

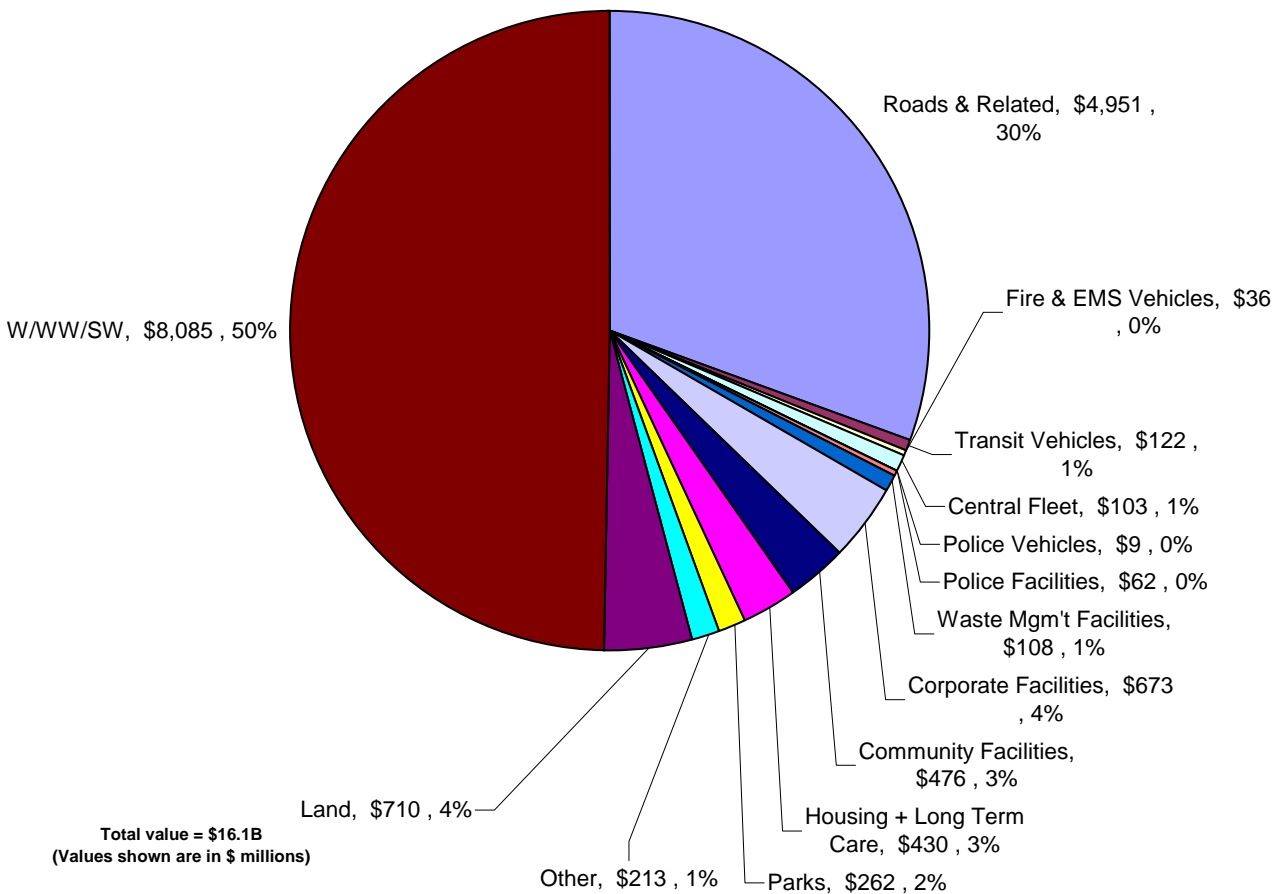
**TABLE OF CONTENTS:**

<b>Section Number</b>		<b>Page Number</b>
1.0	EXECUTIVE SUMMARY	2
2.0	2012 TAX CAPITAL BUDGET HIGHLIGHTS	5
3.0	2010 TAX-SUPPORTED CAPITAL LEVY	6
4.0	2012 TAX CAPITAL BUDGET PRIORITIZATION PROCESS	8
5.0	2012 PROPOSED TAX-SUPPORTED CAPITAL BUDGET	9
6.0	2012–2021 TAX CAPITAL FORECAST ASSUMPTIONS/HIGHLIGHTS	10
7.0	2012 – 2021 TAX SUPPORTED CAPITAL FORECAST	13
8.0	TAX-SUPPORTED DEBT AND DEBT FORECAST	16
9.0	CITYHOUSING HAMILTON CAPITAL REPAIR PROGRAM	20
10.0	TRANSIT CAPITAL PROGRAM	21
11.0	GROWTH / ASSESSMENT CAPITAL	23
12.0	DEVELOPMENT CHARGE RESERVES	28
13.0	RESERVES / RESERVE FUND FINANCING	28
14.0	HAMILTON FUTURE FUNDS	30
15.0	CONCLUSION	31

**1.0 EXECUTIVE SUMMARY:**

The City of Hamilton owns hard assets with a total replacement value of \$16 billion. Fifty percent of the value of these assets represent water, wastewater and storm-water, which is 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 \$16 billion infrastructure program is detailed in the pie-chart below.

**City of Hamilton Infrastructure Assets  
 \$16 Billion**



The City of Hamilton during the past 4 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 Priority Plan. 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 the rehabilitation of existing assets yet allowing for the funding of growth infrastructure which would maximise the City's Tax base. 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 2012 Tax-Supported Capital Budget and 2013 - 2021 Capital Forecast. The 2012 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.

The 2012 Capital Budget encompasses the following:

- 1) Tries to support 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, McMaster Health Campus, Industrial Land Development, etc.

The City cannot solve its infrastructure funding gap from own source revenue. It will have to rely on significant stable funding from 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 2012 – 2021 capital forecast which incorporates an annual 0.5% Capital Levy increase (\$3.35 million) dedicated to the Capital Levy. Over a 10-year period, this plan would add \$184 million more in capital funding. More Federal/Provincial infrastructure funding as well as increasing its 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 emergency repairs to its decaying infrastructure. Without this commitment from 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.

The following highlights the 2012 Tax Capital Budget.

### Highlights

- \$227.1 million in gross capital spending
- \$74.9 million Gross spending on Roads (growth = \$7.4m & Council Priority Projects = \$13.9 million)
- \$44.1 million for the Pan Am Games (2012 Budget – includes \$17.3M Hostco funding)
- \$23.5 million for Vehicle and Equipment Replacement
- \$11.2 million funding for corporate and recreation facilities rehab.
- \$17.5 million for Transit (\$3.0m Federal Gas Tax funded)
- \$10 million for McMaster Downtown Health Campus (plus \$10 million in 2013 – 2014)
- \$4.1 million for Downtown, \$1.6 million for Lodges, \$2.0 million for Conservation Authorities
- \$2.5 million for City Housing Hamilton Rehab.
- \$11.4 million in development charge funding
- \$73.7 million in reserve funding
- \$8 million in external debt funding
- growing requirement for own source capital funding
- significant infrastructure gap that will increase over time

## 2.0 2012 TAX CAPITAL BUDGET HIGHLIGHTS:

### 1. 2012 Pan-Am Games:

The 2015 Southern Ontario Pan-Am games require funding commitments from the City of Hamilton. To date, the City has committed \$66.5 million, of which \$51.5 million is committed to rebuild Ivor Wynn Stadium, \$5 million to the Track Cycling Velodrome, and \$10 million to the purchase of the West Harbour Lands. Of this amount, \$60 million will be financed from the Hamilton Future Fund Reserve, (refer Table 22). If the Velodrome does not proceed, the City's capital closing policy dictates that the funding would be 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 2012-2015 capital forecast includes an annual commitment of \$710,000 to support Pan Am Special Events and Programming.

## **2. 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%. In 2011, the corporate-wide staff WIP Review Committee reviewed all WIPs and re-allocated \$21 million for strategic priorities. For the 2012 Tax-Supported Capital Budget, WIP restatements are approximately \$20.3 million, as illustrated in Table 1.

**Table 1**

<b>2012 Capital Program - W.I.P. Funding</b>	
<b>By Program (000's)</b>	
	\$
<b>Information Technology Services</b>	<b>786</b>
<b>Downtown/Waterfront</b>	<b>331</b>
<b>Community Planning</b>	<b>250</b>
<b>Strategic Services-Planning</b>	<b>48</b>
<b>Public Health</b>	<b>70</b>
<b>Open Space Development</b>	<b>1,126</b>
<b>Roads</b>	<b>10,660</b>
<b>McMaster Health Campus Proposal</b>	<b>7,000</b>
<b>Grand Total</b>	<b>20,271</b>

## **3. Road/Bridge Rehabilitation Program:**

One of the most significant infrastructure deficits for the City resides in the roads program. The City has maintenance and re-build backlog of approximately \$1.2 billion (for a 30-year rehab cycle). Annually, the City should be spending approximately \$140 million on road and bridge repair. In 2012, the City is spending \$75 million gross on the Roads program while the 2012 levy impact of this program is \$48.5 million as illustrated in Table 2. Approximately \$6.8 million of the \$75 million is for growth-related road infrastructure.

**Table 2**

Roads Forecast by Program Area	(\$ 000's)	
	Gross	Net
Development / Growth Related Program	6,790	250
Replacement Program	21,670	13,000
Urban Rehabilitation	14,520	11,240
Rural Rehabilitation	7,372	3,372
Bridges and Structures	2,250	1,950
O & M / Studies / Traffic Engineering	8,480	6,638
Council Priority Projects	13,920	12,070
<b>Total</b>	<b>75,002</b>	<b>48,520</b>

**3.0 2012 TAX-SUPPORTED CAPITAL LEVY :**

While the City's objective in these precarious economic times is for a zero percent increase in property taxes, the City's Senior Management Team has endorsed a 0.5% Capital Levy increase (\$3.35 million). This action is in recognition of the need to increase own source funding which supports the City's Strategic Plan with regards to financial sustainability. Evidence of the need to increase own source funding of the City's Capital Program is based on the following facts;

- Capital Levy as a percentage of the total levy has declined from 13.4% in 2003 to 12.0% in 2011 (i.e., operating levy has increased at a greater rate than the capital levy).
- Funding through contribution from operating over the past 5 years increased by an average of .34% and ranged from 0% to 0.5%.
- 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 2012 and beyond, as well as the recent trend in a lower reliance of own source funding, and finally the City's Strategic Plan with regards to financial sustainability by meeting its infrastructure needs. Table 4 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 3**

Tax Levy Impact Summary (\$ Millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Capital Levy	60.4	62.8	66.3	69.3	71.4	73.5	75.0	77.5	77.5	80.4	83.4
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%

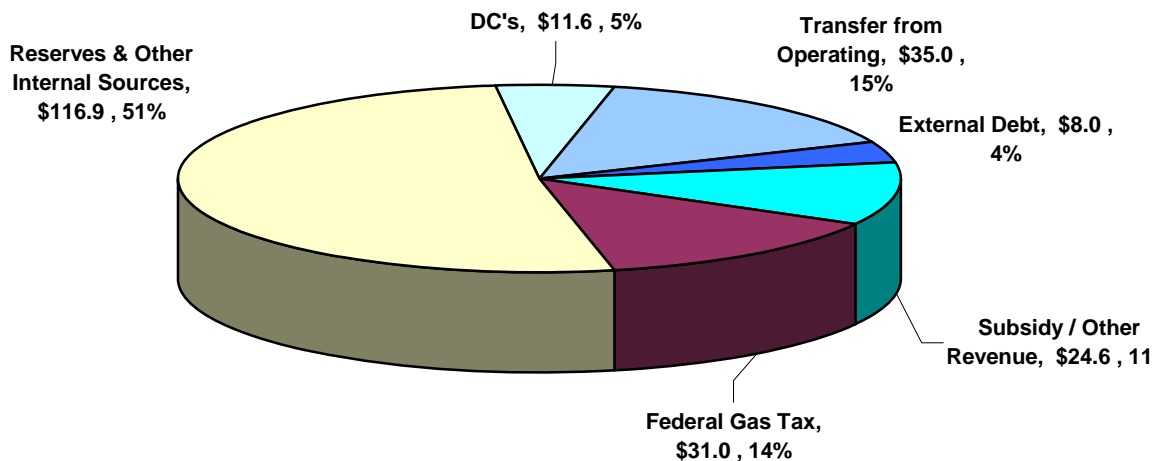
**Table 4**

<b>CAPITAL BUDGET IMPACT ON OPERATING BUDGET</b>				
(\$000's)	2011	0.5% Levy Increase		
	<u>APPROVED</u>	<u>2012 PROPOSED</u>	<u>CHANGE \$</u>	<u>CHANGE %</u>
Debt Charges	51,520	50,444	(1,076)	-2.1%
Transfer from Operating	31,857	36,283	4,426	13.9%
<b>Total Impact</b>	<b>83,377</b>	<b>86,727</b>	<b>3,350</b>	<b>4.0%</b>
Impact on Average Residential 0.5% (\$14 increase per average assessed home)				

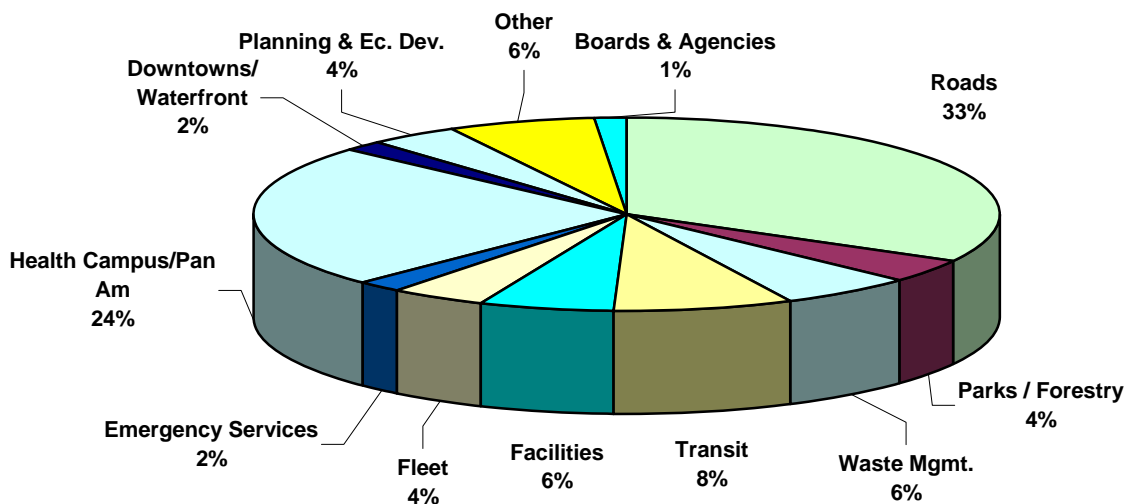
As per Table 4, in 2011, \$83.4 million (12.0 % of the City's \$692 million tax levy) was used for capital purposes. For 2012, staff are recommending an \$86.7 million capital levy consisting of \$50.4 million in budgeted debt charges and a \$36.3 million transfer from operating to capital (direct dollar funding). This is an increase of 4.0% (\$3.35 million) over the previous year.

The following 2 pie charts illustrate the 2012 Capital funding sources and the corresponding recommended allocation across programs.

### 2012 Capital Funding - \$227.1 Million



## 2012 Capital Budget by Program \$227.1 Million



#### 4.0 2012 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 Corporate 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 2012 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 2011 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 2012 PROPOSED TAX-SUPPORTED CAPITAL BUDGET:

Table 5 summarizes the proposed 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 (\$3.35 million) dedicated to the Capital Levy.

**Table 5**

CITY OF HAMILTON 2012 PROPOSED TAX SUPPORTED CAPITAL BUDGET (\$ 000's)				
	2011		2012 PROPOSED	
	<u>GROSS</u> \$	<u>NET</u> \$	<u>GROSS</u> \$	<u>NET</u> \$
<b><u>Proposed Block Funding</u></b>				
Recreation Program	7,630	6,115	6,115	6,115
Culture Program	3,055	2,141	1,780	1,780
Public Art Program	0	0	191	191
Downtown Renewal/Waterfront	1,160	960	3,846	2,215
Downtown Renewal - Suburban Downtowns	250	250	250	250
Fleet and Facilities – Corporate Buildings	5,213	4,800	5,455	5,113
Forestry Maintenance Includes Tree Planting)	1,500	1,500	1,500	1,500
Open Space Development	5,841	2,075	6,222	3,616
Housing	500	500	2,500	2,500
Parks & Cemeteries	1,320	1,270	1,455	1,270
Public Health	50	50	78	78
Corporate Projects	150	150	100	100
Community Services - Other Divisions	785	785	100	100
Roads	77,379	48,520	75,002	48,520
<b>Total Block Funding</b>	<b>104,833</b>	<b>69,116</b>	<b>104,594</b>	<b>73,348</b>
<b><u>Special Levies &amp; Boards</u></b>				
HECFI Renovations & Replacements	1,300	0	700	0
Police Services	0	0	250	0
Hamilton Waterfront Trust	1,900	0	0	0
Conservation Authorities	2,000	2,000	2,060	2,000
<b>Total Special Levies &amp; Boards</b>	<b>5,200</b>	<b>2,000</b>	<b>3,010</b>	<b>2,000</b>
<b><u>Other Major Projects</u></b>				
Council Strategic Initiatives	2,750	2,750	1,250	1,250
Pan Am Games	0	0	44,785	710
McMaster Health Campus Proposal - City's Contribution	0	0	10,000	0
Long term Accommodations- McMaster Health (City)	0	0	2,206	2,206
Brownfield Development Opportunities	750	750	0	0
Economic Development Initiatives	2,000	1,000	2,000	2,000
West Harbourfront Redevelopment Initiatives	10,569	0	0	0
Lodges	397	397	1,670	1,670
Lister Rehabilitation Project	29,800	22,100	0	0
Transit Services	17,723	3,700	17,456	3,700
Corporate Fleet Services	6,260	370	9,386	0
Hamilton Emergency Services	9,453	8,109	4,209	540
Planning & Development	6,636	661	6,333	390
Waste Management	2,195	2,185	13,055	12,815
Information Technology	1,540	1,390	4,270	3,244
Parked Projects\Unallocated Projects	4,569	3,004	1,909	1,909
Airport Development	3,350	0	300	0
<b>Total Other Major Projects</b>	<b>97,992</b>	<b>46,416</b>	<b>118,829</b>	<b>30,434</b>
<b>Other Recommended Projects</b>	<b>1,256</b>	<b>890</b>	<b>784</b>	<b>0</b>
<b>Total Affordable Projects</b>	<b>209,281</b>	<b>118,422</b>	<b>227,217</b>	<b>105,782</b>

**6.0 2012 – 2021 TAX CAPITAL FORECAST ASSUMPTIONS/HIGHLIGHTS:**

1. Budgeted debt financing. For the 2012-2021 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 now fixed annually at \$30.9 million.
3. Hamilton Hydro Capital Funding Dividend. Based on the Hamilton Hydro Dividend Policy brought before Council on November 1, 2004, the City has incorporated \$2 million in dividends from Hydro to fund the Capital Program in 2012 and \$2 million in each subsequent year thereafter.

Table 6 provides a 5-year discretionary capital forecast for 2012 – 2016 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 \$31m to \$35.5m in 2012.
- b) 2012 Capital financing surplus stems from calendar year 2010. This amount should be similar for 2013 and then declines for 2014 financing rate decrease from 6% to 5%.
- c) 2012 one time OMPF reconciliation amount of \$4 million.
- d) Long-term discretionary revenues indicate a declining trend due mainly to debt financing commitment constraints.

Discretionary funds may be directed by Council to whatever purpose it deems necessary. Table 6 assumes an annual 0.5% increase of the total tax levy (\$3.35m) dedicated to Capital financing annually.

Table 6

<b>Discretionary Tax Supported Net Capital Funding Forecast 2012 - 2016</b>						
<b>(\$000's)</b>						
<b>Assumptions: 0.5% Levy Increase for Capital Annually 2012 - 2017</b>						
<b>(Excludes SWMMP, Lister, Corporate Trunk Radio) 5.0% Cost of Borrowing on External Debt</b>						
<b>Sources of Funding (Net)</b>	2011 Approved	2012 Proposed	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Contribution from Operating	31,057	35,483	32,911	35,429	37,838	40,055
External Debt	6,000	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
<b>Total Financing Plan - Discretionary</b>	<b>70,012</b>	<b>76,438</b>	<b>72,866</b>	<b>74,384</b>	<b>75,793</b>	<b>73,010</b>
Previous Yrs. Capital Financing Surplus	2,000	7,753	7,000	2,000	2,000	2,000
Annual Unallocated Cap Reserve Loan Repayments	3,696	2,779	2,779	1,805	1,026	1,026
Unallocated Capital Reserve (2011 Parked / Council Strategic)		1,421				
WIP Funding Interest	5,090	500	500	500	500	500
2011 OMPF Reconciliation		4,076				
pre 2001 DC Reserves	3,000					
HFF - Re: Reduction in Waste Capital	3,490	-	-	-	-	-
<b>Total Funding (Net)</b>	<b>87,288</b>	<b>92,967</b>	<b>83,145</b>	<b>78,689</b>	<b>79,319</b>	<b>76,536</b>
<b>Expenditures (net)</b>						
<b>Roads</b>	<b>48,520</b>	<b>48,520</b>	<b>46,623</b>	<b>43,788</b>	<b>40,896</b>	<b>39,523</b>
<b>Corporate Facilities</b>	<b>4,800</b>	<b>5,113</b>	<b>4,903</b>	<b>4,605</b>	<b>4,301</b>	<b>4,156</b>
<b>Recreation Facilities</b>	<b>6,115</b>	<b>6,115</b>	<b>5,864</b>	<b>5,507</b>	<b>5,143</b>	<b>4,971</b>
<b>Cultural Facilities</b>	<b>2,141</b>	<b>1,780</b>	<b>1,707</b>	<b>1,603</b>	<b>1,497</b>	<b>1,447</b>
<b>Park Development (New/Expansion)</b>	<b>2,075</b>	<b>3,616</b>	<b>3,467</b>	<b>3,257</b>	<b>3,042</b>	<b>2,939</b>
<b>Hamilton Downtown</b>	<b>960</b>	<b>2,215</b>	<b>2,124</b>	<b>1,995</b>	<b>1,863</b>	<b>1,801</b>
<b>Suburban Downtowns (B.I.A.s)</b>	<b>250</b>	<b>250</b>	<b>240</b>	<b>225</b>	<b>210</b>	<b>203</b>
<b>Forestry</b>	<b>1,500</b>	<b>1,500</b>	<b>1,438</b>	<b>1,351</b>	<b>1,262</b>	<b>1,219</b>
<b>Park's Operations</b>	<b>1,270</b>	<b>1,270</b>	<b>1,218</b>	<b>1,144</b>	<b>1,068</b>	<b>1,032</b>
<b>Housing</b>	<b>500</b>	<b>2,500</b>	<b>2,397</b>	<b>2,252</b>	<b>2,103</b>	<b>2,032</b>
<b>Community Services - Other</b>	<b>785</b>	<b>100</b>	<b>96</b>	<b>90</b>	<b>84</b>	<b>81</b>
<b>Public Health</b>	<b>50</b>	<b>78</b>	<b>75</b>	<b>70</b>	<b>66</b>	<b>63</b>
<b>Corporate Projects</b>	<b>150</b>	<b>100</b>	<b>96</b>	<b>90</b>	<b>84</b>	<b>81</b>
<b>Public Art</b>	<b>-</b>	<b>191</b>	<b>183</b>	<b>172</b>	<b>161</b>	<b>155</b>
<b>Block Funding Total</b>	<b>69,116</b>	<b>73,348</b>	<b>70,431</b>	<b>66,149</b>	<b>61,779</b>	<b>59,706</b>
<b>Major Capital Initiatives</b>						
Fleet	370					
DC exemptions	-	-	-	-	-	-
Lodges	397	1,670	500	500	500	500
Fire / EMS	1,260	540	1,000	1,000	2,000	2,000
Information Systems	1,390	3,244	500	500	500	500
Public Health - Long Term Accomodation (re Health Campus)		2,206	174			
Pan Am Special Events & Programming	-	710	710	710	710	
Parking	-	150				
Animal Control		110				
Planning / Development	661	130	130	130	130	130
Hamilton Conservation Authority	2,000	2,000	2,000	2,000	2,000	2,000
Downtown Market Relocation	890					
Economic Development Initiatives	1,000	2,000	2,000	2,000	5,000	5,000
Brownfield Development	750					
Council Strategic Capital	4,044	1,250	2,000	2,000	3,000	3,000
Transit (FGT)	3,700	3,700	3,700	3,700	3,700	3,700
Parked Projects	1,710					
Unallocated		1,909				
<b>Total Expenditures (Net)</b>	<b>87,288</b>	<b>92,967</b>	<b>83,145</b>	<b>78,689</b>	<b>79,319</b>	<b>76,536</b>

The infusion of 2009 stimulus funding for Hamilton from the senior levels of government have in large part been expended by the end of 2011 except for 2 projects (Lower Stoney Creek and Westmount recreation centre projects.) The City has been advised by the Ontario Government that the Province will reimburse the provincial one-third share for eligible costs incurred between November 1, 2011 and March 31, 2012 . The Federal deadline for substantial completion currently remains at October 31, 2011, however the City is continuing its dialogue with the Federal

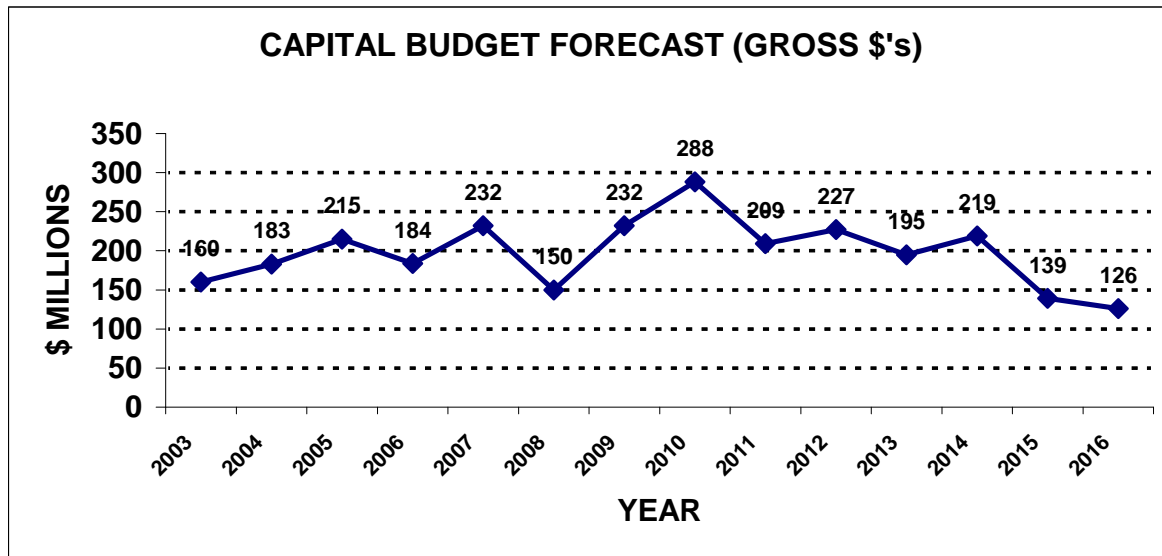
Government for some form of accommodation to deal with the financial exposure facing the City regarding those stimulus projects that did not meet the October 31<sup>st</sup> substantial completion deadline. The City's total additional funding required for the 2 projects at risk equals \$4.8 million.

The forecast information from Table 6 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 decreases from 2012 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. Many of the City's Capital program areas may remain acutely under-funded.

2. Significant future capital projects which have not been accounted for in the financing plans contained within this document include the following;
  - Light Rail Transit
  - Central Library Renovations \$800,000
  - Master-Plans related to park development which include (Gage Park \$30m, Gore Park \$6m, John/Rebecca \$5m, Battlefield Park \$10m, Confederation Park \$37m)
  - Police Investigative Building, \$16.5m
  - West Harbour Recreation Master Plan (\$75m)
  - Forestry Yards Accommodation \$3m
  - Parkland Acquisition Strategy
  - Industrial Land Acquisition Strategy
3. 10-year Budgeted Tax Supported Debt Level Forecast Peak (2012 - \$407 million) is a 5.1% decrease from last years forecast debt peak of \$429 million in 2011 (refer Table 10).
4. Operating Costs. The operating impact of capital projects are identified on the "2012 – 2021 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 2011, the operating impact of Capital for inclusion into the 2012 operating budget was \$1.1 million. The operating impact of the 2012 Capital Budget for 2013 is \$2.6 million (and 8.4 FTE's).

**7.0 2012 – 2021 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 \$184 million more in capital over a 10-year period compared to a 0% increase for 10 years.



The City’s declining capital affordability is due to:

- a) Decreased Capital Funding capacity due to major capital project debt commitments (refer Table 7).
- 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 7). Past expenditures on the major projects listed below make up a significant portion of the \$50.4 million debt charge component of the Capital Levy (approximately \$15.8 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 7**

<b>MAJOR PROJECTS (\$ Millions)</b>	<b>2011 &amp; Prior</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
<b>Red Hill / Linc Expressways</b>	<b>439.0</b>						<b>439.0</b>
<b>City Hall</b>	<b>73.9</b>						<b>73.9</b>
<b>Waste Management</b>	<b>129.5</b>	<b>13.1</b>	<b>7.4</b>	<b>3.9</b>	<b>7.9</b>	<b>5.1</b>	<b>166.9</b>
<b>Lister Block</b>	<b>29.8</b>						<b>29.8</b>
<b>Total</b>	<b>672.2</b>	<b>13.1</b>	<b>7.4</b>	<b>3.9</b>	<b>7.9</b>	<b>5.1</b>	<b>709.6</b>
<b>Debt Charges on above projects (decline starts 2017-Red Hill \$2m)</b>		<b>15.8</b>	<b>17.2</b>	<b>18.4</b>	<b>18.3</b>	<b>18.8</b>	<b>88.5</b>

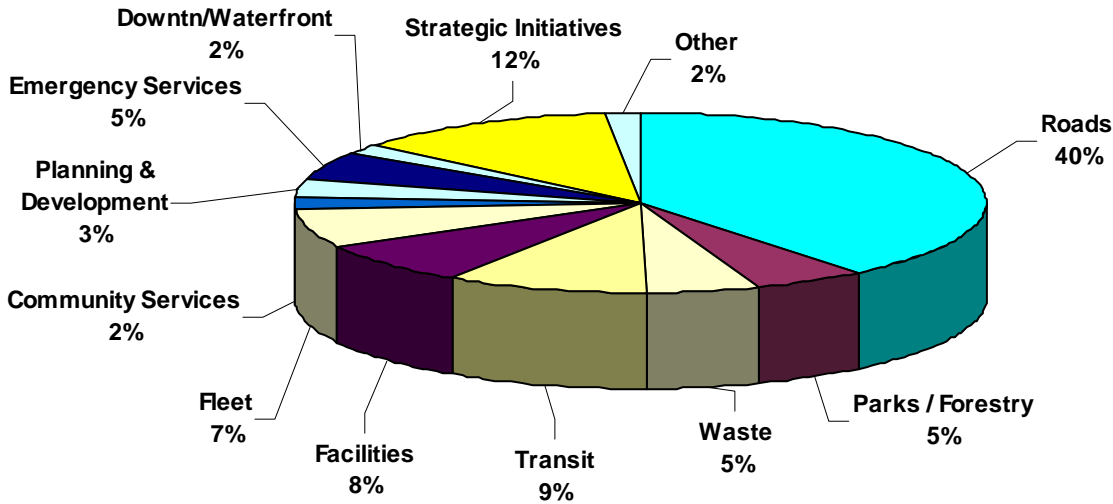
- b) Aging Infrastructure. Municipalities, particularly older ones like Hamilton, are experiencing significant annual infrastructure deficits as well as a significant accumulated backlog of repairs which staff estimate at \$2 billion (for all programs)(refer City of Hamilton’s 2009 “State of the Infrastructure 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% annual total tax levy increases dedicated to the Capital Levy for the next 10-years. Increasing the City’s own source funding by \$184 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 3.
- 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 decade 2000-2009 has far outpaced the City’s property tax increases as evidenced by Table 8. This has somewhat levelled off over the past few years due to economic conditions.

**TABLE 8**

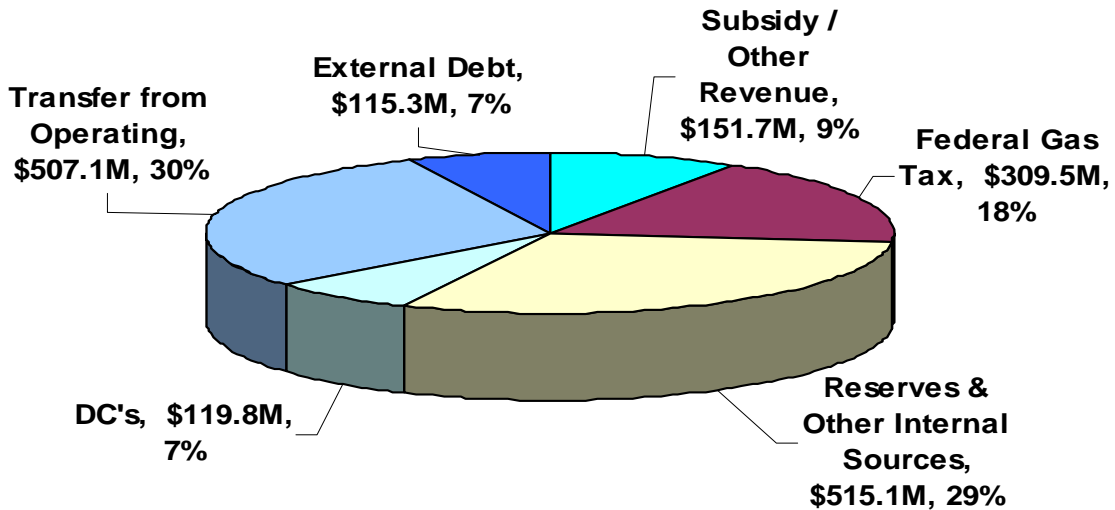
<b>Inflationary Pressures on Capital Expenditures - (%)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Non-Residential Building Construction Price Index	3.69	6.62	5.3	6.76	6.74	8.58	-1.93	-0.07
Property Tax Increase	3.6	5.9	3.2	2.3	3.4	3.8	1.7	2.0

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.

**2012 - 2021 Capital Forecast by Program  
 \$1.7 Billion**



**2012 - 2021 Capital Funding Forecast  
 \$1.7 Billion**



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 \$2.5 billion, the 2012 - 2021 capital forecast can only support \$1.7 billion in new capital projects. This leaves the City with an approximate \$800 million funding gap taking into

account the required levels of infrastructure repair and rehabilitation. Table 9 examines a 5-year funding forecast and related capital requests. In conclusion, without additional senior levels of government infrastructure subsidies, the City would experience over a \$345 million infrastructure funding shortfall for the 5-year period (2012 – 2016).

**Table 9**

<b>2012 - 2016 CAPITAL FORECAST</b>							
<b>PROJECTED GROSS CAPITAL &amp; FUNDING SOURCES</b>							
<b>SOURCES OF FINANCING</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>5 YEAR TOTAL</b>
SUBSIDY / OTHER REVENUE	16,420	24,634	24,815	65,563	6,210	5,060	126,282
RESERVES / OTHER INTERNAL	64,335	77,046	54,339	52,247	34,468	30,340	248,440
DEVELOPMENT CHARGES	25,890	11,384	12,035	12,225	12,127	12,032	59,803
HAMILTON FUTURE FUND	5,675	39,615	20,697	2,800	-	-	63,112
FEDERAL GAS TAX	30,955	30,955	30,955	30,955	30,955	30,955	154,775
TRANSFER FROM OPERATING	31,057	35,483	32,911	35,429	37,838	40,055	181,716
EXTERNAL DEBT	34,949	8,000	18,846	19,820	17,900	7,750	72,316
<b>TOTAL CAPITAL FINANCING AVAILABLE</b>	<b>209,281</b>	<b>227,117</b>	<b>194,598</b>	<b>219,039</b>	<b>139,498</b>	<b>126,192</b>	<b>906,444</b>
<b>TOTAL CAPITAL SUBMITTED</b>	<b>245,072</b>	<b>245,698</b>	<b>234,041</b>	<b>270,905</b>	<b>252,751</b>	<b>248,095</b>	<b>1,251,490</b>
<b>UNAFFORDABLE</b>	<b>(35,791)</b>	<b>(18,581)</b>	<b>(39,443)</b>	<b>(51,866)</b>	<b>(113,253)</b>	<b>(121,903)</b>	<b>(345,046)</b>

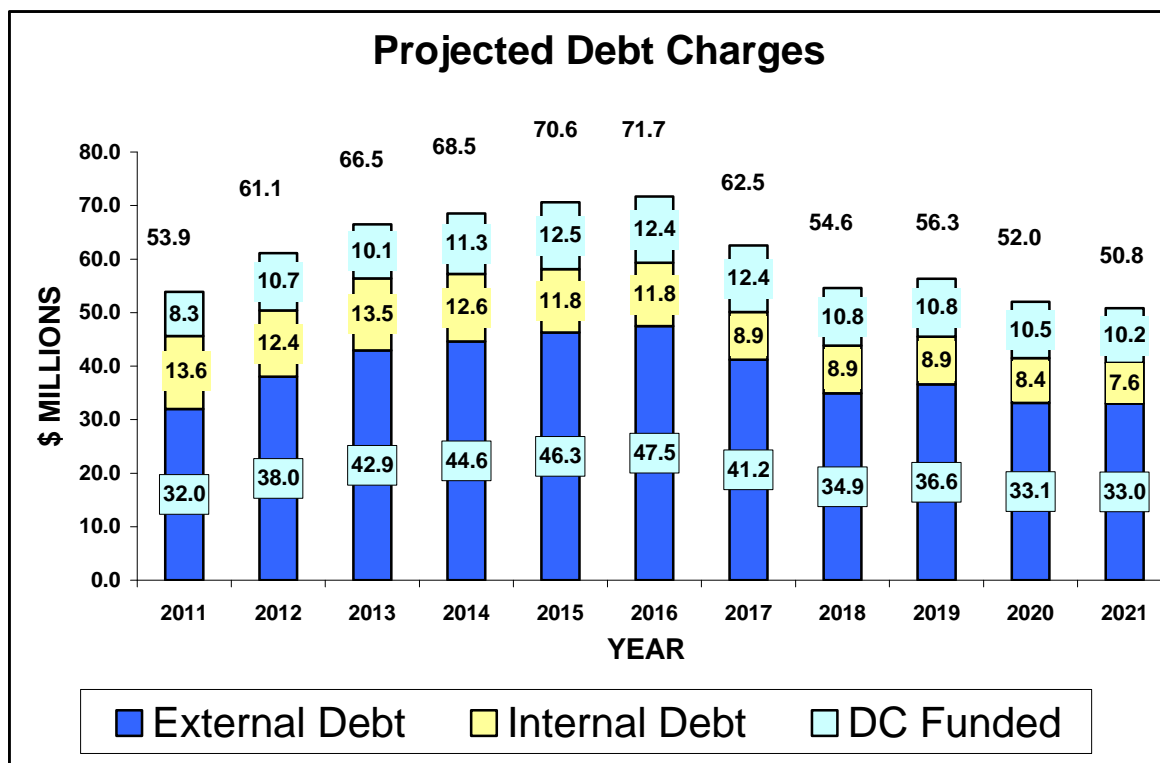
## **8.0 TAX-SUPPORTED DEBT AND DEBT FORECAST:**

In the proposed 2012-2021 ten-year financing plan, tax-supported budgeted external - debt levels peak in 2012 at \$407 million (this is the debt level which most concerns bond-rating agencies - refer Table 10 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 10 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.



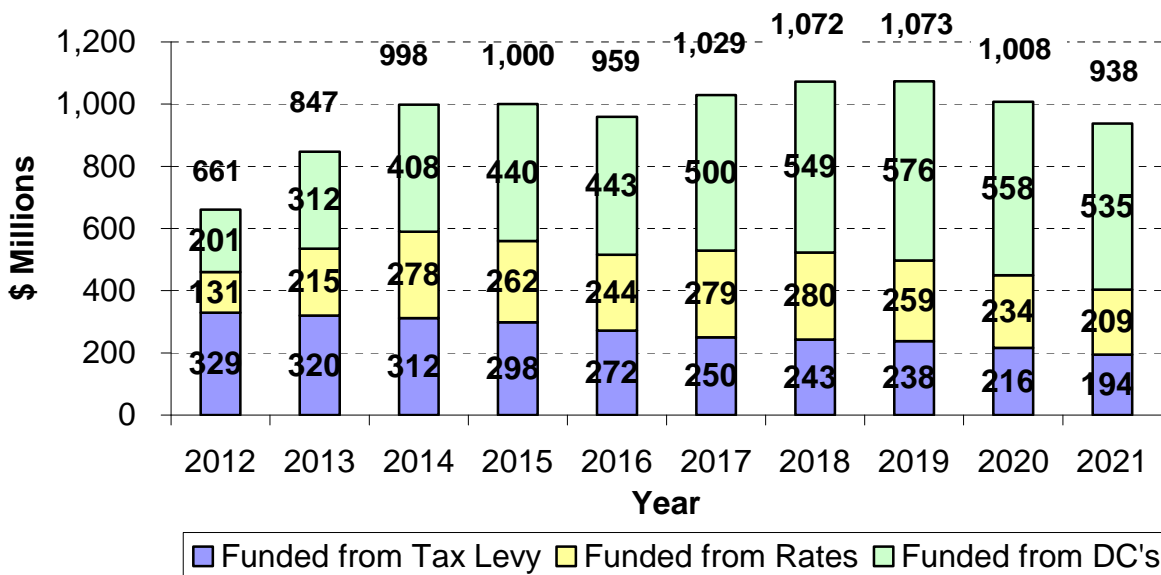
**Table 10**

<b>TAX SUPPORTED EXTERNAL DEBT FORECAST</b>											
(\$Millions)											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>2012 - 2021 FINANCING PLAN</b>											
TAX SUPPORTED	213	329	321	311	298	272	249	243	238	215	194
FUNDED FROM DC's	59	78	72	90	82	74	66	58	51	44	35
<b>TOTAL BUDGETED DEBT</b>	<b>272</b>	<b>407</b>	<b>393</b>	<b>401</b>	<b>380</b>	<b>346</b>	<b>315</b>	<b>301</b>	<b>289</b>	<b>259</b>	<b>229</b>
<b>PROJECTED ACTUAL</b>	<b>272</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>340</b>	<b>320</b>	<b>300</b>	<b>300</b>	<b>290</b>	<b>260</b>	<b>229</b>
<b>2011 - 2020 FINANCING PLAN</b>											
TAX SUPPORTED	346	333	334	326	312	332	335	328	297	269	
FUNDED FROM DC's	83	77	71	88	81	72	64	56	49	42	
<b>TOTAL BUDGETED DEBT</b>	<b>429</b>	<b>410</b>	<b>405</b>	<b>414</b>	<b>393</b>	<b>404</b>	<b>399</b>	<b>384</b>	<b>346</b>	<b>311</b>	

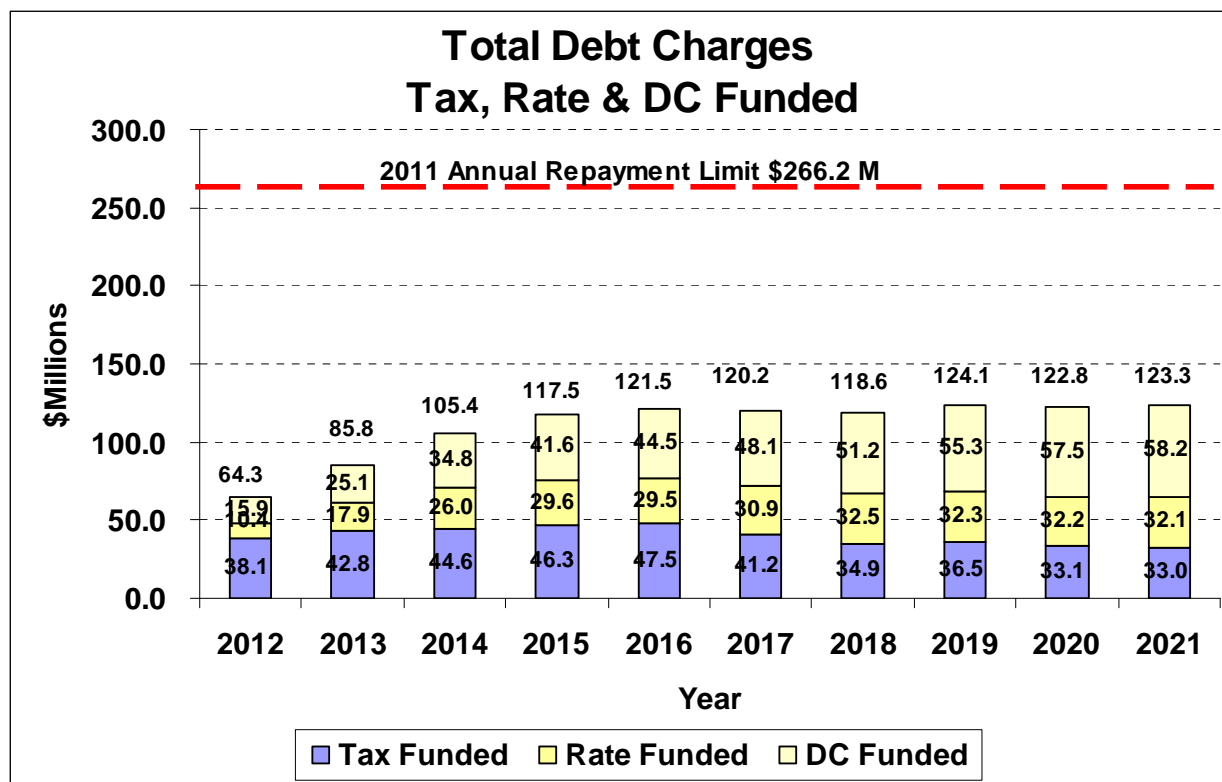


The graph below is a 10-year forecast of total Debt for the City of Hamilton. That is debt associated with the Tax-supported Capital and the debt which funds a portion of the Rate Capital Budget (Water, Sewer and Storm-water). The graph shows that a significant portion of total debt is comprised of debt for growth infrastructure. It includes infrastructure such as the expansion of the wastewater plant (\$762m), 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. That is why this graph shows that the forecast debt is back-ended. Staff will continue to monitor the forecast and minimize any risks associated with growth revenues not being able to sustain the forecast debt levels.

### Projected Outstanding Debt - Tax & Rate



The following graph compares the total forecast City debt charges for the 10-year Capital Plan (rate and tax-supported) against the Province's 2011 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) ie. 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 \$2.7 billion, versus our current peak forecast of \$1.1 billion. Hamilton’s current debt is well below the allowable provincial limit.

Hamilton’s percent of debt charges to own revenues is 5.5% compared to the average of 5.9% for all municipalities included in the comparison. The ARL comparators range from 0.9% (City of Cambridge) to 10.3% (City of Waterloo). 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 (2010) in the peak debt forecast period would increase to approximately 11.0% in 2016 and 11.2% in 2021.

**Debt Comparators**Based on 2010 FIR's  
(\$ Millions)

	<i>Hamilton</i>	<i>London</i>	<i>Windsor</i>	<i>Ottawa</i>	<i>Brantford</i>	<i>Halton Region</i>	<i>Burlington</i>	<i>Waterloo Region</i>	<i>Waterloo</i>	<i>Kitchener</i>	<i>Cambridge</i>	<i>Niagara Region</i>	<i>St. Catharines</i>
Debt per capita	\$ 787	\$ 938	\$ 699	\$ 1,453	\$ 407	\$ 400	\$ 423	\$ 417	\$ 802	\$ 397	\$ 91	\$ 679	\$ 457
Credit Rating	AA	AAA	AA	AA	NR	AAA	NR	AAA	NR	NR	NR	AA	NR
Total Own Revenues (Net) (per ARL Calculation)	1,104.4	758.1	503.2	2,198.2	213.0	560.5	180.2	565.9	128.5	328.5	137.6	524.1	124.8
Total Debt & LT Liabilities (Incl. Housing)	397.0	330.5	151.4	1,179.7	36.7	175.8	69.5	211.3	78.2	81.3	11.0	295.5	60.3
% to own revenues	35.9%	43.6%	30.1%	53.7%	17.2%	31.4%	69.5%	37.3%	60.9%	24.7%	8.0%	56.4%	48.3%
Total Debt Charges (Incl. Lease & LT Commitment Payments)	61.2	64.3	16.5	134.6	5.2	43.2	11.1	39.7	13.2	10.3	1.2	35.6	10.6
% to own revenues	5.5%	8.5%	3.3%	6.1%	2.4%	7.7%	6.2%	7.0%	10.3%	3.1%	0.9%	6.8%	8.5%
<b>Annual Repayment Limit (ARL) = 25% of Total Own Revenues above</b>													

- NR = Lower Tier Municipality that is not rated

- 2006 Population for per capita calculation

**9.0 CITYHOUSING 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 June 2011, there were 5,743 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, 2011 there was \$7.68 million available in the City Social Housing Capital Repair Fund which includes the SHRRP funding.

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 owned by the City and the rest in the hands of non-profit agencies. In 2011, the City funded social housing costs from property taxes in the amount of \$46 million. Of this amount, approximately \$7.8 million was for capital repairs. For 2012, \$7.8 million will again be provided from reserves in addition to a proposed \$2.5 million for capital rehabilitation from the Capital Levy which makes the total available for capital at \$10.3 million.

With an aging housing stock, the capital repair liabilities are growing much faster than municipalities ability to increase their capital envelopes. Table 11 looks at the City's required capital repairs from 2012 to 2021 and compares to the amount of funding proposed for 2012. If the funding levels for the next 10 years remained at 2012 levels, the budgeted shortfall would total approximately \$125 million.

**Table 11**

CityHousing Hamilton Capital 10 year forecast based on Building Condition Assessments conducted in 2011. (Budgeted Funding assumes annual reserve provisions of \$7.8m plus an additonal \$2.5 million from the Capital Levy) (\$ Millions)			
	Required	Budgeted Funding	Shortfall
2012	16.30	10.3	6.00
2013	24.40	10.3	14.10
2014	15.90	10.3	5.60
2015	14.00	10.3	3.70
2016	51.00	10.3	40.70
2017	9.80	10.3	(0.50)
2018	11.10	10.3	0.80
2019	13.60	10.3	3.30
2020	16.70	10.3	6.40
2021	54.90	10.3	44.60
Total			124.70

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.

#### **10.0 TRANSIT CAPITAL PROGRAM:**

Table 12 provides a 5 year forecast of the City's Transit Service capital program. For 2012, the Transit capital program is \$17.5 million. As some of the existing Transit subsidies expire / expended, the forecast for the remaining 4 years ranges between \$13.3 million and \$15.9 million. The Transit 5 year capital plan is mostly funded from transit reserves and subsidy. 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 12**

<b>Transit Capital Forecast</b>					
(\$000's)					
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
HSR Bus Replacement	8,550	9,138	8,765	9,368	8,986
ATS Vehicle Replacement	1,924	1,924	-	1,973	1,997
Expansion Buses re ATS Eligibility & Registration	600				
Fund Transit Reserve - Re Cancellation of OBRP	3,700	3,700	3,700	3,700	3,700
Non Revenue Vehicle Replacement	85	85	85	150	127
Trapeze Analysis and Optimization	300				
Bus Stop Landing Pads	73	73	73	73	73
Bus Shelter/Bench Refurbishment & Replacement	150	100	100	85	50
AODA Initiative - Bus Stop Benches	50	50	50	50	50
Transit Hybrid Bus Battery Replacement	164	203	209	215	-
Rapid Transit Studies	950	-	-	-	
Fare Cards - System Enhancement	550	-	-	-	
Replace Transit Fleet Bus Hoists	360	360	360	360	360
<b>Total</b>	<b>17,456</b>	<b>15,633</b>	<b>13,342</b>	<b>15,974</b>	<b>15,343</b>

Table 13 provides the actual Transit subsidies received in 2008, 2009 and 2010 and a forecast of Transit subsidy revenues in 2011 through 2013. Note that funding from the Tax Capital Budget for 2011 and beyond has replaced the Provincial subsidy for the Ontario Bus Replacement Program with funding from the Federal Gas Tax (\$3 million) and the City's Capital Levy (\$0.7 million) in order to sustain the City's Bus Replacement Program at the current 12-year cycle.

**Table 13**

<b>Transit Subsidy Revenue Forecast</b>						
(\$000's)						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Ontario Transit Capital Grant	7,523	-	-	-	-	
Metrolinx	29,991	-	-	-	-	
Provincial Gas Tax	11,187	11,035	10,698	10,821	10,696	10,496
Federal Gas Tax				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	-	-	-
<b>Total</b>	<b>51,515</b>	<b>14,262</b>	<b>14,204</b>	<b>13,821</b>	<b>13,696</b>	<b>13,496</b>

Table 14 is a projection of Transit reserve balances. A significant portion of the Provincial Gas Tax Reserve is used to fund operating expenses (\$7.1 million in 2009,

\$8 million in 2010 and \$8.1 million forecast for 2011). The reserve projections indicate the reserves are at a sustainable level to fund the forecasted operating and capital requirements to at least 2015.

**Table 14**

<b>Transit Reserves Forecast</b> (\$000's)	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
HSR Vehicle Replacement	13,082	11,803	10,854	9,035	7,991	6,560
ATS Vehicle Replacement	4,204	5,484	4,898	4,293	5,604	4,971
Provincial Gas Tax Reserve	20,503	21,406	16,452	16,451	16,247	15,834
Federal Public Transit Funds (Fed. Gas Tax)	1,923	1,107	758	704	649	592
Ontario Transit Capital Grant	5,676	4,575	3,445	2,285	1,094	-
Rapid Transit (Metrolinx)	14,221	14,032	11,092	2,276	-	-
Transit Capital Reserve	2,631	1,258	778	385	-	-
Transit Shelter Capital Reserve	175	180	83	35	-	-

## **11.0 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 15). 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 15 and 16 illustrate the development shortfalls in residential and non-residential growth and City forecasts going forward.

**Table 15**

<b>Average Single Detached Unit Equivalent Construction Versus Provincial Forecast</b>				
	2011	2012	2013-2031	Total 2012-2031
Staff Budget/Act	1,167	1,500	1,947	38,500
Places To Grow	2,500	2,566	2,566	51,333
Net	1,333	1,066	619	12,833

<b>Average Square Footage Non-Residential Construction versus Provincial Forecast</b>				
	2011	2012	2013-2031	Total 2012-2031
Staff Budget/Act	1,025,991	1,500,000	1,538,422	30,730,000
Places To Grow	2,000,000	2,048,700	2,048,700	40,974,000
Net	974,009	548,700	510,278	10,244,000

**Table 16**

<b>City of Hamilton Development Activity</b>		
Year	Single-Detached Unit Equivalent	Non-Residential (Sq.Ft.)
2006	1942	1,597,826
2007	1692	1,720,588
2008	1803	1,512,918
2009	1053	946,092
2010	2102	2,857,736
2011	1167	1,025,991
6-year Average	1,627	1,610,192

Tables 17 and 18 summarize the proposed Capital projects which will contribute towards assessment growth. As the 2012 Tax Capital Budget and Tables 17 and 18 illustrate, staff will continue to prioritize and plan for growth.



**TABLE 17**

<b>Assessment Growth Projects 2012 - DC Funded (\$000's)</b>	<b>Gross</b>	<b>Net</b>
Binbrook Road Trunk Storm Sewer (Binhaven to 100m west)	250	0
McNeilly - Barton to South Service	2,800	1,400
SWMP - A17 D'Amico Cimino Lands	130	0
SWMP SM14 - Mud St West (Losani)	920	0
Borer's Creek Rehab / Flood Control Structure	250	0
Storm Water Management Program	4,000	0
St. Elizabeth's Pond Assessment	150	50
SWMP A20 Limestone Manor	570	0
SWMP H7 - Central Mountain	510	0
SWMP SCM9 - Summit Park Phase 7	1,960	0
Hannon Creek West Tributary Master Drainage Plan	250	0
Millen Shores Revetment	200	0
Parkside Dr Culvert - Silverwoods Phase 1	150	0
SWMP - A16 D'Amico Cimino Lands	1,970	0
SWMP W19 - Parkside Hills Phase 2	2,210	0
SWMP SM4 - Penny Lane Estates	2,610	0
SCUBE Master Drainage Plan Class EA	300	0
Sheldon Mewburn Neighbourhoods SWM Pond Class EA Addendum	80	0
SWMP - A13 Springbrook Pond	680	0
Roadside Drainage Improvement Program	1,000	30
McNeilly - Barton to South Service	80	40
Nash Neighbourhood Sanitary Sewer Outlet	2,000	0
South Service Road Sanitary Sewer (Flying J / Pilot)	2,040	0
First Street (Waterdown Sanitary) PS Upgrade DC014 (WW-17)	150	0
Royal to Main/King Sanitary Sewer Upgrades (WW-22)	1,730	0
Centennial Trunk Sanitary Sewer (WW-14, WW-33)	11,700	0
Rymal - Dakota Blvd to Fletcher	900	0
Primary Treatment Capacity Expansion - CASH FLOWED	5,000	0
Woodward WWTP Expansion - Engineering Services - CASH FLOWED	8,310	0
WWTP - Biosolids Management Facility - CASH FLOWED	1,000	510
Woodward WWTP Expansion - New Raw Wastewater Pumping Station - CASH FLOWED	10,200	1,900
McNeilly - Barton to South Service	960	560
Waterdown South Elevation Water Storage - New PD (W-07)	500	80
Centennial Parkway Trunk W/M Extension - PS HD05A to Mud (W-13)	3,500	0
Lynden Ave Pumping Station (HD012) Capacity Upgrade & Standby Power Installation (W-16)	100	0
Highland Reservoir HDR07 (W-11) and PS HD007 (W-10) Upgrades - CASH FLOWED	5,530	530
Carlisle Elevated Storage & Additional Well	300	0
PS HD019 (Binbrook) Capacity Upgrade (W-20)	200	0
Secondary Plan for Aerotropolis	300	0
Elfrida Urban Boundary Expansion - Background Studies	500	50
Neighbourhood Plan Review/Community Planning Studies	470	0
City Share of Servicing Costs under Subdivision Agreements-Annual Program	3,000	0
McNeilly - Barton to South Service	1,850	510
RR 56 - Binbrook Rd to Cemetery	1,000	140
Fifty Road at SSR Intersection Upgrade	1,090	0
RHBP - Glover / Rymal Intersection Improvements	250	0
Development Road Urbanization	500	0
Airport Employment Growth District - Phase 3 and 4 Class EA Studies	150	30
East/West Corridor Class EA Amendment	200	0
Highway 8 - Hillcrest to Park	200	80
Mountain Brow Road - Waterdown	200	0
Highway 5 & 6 Interchange EA & Implementation	620	0
New Traffic Signal Installation Program	160	10
Comprehensive Zoning By-law	250	0
Nodes and Corridors Secondary Plans	175	0
2012 Expansion Buses re ATS Eligibility & Registration Implementation	600	0
<b>Sub-total DC Funded</b>	<b>86,705</b>	<b>5,920</b>

**TABLE 18**

<b>Assessment Growth Projects 2012 (\$000's)</b>		
<b>Non-DC Funded Projects</b>	<b>Gross</b>	<b>Net</b>
Watercourse 5 and 6	3,850	0
Greystones Channel Rehab - Greensville	50	50
West Harbour (Setting Sail) Main Basin - New Floating Breakwater	700	700
Centralized Water and Wastewater Operations Centre	500	500
Ancaster Wastewater Outstations Upgrades	2,420	2,420
Dundas Wastewater Outstations Upgrades	1,120	1,120
Upper James Looping to Adam Estates	100	0
Water Treatment Plant - Process Upgrades - CASH FLOWED	2,000	0
Highway 8 - Jones to Glover	1,050	1,050
McMaster Health Campus Proposal - City's Contribution	10,000	0
Council Initiated Strategic Projects	1,250	1,250
Capital Works in Downtown/Waterfront Neighbourhoods - Downtown Block	100	100
West Harbourfront Parks Master Plan Part 1 - Bayfront, Pier 4, Bayview Park	100	100
Hamilton Downtown Commercial Facade Property Improvement Grant Progr	400	120
Hamilton Downtown Grocery Stores Financial Incentive	650	650
Commercial Property Improvement Grant	400	280
Community Downtowns and Business Improvement Areas (B.I.A.s)-Annual P	250	250
Economic Development Initiatives	2,000	2,000
Abbingtion Drive Resurfacing	80	80
RHBP - Glover Road Functional Design	50	0
Caroline - Main to King Two-Way Conversion	230	230
Bayfront Industrial Secondary Plan/Redevelopment Strategy	48	0
Glanbrook Landfill-Stage 3 Development	500	500
Glanbrook Landfill Capital Improvement Program	825	825
<b>Sub-Total Non-DC Funded</b>	<b>28,673</b>	<b>12,225</b>

The total amount of budgeted development charge revenue required for the 2012 growth tax-supported Capital budget is \$11.6 million and for the rate capital budget is approximately \$74 million. Annual revenues from the Development Charge (DC) program for 2011 are forecast at \$40 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 2012- 2021 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 19 illustrates the amount of growth capital budgeted for in 2012. 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 19, there are proposed investments in the amount of \$3.2 million dedicated towards industrial park servicing funded from development charges.

**TABLE 19**

<b>2012 CAPITAL BUDGET GROWTH CAPITAL</b>		<b>DC Funding (\$000's)</b>
<b><i>Industrial</i></b>		
Rate	McNeilly - Barton to South Service	1,400
Rate	McNeilly - Barton to South Service	40
Rate	McNeilly - Barton to South Service	400
Tax	McNeilly - Barton to South Service	925
Tax	Secondary Plan for Aerotropolis	300
Tax	Airport Employment Growth District -Phase 3&4 Class EA Studies	120
<b>Total Industrial Projects</b>		<b>3,185</b>
<b><i>Non-Industrial</i></b>		
Rate	Water	9,520
Rate	Wastewater Treatment Plan	27,860
Rate	Wastewater - Linear	17,180
Rate	Stormwater	18,008
Tax	Roads	4,762
Tax	Community Services	40
Tax	Planning-Development	3,975
Tax	Parks Development	812
Tax	Hamilton Emergency Services	-
Tax	Transit	540
Tax	Other	160
<b>Total Non-Industrial Projects</b>		<b>82,697</b>
<b>TOTAL TAX DC BUDGET</b>		<b>11,634</b>
<b>TOTAL RATE DC BUDGET</b>		<b>74,408</b>
<b>TOTAL ALL</b>		<b>86,042</b>

**12.0 DEVELOPMENT CHARGE RESERVES:**

The over-all Development Charge Reserves balance decreases from \$66 million to \$39.5 million as illustrated in Table 20. This decrease is due to funding projects from DC reserves totalling \$65 million, whereas projected revenues are \$38.5 million.

**TABLE 20**

2011 DC Reserve Forecast (Jan.01 - Dec.31)	Opening Balance (\$000s)	Collections (\$000s)	Payments (\$000s)	Ending Balance (\$000s)
Water	30,010	4,186	(12,122)	22,074
Wastewater Plant	21,940	7,600	(10,171)	19,369
Wastewater Linear	20,487	6,427	(8,685)	18,229
Stormwater	5,065	5,528	(4,100)	6,493
Roads	(10,460)	9,614	(22,255)	(23,101)
Community Services	676	1,100	(282)	1,494
Planning-Development	(2,197)	135	(2,298)	(4,360)
Parks Development	(1,510)	2,487	(2,369)	(1,392)
Hamilton Emergency Services	(2,274)	964	(653)	(1,963)
Transit	2,239	366	(2,160)	445
Waterdown Fees	2,109	128	-	2,237
<b>Total</b>	<b>66,085</b>	<b>38,535</b>	<b>(65,095)</b>	<b>39,525</b>

**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 \$622 million projected as at December 31, 2011. Table 21 illustrates the City's reserve history for the period 2007 – 2010 and specific reserve projections which fund the tax capital program for the next 5 years.

**Table 21**

THE CITY OF HAMILTON RESERVE FORECAST 2007 - 2015 ( \$ 000's ) (Dec.31)									
YEAR	Actual Balances December 31				Projected Balances December 31				
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CAPITAL RESERVES</b>									
DEVELOPMENT CHARGES	9,333	36,480	34,849	66,413	39,525	46,425	42,625	38,825	36,325
EQUIPMENT REPLACEMENT	4,179	6,010	4,061	4,756	7,626	6,338	5,230	4,430	5,986
VEHICLE REPLACEMENT	12,074	21,076	28,167	30,355	29,294	24,811	19,849	17,185	14,277
CAPITAL LEVY RESERVE-UNALLOCATED	23,413	24,076	17,310	32,201	21,331	6,438	7,081	6,756	5,629
CAPITAL RESERVES - ALLOCATED	6,173	55,201	37,586	17,821	37,223	42,882	57,538	52,477	70,523
GAS TAX RESERVES	15,048	18,734	21,395	29,008	17,549	17,670	17,610	17,357	16,900
PARKLAND RESERVES	6,946	8,187	6,651	10,054	7,641	9,399	9,609	9,826	10,050
<b>TOTAL CAPITAL RESERVES</b>	<b>77,166</b>	<b>169,764</b>	<b>150,019</b>	<b>190,608</b>	<b>160,189</b>	<b>153,963</b>	<b>159,542</b>	<b>146,856</b>	<b>159,690</b>
<b>NON-CAPITAL RESERVES</b>									
RATE CAPITAL RESERVES	72,049	79,672	75,989	71,772	31,538	34,078	32,565	31,561	36,110
PROVINCIAL CONTRIBUTION-WTP UPGRADE	0	0	0	101,326	104,366	107,496	110,721	114,043	117,465
TAX STABILIZATION	9,808	9,398	10,974	15,251	11,998	11,731	12,082	12,445	12,818
WORKING FUND RESERVES	8,642	18,031	28,443	45,265	39,794	41,828	43,888	44,291	45,568
EMPLOYEE BENEFIT / ANCILLARY	63,729	65,181	70,581	77,335	79,445	80,375	81,543	82,669	83,803
PROGRAM SPECIFIC RESERVES	117,686	156,992	136,091	131,163	112,881	99,394	94,758	97,719	101,286
OTHER	6,685	6,028	5,108	11,406	10,275	9,659	11,000	11,218	11,554
<b>TOTAL RATE CAPITAL RESERVES</b>	<b>278,599</b>	<b>335,302</b>	<b>327,186</b>	<b>453,518</b>	<b>390,297</b>	<b>384,561</b>	<b>386,557</b>	<b>393,946</b>	<b>408,604</b>
<b>TOTAL RESERVES BEFORE FF</b>	<b>355,765</b>	<b>505,066</b>	<b>477,205</b>	<b>644,126</b>	<b>550,486</b>	<b>538,524</b>	<b>546,099</b>	<b>540,802</b>	<b>568,294</b>
<b>FUTURE FUND RESERVES</b>									
HAMILTON FUTURE FUND A	62,971	62,891	64,616	64,582	63,856	38,726	6,060	11,085	20,412
HAMILTON FUTURE FUND B	12,042	12,037	8,809	8,408	7,842	2,300	2,380	2,463	2,550
<b>TOTAL NON-CAPITAL RESERVES</b>	<b>75,013</b>	<b>74,928</b>	<b>73,425</b>	<b>72,990</b>	<b>71,698</b>	<b>41,026</b>	<b>8,440</b>	<b>13,548</b>	<b>22,962</b>
<b>TOTAL ALL RESERVES</b>	<b>430,778</b>	<b>579,994</b>	<b>550,630</b>	<b>717,116</b>	<b>622,184</b>	<b>579,550</b>	<b>554,539</b>	<b>554,350</b>	<b>591,256</b>

This 2011 reserve projection reflects updated reserve information since the printing of the 2010 Reserve Report.

Detailed Reserve and Development Charge Forecast to be presented in year-end annual reports.

An analysis of Table 21 highlights the following trends:

1. The tax capital reserves, which fund the City's capital program, have increased from \$77 million in 2007 to a projected balance of \$160 million in 2011. The reserve balances are projected to remain fairly stable over the next 5 years (2011 – 2015), ranging between \$146 million to 160 million.
2. The total reserve and reserve funds position for the City of Hamilton has increased from \$430 million in 2007 to a forecast \$622 million in 2011.

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:

- 2012 = \$85 million or 37% of total capital funding sources

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 22 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.

In 2012 it is expected approximately \$34.5 million will be allocated from Fund A to fund capital. It is projected the fund balance will decrease from \$64.9 million in 2011 to \$38.7 million in 2012, and further decrease to \$6.1 million in 2013 as the funding commitment for Pan Am games and the McMaster Medical Centre is expended.

**TABLE 22**

<b>HAMILTON FUTURE FUND A</b>									
<b>(\$ 000's)</b>									
		<b>Actual</b>	<b>Actual</b>	<b>Projected</b>					
		<b>pre 2010</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Initial Investment</b>		100,000							
<b>Revenues</b>									
Investment Income @ 3.5%		31,254	3,268	2,095	1,652	639	184	388	714
Loan Repayment (P&I)		17,358	6,269	6,606	7,756	8,911	8,938	8,939	8,938
<b>Expenditures</b>									
Transfer to Operating		(13,845)	-	-	-	-	-	-	-
Loans to Fund Capital		(70,149)	(4,000)	(5,000)	(7,739)	(12,815)	(297)		
<b>Pan Am Games - Ivor Wynne</b>					(25,550)	(19,150)	(300)		
<b>Pan Am Games - Velodrome</b>					(1,250)	(1,250)	(2,500)		
<b>West Harbour Lands</b>			(5,573)	(4,427)					
<b>McMaster Medical Centre</b>						(9,000)	(1,000)		
<b>Balance - End of Year</b>		64,618	64,582	63,856	38,726	6,060	11,085	20,412	30,065

## 15.0 **CONCLUSION:**

Staff's proposed 2012 Tax-Supported Capital Budget and 2013-2021 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 \$184 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.
- 3) City Housing Hamilton rehabilitation \$2.5 million funded from the Capital Levy
- 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 debt levels top at \$350 million and stabilize, lowering back down to \$230 million in 2021. 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.