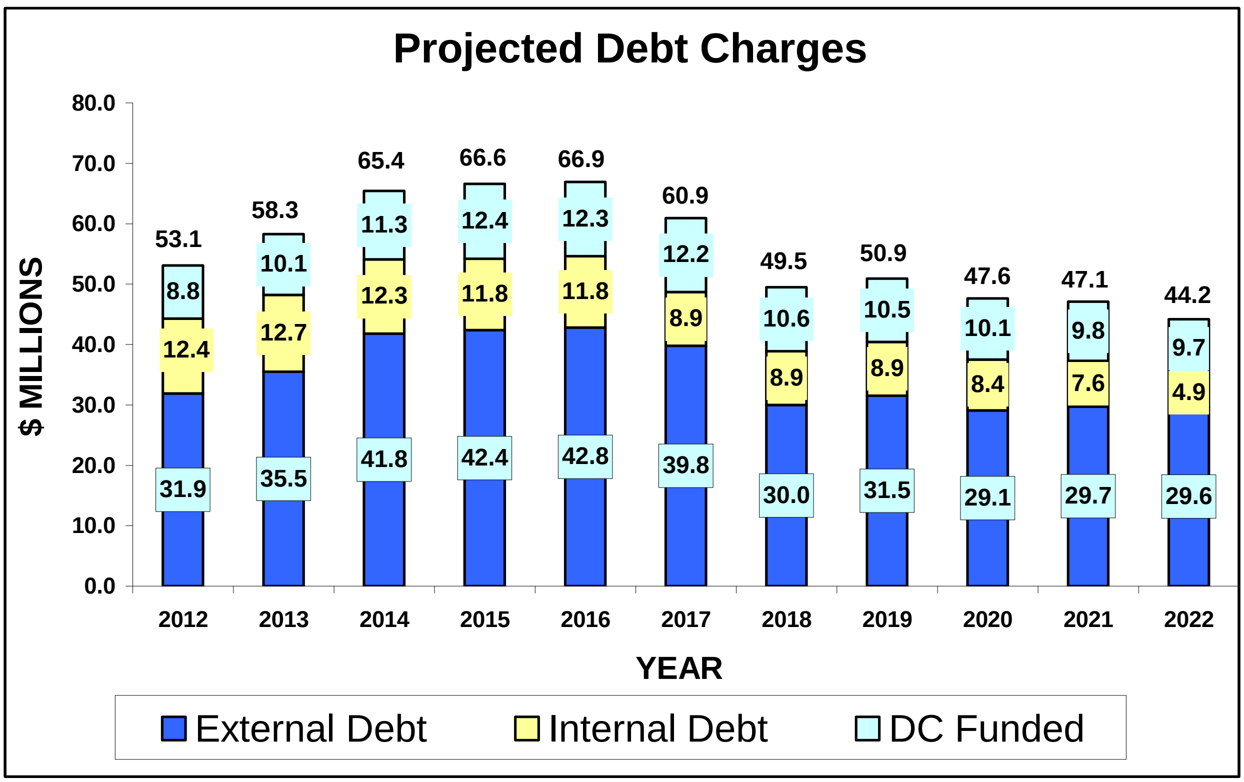
8.0 TAX-SUPPORTED DEBT AND DEBT FORECAST:

In the proposed 2013-2022 ten-year financing plan, tax-supported budgeted external - debt levels peak in 2013 at $381 million (this is the debt level which most concerns bond-rating agencies - refer Table 11 and corresponding debt charge graph). As one of its objectives, staff will hold the line on increasing the City's external debt past the current debt peak forecast. Table 11 and the following debt graphs provide the projected actual debt forecast, debt levels and debt charge amounts. The actual debt forecast takes into account the many reasons that delay capital projects and assumes on a declining basis that debt is issued only as capital expenditures occur. Bond Rating Agencies are most focused on the level of external debt in accessing investor risk, as opposed to internal debt.

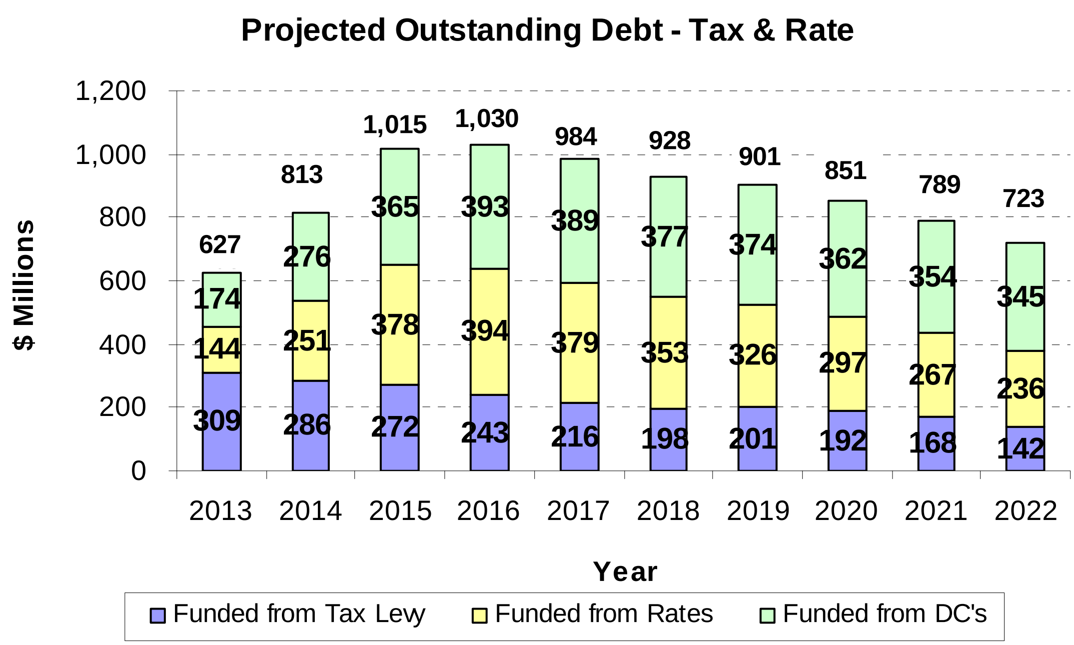
TABLE 11

TAX SUPPORTED EXTERNAL DEBT FORECAST
($Millions)

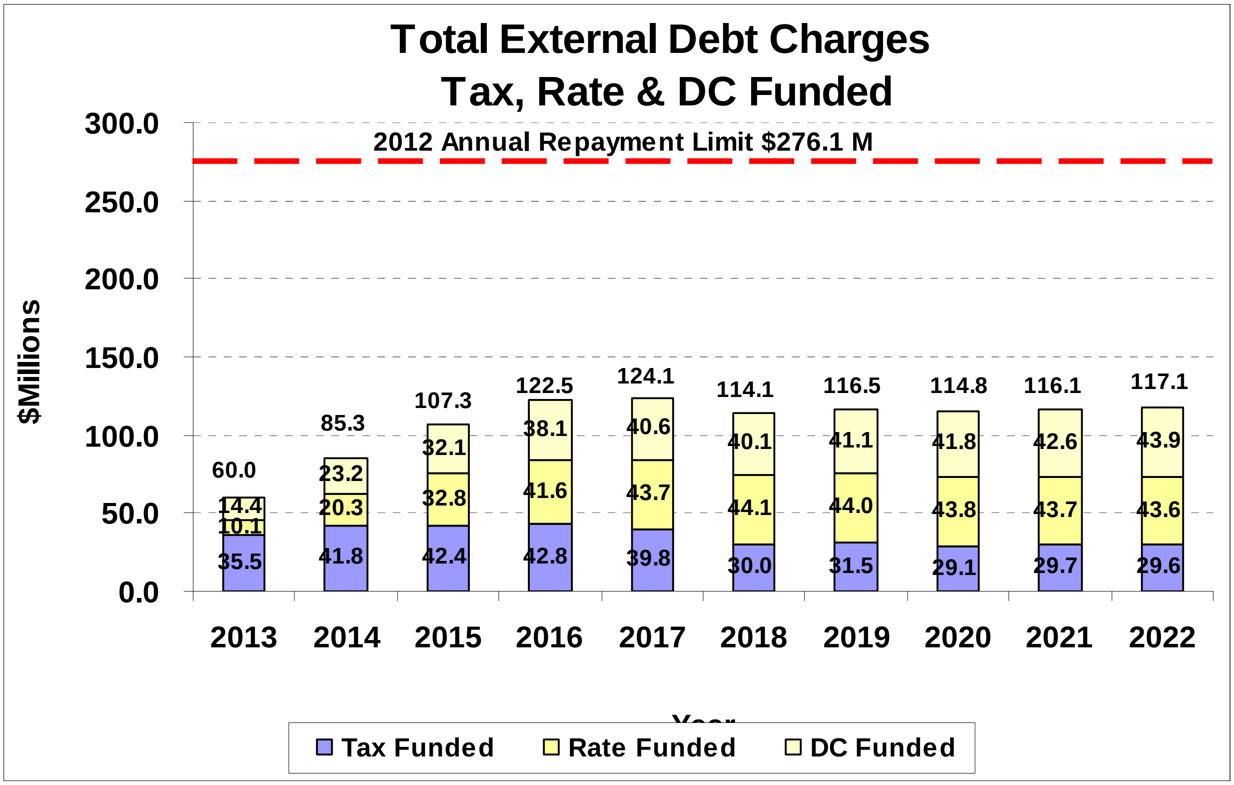
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013 - 2022 FINANCING PLAN											
TAX SUPPORTED	193	309	286	272	243	216	198	201	192	168	142
FUNDED FROM DC's	79	72	90	82	73	64	57	49	42	34	26
TOTAL BUDGETED DEBT	272	381	376	354	316	280	255	250	234	202	168
PROJECTED ACTUAL	272	320	320	320	300	270	240	230	220	190	168
2012 - 2021 FINANCING PLAN											
TAX SUPPORTED	329	321	311	298	272	249	243	238	215	194	
FUNDED FROM DC's	78	72	90	82	74	66	58	51	44	35	
TOTAL BUDGETED DEBT	407	393	401	380	346	315	301	289	259	229	



The graph below is a 10-year forecast of total Debt for the City of Hamilton. That is debt associated with the Tax-supported Capital and the debt which funds a portion of the Rate Capital Budget (Water, Sewer and Storm-water). The graph shows that a significant portion of total debt is comprised of debt for growth infrastructure. It includes infrastructure such as the rehabilitation/expansion of the wastewater plant (approximately $330 million – phase 1), major sewer and water trunks and roads benefiting development. Staff monitor this forecast very closely and have to date managed to defer a significant portion of the work as development has lagged behind previous forecasts. Staff will continue to monitor the forecast and minimize any risks associated with growth revenues not being able to sustain the forecast debt levels.



The following graph compares the total forecast City debt charges for the10-year Capital Plan (rate and tax-supported) against the Province's 2012 debt repayment limit. The repayment limit is a calculation which takes into account the City's ability to pay the debt charges from available revenues. While this graph shows the City's debt charges rising, staff will monitor the City's ability to pay, especially as it pertains to development charges. Staff will not incur the debt associated with growth infrastructure unless the growth occurs.



The following table provides a comparison of the City of Hamilton's debt levels to other municipalities. The debt data used in the comparisons is the same data used by the Province to calculate the municipalities Annual Repayment Limit (ARL) i.e. Percent of total debt charges to municipalities own revenues, which provides an indication of the municipalities ability to meet it's financial obligations. The maximum ARL allowed by the Province is debt charges up to a maximum 25% of the municipalities own revenues. This would translate to support an outstanding debt of $2.8 billion, versus our current peak forecast of $1.03 billion. Hamilton's current debt is well below the allowable provincial limit.

Hamilton's percent of debt charges to own revenues is 6.7% compared to the average of 7.6% for all municipalities included in the comparison. The ARL comparators range from 1.6% (City of Cambridge) to 15.7% (York Region). It should be noted the debt obligations and the associated debt charges presented in the table include debt obligations pertaining to Social Housing. The City's debt charges to own revenues (2011) in the peak debt forecast period would increase to approximately 10.8% in 2017 and decline to 10.2% in 2022.

Debt Comparators

Based on 2011 FIR's
($ Millions)

	Hamilton	London	Windsor	Ottawa	Brantford	Halton Region	Burlington	Waterloo Region	Waterloo	Kitchener	Cambridge	Niagara Region	St. Catherines	Peel Region	York Region	Toronto
Debt per capita	**$ 667**	**$ 1,087**	**$ 672**	**$ 1,537**	**$ 368**	**$ 521**	**$ 391**	**$ 392**	**$ 563**	**$ 419**	**$ 152**	**$ 616**	**$ 493**	**$ 783**	**$ 1,807**	**$ 1,436**
Credit Rating	**AA**	**AAA**	**AA**	**AA+**	**AA+**	**AAA**	NR	**AAA**	NR	NR	NR	**AA**	NR	**AAA**	**AAA**	**AA**
Total Own Revenues (Net) (per ARL Calculation)	1,146.2	752.7	509.4	2,269.3	208.5	588.2	189.4	598.2	144.2	341.4	148.7	536.9	128.8	1,285.8	1,171.9	8,216.9
Total Debt & LT Liabilities (Incl. Housing)	354.3	397.9	141.7	1,424.8	34.5	256.8	67.9	216.9	70.3	98.2	19.3	265.6	64.8	1,068.8	1,962.0	4,007.6
% to own revenues	**30.9%**	**52.9%**	**27.8%**	**62.8%**	**16.5%**	**43.7%**	**69.5%**	**36.3%**	**48.8%**	**28.8%**	**13.0%**	**49.5%**	**50.3%**	**83.1%**	**167.4%**	**48.8%**
Total Debt Charges (Incl. Lease & LT Commitment Payments)	77.0	113.7	19.3	152.9	7.3	45.0	11.4	45.8	17.5	10.8	2.4	44.1	11.6	62.5	183.8	761.2
% to own revenues	**6.7%**	**15.1%**	**3.8%**	**6.7%**	**3.5%**	**7.7%**	**6.0%**	**7.7%**	**12.1%**	**3.2%**	**1.6%**	**8.2%**	**9.0%**	**4.9%**	**15.7%**	**9.3%**
	Annual Repayment Limit (ARL) = 25% of Total Own Revenues above															

- NR = Lower Tier Municipality that is not rated

9.0 AREA RATING SPECIAL CAPITAL RE-INVESTMENT RESERVES

At the April 14, 2011 Council meeting, amendments to the area rating methodology, constituting an “Urban/Rural” model of area rating, were approved.
As a result, a tax shift was initiated resulting in the establishment of 8 reserves for the former City of Hamilton wards to address the infrastructure deficit within the respective wards. Upon completion of the phase-in period, Wards 1 to 8 will have $1.68 million allocated annually to address ward specific infrastructure and capital. Table 12 forecasts the expected ending balance of each ward reserve based on current expenditures and commitments. Amounts will be reduced as future projects and initiatives are identified to be funded from the reserves.

TABLE 12

Wards 1 to 8 Area Rating Special Capital Re-Investment Reserves
Forecast Closing Balances
($ 000's)

Reserve	Ward	2013	2014	2015
108051	Ward 1	528	2,140	3,792
108052	Ward 2	1,588	3,226	4,905
108053	Ward 3	2,406	4,090	5,790
108054	Ward 4	14	1,173	2,801
108055	Ward 5	1,537	3,174	4,851
108056	Ward 6	2,388	4,046	5,746
108057	Ward 7	1,900	3,546	5,233
108058	Ward 8	157	1,760	3,402

10.0 MUNICIPAL SUBSIDIZED HOUSING IN HAMILTON - CAPITAL REPAIR PROGRAM

The City's social housing stock is aging with the bulk of the units being built from the 1950's to 1995. In addition, as of October 2012, there were 5,508 households on the social housing waiting list. In the fiscal years 2009-2010 and 2010-2011, the Province allocated $33,747,633 to the City under the Social Housing Renovation and Retrofit Program (SHRRP). As of October 31, 2012 there was $3.1 million available in the City Social Housing Capital Repair Fund to be used for the repair of the City's 14,000 units.

During the period 1998 – 2000, the Province phased in the funding responsibilities for social housing to municipalities. The City has approximately 14,000 social housing units accommodating 30,000 people with nearly half of the units managed by the City and the rest in the hands of non-profit agencies (for which the City would be responsible in the case of default). In 2012, the City funded social housing costs from property taxes in the amount of $48.4 million. Of this amount, approximately $15 million was for capital repairs. For 2013, $15 million will again be provided from reserves in addition to a proposed $1 million for capital rehabilitation from the Capital Levy which makes the total available for capital at $16 million.

With an aging housing stock, the capital repair liabilities are growing much faster than municipalities ability to increase their capital envelopes. Table 13 looks at the City's required capital repairs from 2013 to 2022 and compares to the amount of funding proposed for 2013. If the funding levels for the next 10-years remained at 2013 levels, the budgeted shortfall would total approximately $215 million.

TABLE 13

Based on 2012 replacement cost estimtes, the City's 14,000 units have a replacement cost of $1.5 billion.
This works out to approximately $107,000 per unit. ($000's)

	Required	Budgted Funding	Shortfall
2013	37,500	16,000	21,500
2014	37,500	16,000	21,500
2015	37,500	16,000	21,500
2016	37,500	16,000	21,500
2017	37,500	16,000	21,500
2018	37,500	16,000	21,500
2019	37,500	16,000	21,500
2020	37,500	16,000	21,500
2021	37,500	16,000	21,500
2022	37,500	16,000	21,500
Total	375,000	160,000	215,000

Hamilton is not alone in this problem. Across Ontario, municipalities are concerned about the existing stock of social housing and its deterioration. Capital Reserves are insufficient to renew the existing housing stock. The City cannot solve this problem from own source revenues without reducing funding for its other capital responsibilities.

11.0 TRANSIT CAPITAL PROGRAM:

Table 14 provides a 5 year forecast of the City's Transit Service capital program. For 2013, the Transit capital program is $26.5 million. As some of the existing Transit subsidies expire / expended, the forecast for the remaining 4 years ranges between $16.1 million and $17.6 million. Transit's capital includes $3.0 million funded from Federal Gas Tax and $0.7 million funded from the City's capital levy, for a total reserve contribution of $3.7 million to the Transit's vehicle replacement reserve.

TABLE 14

Transit Capital Forecast
($000's)

	2013	2014	2015	2016	2017
HSR Bus Replacement	9,138	8,765	9,368	8,986	9,003
ATS Vehicle Replacement	1,924	-	1,973	1,997	4,045
Non Revenue Vehicle Replacement	85	85	150	127	85
Fund Transit Reserve - Re Cancellation of OBRP	3,700	3,700	3,700	3,700	3,700
Transportation Demand Management Programs	200	240	240	240	300
Rubber Faced Street Curbs	175	-	-	-	-
Bus Stop Landing Pads	73	73	73	73	73
Bus Shelter/Bench Refurbishment & Replacement	100	100	85	50	50
Mobility Programs	150	-	-	-	-
Mobility Programs - Pedestrian	50	-	-	-	-
Transit Hybrid Bus Battery Replacement	203	209	215	-	-
Automated Vehicle Monitoring	220	-	-	-	-
Fare Cards - System Enhancement	200	200	-	-	-
Replace Transit Fleet Bus Hoists	360	360	360	360	360
Rapid Transit Studies	315	-	-	-	
Rapid Transit - Quick Wins	9,600	2,393	-	-	-
Total	26,493	16,125	16,164	15,533	17,616

Table 15 provides the actual Transit subsidies received in 2008 through 2011 and a forecast of Transit subsidy revenues in 2012 through 2014. Note that the Tax Capital Budget for 2013 has replaced the Provincial subsidy for the Ontario Bus Replacement Program with funding from the Federal Gas Tax ($3m) and the City's Unallocated Capital Reserve ($700,000) in order to sustain the City's Bus Replacement Program at the current 12-year cycle.

TABLE 15

Transit Subsidy Revenue Forecast ($000's)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Ontario Transit Capital Grant	7,523	-	-	-	-	-	-
Metrolinx	29,991	-	-	-	-	-	-
Provincial Gas Tax	11,209	11,097	10,549	10,888	10,740	10,340	10,100
Federal Gas Tax				3,000	3,000	3,000	3,000
Ontario Bus Replacement Program (OBRP) - HSR	2,344	2,500	2,802	-	-	-	-
Ontario Bus Replacement Program (OBRP) - ATS	470	727	704	-	-	-	-
Total	51,537	14,324	14,055	13,888	13,740	13,340	13,100

Table 16 is a projection of Transit reserve balances. A significant portion of the Provincial Gas Tax Reserve is used to fund operating expenses ($3.9 million in 2010, $5.6 million in 2011 and $11.0 million forecast for 2012). The reserve projections indicate the reserves are at a sustainable level to fund the forecasted operating and capital requirements to at least 2016.

TABLE 16

Transit Reserves Forecast ($000's)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
HSR Vehicle Replacement	16,907	19,520	19,419	20,143	19,551	19,039
ATS Vehicle Replacement	5,574	5,116	4,643	6,089	5,596	5,064
Provincial Gas Tax Reserve	24,505	19,660	19,857	19,856	19,653	19,240
Federal Public Transit Funds (Fed. Gas Tax)	1,840	674	618	560	501	440
Ontario Transit Capital Grant	5,817	3,477	2,318	1,128	-	-
Rapid Transit (Metrolinx)	14,122	11,092	2,276	-	-	-
Transit Capital Reserve	2,957	742	398	-	-	-
Transit Shelter Capital Reserve	180	83	35	-	-	-

12.0 GROWTH / ASSESSMENT CAPITAL:

Various municipalities surrounding Hamilton have demonstrated that the increase in industrial / commercial assessment (these classes contribute more property tax revenue than service cost) is directly proportional to the health of a City's economic viability and affords a City greater sustainability of social and community programs.

Development Charges – Financial Sustainability

Once the City of Hamilton goes forward with its growth infrastructure plans, current policies must sustain the "Places to Grow" (P.T.G.) growth patterns. The City is basing its growth planning on Provincial forecasts which peg Hamilton's population at 660,000 by 2031. To date, the City is falling short of those projections. As an example, P.T.G. had forecast that the City's population would reach 511,000 by 2006, yet the census in 2006 shows that the City's population had only reached 506,000. In the development category of Single-detached homes, the City has not reached its development targets (refer Table 17). This presents a problem in that the City's has not collected enough Development Charge revenues due to the unit shortfall to fund the infrastructure which would sustain the Province's P.T.G. planning document. The main causes of this growth revenue shortfall are;

1. Shortfall in the construction of forecast residential and non-residential development.
2. Subsidized Industrial Development Charge rates (development incentive).

In order to balance the growth revenue shortfalls with infrastructure requirements, the City has prioritized its growth infrastructure in a "Staging of Development Program". This program coupled with a financing strategy of limiting DC reserve exposure and debt financing of growth projects will ensure that the City's over-all Development Charge reserve balance is sustainable. Tables 17 and 18 illustrate the development shortfalls in residential and non-residential growth and City forecasts going forward.

Table 17

Average Single Detached Unit Equivalent Construction Versus Provincial Forecast					
	2012	2013	2014-2031		Total 2012-2031
Staff Budget/Act	2,000	1,500	1,944		38,500
Places To Grow	2,566	2,566	2,566		51,333
Net	566	1,066	622		12,833
Average Square Footage Non-Residential Construction versus Provincial Forecast					
	2012	2013	2014-2031		Total 2012-2031
Staff Budget/Act	1,800,000	650,000	1,571,111		30,730,000
Places To Grow	2,048,700	2,048,700	2,048,700		40,974,000
Net	248,700	1,398,700	477,589		10,244,000

Table 18

City of Hamilton Development Activity		
Year	Single-Detached Unit Equivalent	Non-Residential (Sq.Ft.)
2007	1692	1,720,588
2008	1803	1,512,918
2009	1053	946,092
2010	2102	2,857,736
2011	1537	1,025,991
2012	2000	1,800,000
6-year Average	1681	1,643,888
2013 Projection	1500	650,000
2014 Projection	1475	650,000
2015 Projection	1450	650,000

Tables 19 and 20 summarize the proposed Capital projects which will contribute towards assessment growth. As the 2013 Tax Capital Budget and Table 19 and 20 illustrate, staff will continue to prioritize and plan for growth.

TABLE 19

Assessment Growth Projects 2013 - DC Funded ($000's)	Gross	Net
2014 Development Charges Background Study & Appeals	600	0
Highway 5 & 6 Interchange EA & Implementation	10,150	0
East-West Road Corridor (Waterdown By-Pass)	4,930	247
Waterdown - Burlington Road Upgrades	3,720	0
Street Lighting Program	2,350	120
Highland - Upper Mount Albion to Winterberry	1,110	560
Traffic Signal Modernization & Upgrades Program	1,050	48
Mountain Brow Road - Waterdown	750	30
Arvin Avenue - McNeilly Road to 350m westerly	690	40
New Traffic Signal Installation Program	530	35
Other Roads Projects	2,250	806
City Share of Servicing Costs under Subdivision Agreements	3,000	0
de Lottinville Park	590	59
Freelton Community Park Expansion	400	392
Chappel Estates Proposed Park	350	0
Open Space Replacement Strategy-East Mtn Trail Loop	340	323
O&M Equipment Acquisition (DC) Program	320	0
Other Parks Projects	1,406	432
Freelton Park Washroom and Outdoor Ice Rink	1,500	150
Waterdown Branch Library	1,800	0
Binbrook Library Branch Renovation/Addition	1,600	0
Dundas Library Branch Expansion	100	0
Comprehensive Zoning By-law	250	0
Elfrida Urban Boundary Expansion - Background Studies	500	50
City Wide Employment Survey	141	0
Storm Water Management Program	4,000	0
Roadside Drainage Improvement Program	1,000	50
Other Stormwater Projects	800	0
Woodward WWTP - Clean Harbour (CASH FLOWED)	14,570	8,790
Centennial Trunk Sanitary Sewer (WW-14, WW-33)	9,700	0
Nash Neighbourhood Sanitary Sewer Outlet	2,530	0
WWTP - Biosolids Management Facility	2,160	0
Binbrook (Hwy 56) Forcemain & Twinning - (WW-21)	1,010	0
Royal to Main/King Sanitary Sewer Upgrades (WW-22)	760	0
Parkside Drive - Sanitary Sewer Upgrade	220	0
Centennial Parkway Trunk Feedermain - Barton / Centennial / HDR5A (W-12)	14,960	0
Highland Rd Pumping Station HD007 Expansion (W-10) and Reservoir HDR07 Upgrades	4,980	750
Waterdown South Elevation Water Storage - New PD (W-07)	4,820	770
Carlisle Elevated Storage & Additional Well	1,000	0
PD18 (Ancaster) Elevated Reservoir (W-14)	900	450
Old Ancaster Rd Pumping Station (HD012) Capacity Upgrade & Standby Power Installation	870	0
Other Water Projects	960	0
Sub-total DC Funded	105,667	14,102

TABLE 20

Assessment Growth Projects 2013 ($000's) **Non-DC Funded Projects**	Gross	Net
Randle Reef Rehabilitation Project	300	300
Economic Development Initiatives	2,000	2,000
Highway 403 Ramp Studies	250	250
Fruitland Road Gateway Feature and Enhanced Pedestrian Crossings	170	170
Traffic Counts Program	150	150
Hamilton Transportation MP Update	250	250
RHBP - Twenty Road (future Dartnall Road to Glover Road)	2,200	0
Bicycle Route Improvements Program	1,030	300
Other Roads Projects	820	820
West Harbour Development	1,595	865
Chedoke Waterfall Development - Upper Viewing Deck	500	500
Cherry Beach Lakefront Park	500	0
Other Parks Projects	482	232
Glanbrook Landfill-Stage 3 Development	800	800
Transfer Station/CRC Maintenance & Capital Improvement Program	450	450
Closed Landfill Maintenance & Capital Improvement Program	430	430
Glanbrook Landfill Capital Improvement Program	275	275
Other Waste Projects	305	305
Rapid Transit - Quick Wins	9,600	0
Rapid Transit Studies	315	0
Other Transit Projects	400	0
New Dalewood Community Centre	1,500	1,500
War of 1812 Bicentennial Commemoration	252	252
Needs Assessments	150	0
Implementation of Components of Setting Sail	429	429
Commercial Property Improvement Grant	400	400
Hamilton Downtown Office Tenancy Assistance Program	400	400
Other Downtown/Urban Renewal Projects	1,150	1,150
Council Initiated Strategic Projects	2,000	2,000
SERG - City of Hamilton Watercourse Erosion Assessment Study	840	390
West Harbour (Setting Sail) Main Basin - New Floating Breakwater	4,500	4,500
Centralized Water and Wastewater Operations Centre	500	500
RHBP - Twenty Road (future Dartnall Road to Glover Road)	470	0
Waterdown Wastewater Outstations Upgrades	3,240	3,240
Cormorant & Osprey (HC014) Wastewater Outstation Upgrades	590	590
Dundas WWTP Improvements - CASH FLOWED	270	270
Waste Hauler Receiving Station - Eastport Drive SPS (HC017) Upgrades	380	380
Centralized Water and Wastewater Operations Centre	500	500
RHBP - Twenty Road (future Dartnall Road to Glover Road)	600	0
Stoney Creek Water Outstations Upgrades	1,260	1,260
Carlisle Communal Well System Upgrades	1,040	1,040
Water Treatment Studies Program	250	250
Source Protection Planning	400	400
Sub-Total Non-DC Funded	43,123	26,728

The total amount of budgeted development charge revenue required for the 2013 growth tax-supported Capital budget is $34.6 million and for the rate capital budget is approximately $48 million. Annual Development Charge revenues for 2012 are forecast at $55.9 million. To facilitate the growth that is needed the City requires sizeable investment and must incur considerable debt. The largest portion of this budget is in the rate-supported Capital program. Of note is the significant requirement from the waste-water program. This is in large part due to the waste-water plant expansion. This means that a significant part of the 2013- 2031 growth program will have to be funded through debt and the debt charges repaid from future development charge collections.

Of note, the City of Hamilton has a Development Charge Funding policy which requires that staff limit the amount of risk regarding the sustainability of the DC reserves. That is, growth projects will only be included in the proposed capital budget if the sustainability of the 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 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 principle and interest will be covered by future Development Charge revenues.

Table 21 illustrates the amount of growth capital budgeted for in 2013. The budgeted expenditures are separated into 2 categories. One for infrastructure that services industrial development and one for non-industrial development, (commercial and residential). The one development variable which hampers the City’s growth prospects is the lack of shovel-ready, serviced industrial lands. In Table 21, there are proposed investments in the amount of $15.5 million dedicated towards industrial park servicing funded from development charges.

TABLE 21

2012 CAPITAL BUDGET GROWTH CAPITAL		DC Funding ($000's)
Industrial		
Rate	**Centennial Trunk Sanitary Sewer (WW-14, WW-33)**	9,700
Rate	**Arvin Avenue - McNeilly Road to 350m westerly**	100
Rate	**Watercourse 7 Improvements - Phase 2**	300
Tax	**Arvin Avenue - McNeilly Road to 350m westerly**	650
Tax	**Rymal - Dartnall to Fletcher**	90
Tax	**East-West Road Corridor (Waterdown By-Pass)**	4,683
	Total Industrial Projects	**15,523**
Non-Industrial		
Rate	**Water**	26,520
Rate	**Wastewater Treatment Plan**	1,561
Rate	**Wastewater - Linear**	4,520
Rate	**Stormwater**	5,350
Tax	**Roads**	18,361
Tax	**Community Services**	4,345
Tax	**Planning-Development**	3,827
Tax	**Parks Development**	2,095
Tax	**Hamilton Emergency Services**	-
Tax	**Transit**	-
Tax	**Other**	540
	Total Non-Industrial Projects	**67,119**
	TOTAL TAX DC BUDGET	**34,591**
	TOTAL RATE DC BUDGET	**48,051**
	TOTAL ALL	**82,642**

DEVELOPMENT CHARGE RESERVES:

The over-all Development Charge Reserves balance increases from $39 million to $53 million as illustrated in Table 22. This increase is due to revenues ($59m) greater than payments ($42m). Of note is that while the budgeted DC funding for the 2013 Capital Program is $82.6 million (Table 21), a significant portion of this funding has been raised through debt and payments from the DC reserve include annual debt requirements as well as direct funding.

TABLE 22

2012 DC Reserve Forecast (Jan 01 - Dec 31)	Opening Balance ($000s)	Collections ($000s)	Payments ($000s)	Ending Balance ($000s)
Water	23,473	6,020	(1,253)	28,240
Wastewater Plant	25,126	9,880	(33,991)	1,015
Wastewater Linear	8,584	10,031	(533)	18,082
Stormwater	5,172	8,738	(1,524)	12,386
Roads	(18,846)	13,346	(2,664)	(8,163)
Community Services	2,037	3,556	(347)	5,246
Planning-Development	(3,515)	701	(1,366)	(4,180)
Parks Development	(3,570)	1,344	(722)	(2,948)
Hamilton Emergency Services	(1,823)	1,184	981	342
Transit	351	430	(480)	300
Waterdown Fees	2,390	634	-	3,024
Total	**39,378**	**55,865**	**(41,899)**	**53,345**

13.0 RESERVES / RESERVE FUND FINANCING:

Prudent fiscal management of reserves is imperative. Reserves provide flexibility against uncertainties, which inevitably arise in today’s changing municipal environment, reducing the risk to taxpayers in the future. The City of Hamilton has reserves totalling approximately $653 million projected as at December 31, 2012. Table 23 illustrates the City’s reserve history for the period 2008 – 2011 and specific reserve projections which fund the tax capital program for the next 5 years.

An analysis of Table 23 highlights the following trends:

1. The tax capital reserves, which fund the City’s capital program, decrease from $220 million in 2011 to a projected balance of $180 million in 2012. The reserve balances are projected to remain fairly stable over the next 5 years (2012 – 2016), ranging between $177 million to $190 million. Of note however, is the declining balance of the City’s Unallocated Capital Reserve from which many in-year capital requests are funded. Based on the funding commitments to date, this reserve is expected to reach a low of $2.8 million in 2013. This will severely limit Council’s ability to fund in-year capital requests. Staff will carefully monitor this reserve and approach Council in the future with top up funding options.

2. The total reserve and reserve funds position for the City of Hamilton has decreased from $782 million in 2011 to a forecast $653 million in 2012. The forecast reserve balance then levels off in 2013 and beyond in the $605 - $575 million range. The decrease in the reserves is due mainly to the following events;

   - Pan-Am stadium funding from the Future Fund.

- Decline in the Unallocated Capital Reserve.

- The Provincial Funds for the Wastewater Treatment plant rehabilitation.

Reserve Funds have been established either through legislation or by Council to be used for specific future liabilities. The reserve amounts available to fund tax-supported capital in future years will vary depending upon operating transfers, senior level government funding and the financing implications of large, multi-year capital projects. Currently, the following reserve funding (including DC's) is incorporated into the proposed capital financing plan:

Table 23

THE CITY OF HAMILTON
RESERVE FORECAST 2008 - 2016 ($ 000's) (Dec.31)

	Actual Balances December 31				Projected Balances December 31				
YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016
CAPITAL RESERVES									
DEVELOPMENT CHARGES	36,480	34,849	66,413	39,408	43,914	48,170	39,979	44,294	38,139
EQUIPMENT REPLACEMENT	6,010	4,061	4,756	10,277	8,333	6,305	5,215	6,453	4,011
VEHICLE REPLACEMENT	21,076	28,167	30,355	39,500	31,081	37,212	33,161	34,770	33,962
UNALLOCATED CAPITAL	24,076	17,310	32,201	32,609	13,441	2,805	2,718	2,859	2,698
CAPITAL RESERVES - ALLOCATED	55,201	37,586	17,821	41,367	35,984	46,041	60,394	55,267	72,696
GAS TAX RESERVES	18,734	21,395	29,008	46,921	33,157	21,100	20,921	20,535	19,937
PARKLAND RESERVES	8,187	6,651	10,054	10,392	13,618	15,736	16,640	17,214	18,022
TOTAL CAPITAL RESERVES	169,764	150,019	190,608	220,474	179,528	177,369	179,028	181,392	189,465
NON-CAPITAL RESERVES									
RATE CAPITAL RESERVES	79,672	75,989	71,772	72,907	75,161	77,603	73,360	77,424	81,246
PROV. SUBSIDY-WTP UPGRADES	0	0	101,326	103,852	106,449	105,229	84,135	28,121	13,297
TAX STABILIZATION	9,398	10,974	15,251	17,974	3,754	2,007	1,717	1,615	1,655
WORKING FUND RESERVES	18,031	28,443	45,265	57,889	52,531	54,773	55,914	57,323	58,986
EMPLOYEE BENEFIT / ANCILLARY	65,181	70,581	77,335	84,598	87,621	89,241	90,947	92,686	93,394
PROGRAM SPECIFIC RESERVES	156,992	136,091	131,163	139,564	97,980	83,403	84,065	86,088	89,573
OTHER	6,029	5,108	11,406	11,274	12,010	3,095	13,257	13,605	13,863
TOTAL NON-TAX CAPITAL RESERVES	335,303	327,186	453,518	488,058	435,506	415,351	403,395	356,862	352,014
TOTAL RESERVES BEFORE FUTURE FUND	505,067	477,205	644,126	708,532	615,034	592,720	582,423	538,254	541,479
FUTURE FUND RESERVES									
HAMILTON FUTURE FUND A	62,891	64,616	64,582	65,406	36,057	14,165	15,894	21,985	31,654
HAMILTON FUTURE FUND B	12,037	8,809	8,408	8,100	2,331	871	893	915	938
TOTAL NON-CAPITAL RESERVES	74,928	73,425	72,990	73,506	38,388	15,036	16,787	22,900	32,592
TOTAL ALL RESERVES	579,995	550,630	717,116	782,038	653,422	607,756	599,210	561,154	574,071

Staff will continually review existing reserve and reserve fund balances and make appropriate recommendations to Council during the annual capital budget process.

14.0 HAMILTON FUTURE FUNDS:

The funds received from Hamilton Utilities Corp. were initially segregated into two reserve accounts:

Hamilton Future Fund A	$100,000,000
Hamilton Future Fund B	$ 37,430,705

For the purposes of this budget report, only Future Fund A will be examined. Council and the HFF Board have approved an internal loan from Fund A to the City in the total amount of $100 million whose disbursement is tied to annual planned waste management and roads expenditures. Refer to Table 24 for Fund A's 5-year projected balances. Fund A was established as a permanent fund to be protected and invested for five years; thus providing a permanent source of funding.

Table 24

HAMILTON FUTURE FUND A										
($ 000's)		**Actual**	**Actual**	**Projected**						
		pre 2011	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Initial Investment		100,000							
Revenues:									
Investment Income @	3.5%	34,522	2,834	967	206	246	442	769	1,108
Loan Repayment (P&I)		23,627	6,605	7,449	8,082	8,607	8,901	8,900	8,900
Expenditures:									
Transfer to Operating		(13,845)	-	-	-	-			
Hospice Forgivable Loan		(1,500)							
Loans to Fund Capital		(74,149)	(3,182)	(6,562)	(7,030)	(5,825)	(3,252)		
Pan Am Games - Ivor Wynne		-	(847)	(24,703)	(19,150)	(300)			
Pan Am Games - Velodrome		-	(159)						
West Harbour Lands		(5,573)	(4,427)						
McMaster Medical Centre		-	-	(5,000)	(4,000)	(1,000)			
Balance - End of Year		63,082	63,906	36,057	14,165	15,894	21,985	31,654	41,662

In 2013 it is expected approximately $30 million will be allocated from Fund A to fund capital. It is projected the fund balance will decrease from $36 million in 2012, to $14 million in 2013 , and then start replenishing in 2014 as the funding commitments for Pan Am games and the McMaster Medical Centre are completed.

15.0 CONCLUSION:

Staff's proposed 2013 Tax-supported Capital Budget and 2014-2022 Capital Plan are a continuation of a solid long-term plan to maximize own source capital funding and to re-direct those funds to priority City program areas. Elements of this plan include the following;

1. A 0.5% total levy increase dedicated to the capital levy annually. This actually increases the Capital Levy by approximately 4% per year and would add $190 million more capital over a 10-year period versus a 0% increase annually.

2. Keeps roads funding at the previous years block-funding level of $48.5 million with a Council-endorsed emphasis on the rehabilitation of local roads (Direction from Council to keep the roads block-funding level at $48.5 million for 2014).

3. Renewed focus on funding for the West Harbour and Waterfront Strategic Initiatives in the amount of $6.6 million.

4. New investment in strategic capital areas such as McMaster Downtown Health Campus, Pan-Am Games and others.

5. Ensure that debt levels are sustainable. This can be accomplished by ensuring that the City has an efficient Works-In-Progress Capital Turn-around process thereby freeing up funds which are not in use. The City's projected long-term budgeted debt levels top at $381 million and stabilize, lowering back down to $168 million in 2022. This can be achieved by carefully examining each major project with a proper cost/benefit approach, deferring when necessary until debt capacity is freed-up.

However, the City has a $2 billion infrastructure deficit backlog through all program areas and an annual infrastructure deficit of approximately $195 million. The City cannot tackle this problem on its own and will require significant support from senior levels of government. While the senior levels of government have recognized the gravity of this issue, support is lagging and the City must increase its own funding for capital rehabilitation in order to slow the deterioration of its infrastructure.

With the emergence of current and for the foreseeable future, large budget deficits, the ability of senior levels of government to continue to significantly assist municipalities will be severely diminished. Therefore, the City must maximize its own source funding, keep lobbying the senior levels of government for additional infrastructure repair subsidies and strategically direct these funds to priority programs.

With the emergence of current and for the foreseeable future, large budget deficits, the ability of senior levels of government to continue to significantly assist municipalities will be severely diminished.