1.0 EXECUTIVE SUMMARY:

The City of Hamilton has a $2 billion infrastructure deficit backlog through all program areas and a projected 2011 annual infrastructure deficit of $195 million. An example of the decline is that at current levels of funding, the City's roads can only be replaced once every 110 years. Industry standards dictate once every 35 years. 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 source funding for capital rehabilitation in order to slow the deterioration of its infrastructure. This report contains 4 Tax-supported 2011 Capital funding options. The options range from a 0% Capital Levy increase to a 1.5% ($9.75 million) Capital Levy increase. Staff are recommending the 1.5% increase due to the serious nature of the state of infrastructure decline. The report also has 3 additional options with smaller increases (0%, 0.5% and 1.0% increases) for Councils consideration.

Staff presented several Capital Budget options to Councillors during one on one ward capital sessions as well as at workshops in early December. As a result of these meetings, staff modified their original options to the ones presented in Table 1. Table 1 summarizes the program and tax impacts of the 4 Tax-Supported Capital Levy Increase Options.

TABLE 1

CITY OF HAMILTON
2011 Tax Supported Capital Budget Funding Options

Capital Levy Increase	0.0%	0.5%	1.0%	1.5%
Tax Levy Impact ($millions)	$ -	$ 3.25	$ 6.50	$ 9.75
Annual Property Tax incr. per average assessed household	$ -	$ 14	$ 28	$ 42
Highlights				
1. Additional Local Road Rehab	$ 2,750,000	$ 6,000,000	$ 6,000,000	$ 8,500,000
2. Council Strategic Initiatives	$ -	$ -	$ 2,000,000	$ 2,750,000
3. Brownfield Development	$ -	$ -	$ 750,000	$ 750,000
4. Economic Dev. Initiatives	$ 1,500,000	$ 1,500,000	$ 2,000,000	$ 2,000,000

* funding reallocated from 2011 proposed Waste Mgmt Program

Highlighted in Table 1 are the 2011 Tax-Supported Capital Program Changes between the 4 options. Of note are the proposed additional $2.75m for local roads under the 0% option which increases to an additional $8.5m under the 1.5% option. Common to all of the options is the Capital Program contained within the 0% option which is detailed in Table 5.

2.0 2011 TAX CAPITAL BUDGET SUMMARY:

The 2011 Tax Capital Budget Options represent an effort to address investments necessary to meet our capital needs, as well as the need to support municipal investment readiness and economic development and capacity.

The following highlights the 2011 Tax Capital Budget, Options 1 – 4, exclusive of the additional capital presented in Table 1.

Highlights

- $202 million in gross capital spending
- $29.8 million for the Lister Building Rehabilitation (pre-approved)
- $40 million for the Road Rehabilitation Block
- Increased funding for cultural and recreation facilities rehab from 2010
- $3 million in Federal Gas Tax for Transit
- $23 million in development charge funding
- $62 million in reserve funding
- $34 million in external debt funding
- growing requirement for own source capital funding

In addition to the above highlights the 2011 Capital Budget encompasses the following:

1) Tries to support the City's infrastructure deficit backlog, specially, the roads, indoor recreation and Emergency Services assets.
2) New investment in strategic capital areas such as the Pan Am Stadium, Industrial Land Development, etc.

The City must take an aggressive approach to increasing the Capital Levy over the next 10 years or the capital Program will consist primarily of emergency repairs to its decaying infrastructure. For the 2011 Tax-supported Capital Budget and for the 2012 - 2020 Capital Forecast, staff recommend a restoration of a greater reliance on own source funding. This strategy incorporates a commitment to the first 3 years of annual levy increases of 1.5% and then 7 years of annual Levy increases of 1% (refer Table 7). This type of strategy would provide flexibility with regards to current and future capital requirements. It would allow for $440 million more in capital projects over a 10-year period versus a 0% increase in the capital levy. Without this commitment, 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 grow.

3.0 2011 TAX CAPITAL BUDGET HIGHLIGHTS:

1. The 2015 Southern Ontario Pan-Am games require funding commitments from the City of Hamilton. To date, the City has committed $60 million ($113m total – Province funds the balance) for its contribution for a new 15,000 seat Stadium ($55m – City contribution) and for a new Track Cycling Velodrome ($5m – City contribution) from the Hamilton Future Fund Reserve, (refer Table 22). The $60m City commitment is exclusive of a property tax impact, as funding is committed from the HFF Reserve. If the Stadium does not proceed, this funding could be re-directed by Council.

2. 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 2011 Capital Budget approximately $12.5 million was incorporated as illustrated in Table 2.

TABLE 2

IMPACT OF W.I.P. FUNDING ON THE 2011 TAX SUPPORTED CAPITAL BUDGET	
1. ***W.I.P. Projects Review (Approved by Council Oct 13,2010-FCS10073)***	
	$
Approved	
Source of Funds:	
Capital Financing WIPs	10,000,000
Roads Projects	500,000
Waste Projects	487,948
Customer Contact Centre	535,520
Rate Supported Projects	1,216,408
	12,739,876
Allocation of Funds:	
Uninsured repairs to the Red Hill Creek and Pond	4,000,000
Neighbourhood Community Development Strategy	2,000,000
2011 Capital financing Strategy - Rates Program	1,216,408
Capital Budget Funding Envelope.	5,523,468
	12,739,876
2. ***Proposed in 2011 Capital Budget***	
Source of Funds:	
Existing Roads Funding	5,180,000
Existing Park Funding	735,000
Redirect Waterfront Pier 8 Commercial Building	1,900,000
	7,815,000
Allocation of Funds:	
2011 Roads Projects	5,180,000
Gage Park Fountain Restoration	600,000
Sam Manson Park	50,000
Greenhill Park Trail	85,000
Addition to Discovery Centre	1,900,000
	7,815,000
Total W.I.P. Funding	**20,554,876**

4.0 2010 TAX-SUPPORTED CAPITAL LEVY – PROPOSED OPTIONS:

The City's Senior Management Team has endorsed the 1.5% Option, in recognition of the City's under-funding of the Capital Program in previous years and the Capital Program's role in the City's Strategic Plan with regards to financial sustainability. Evidence of the under-funding of the City's Capital Program is based on the following facts;

a) Capital Levy as a percentage of the total levy has declined from 13.4% to 11.9% (i.e., operating levy has increased at a greater rate than the capital levy).
b) Funding through contribution from operating has not increased over the last few years.

Staff are recommending the 1.5% Option, in recognition of the potential for limited funding from higher levels of government in 2011 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. Tables 3 and 4 illustrate the Tax Levy Impact of the 1.5% Option and the components of the proposed tax-supported Capital levy (debt and direct dollar for dollar capital funding (transfer to operating)).

TABLE 3

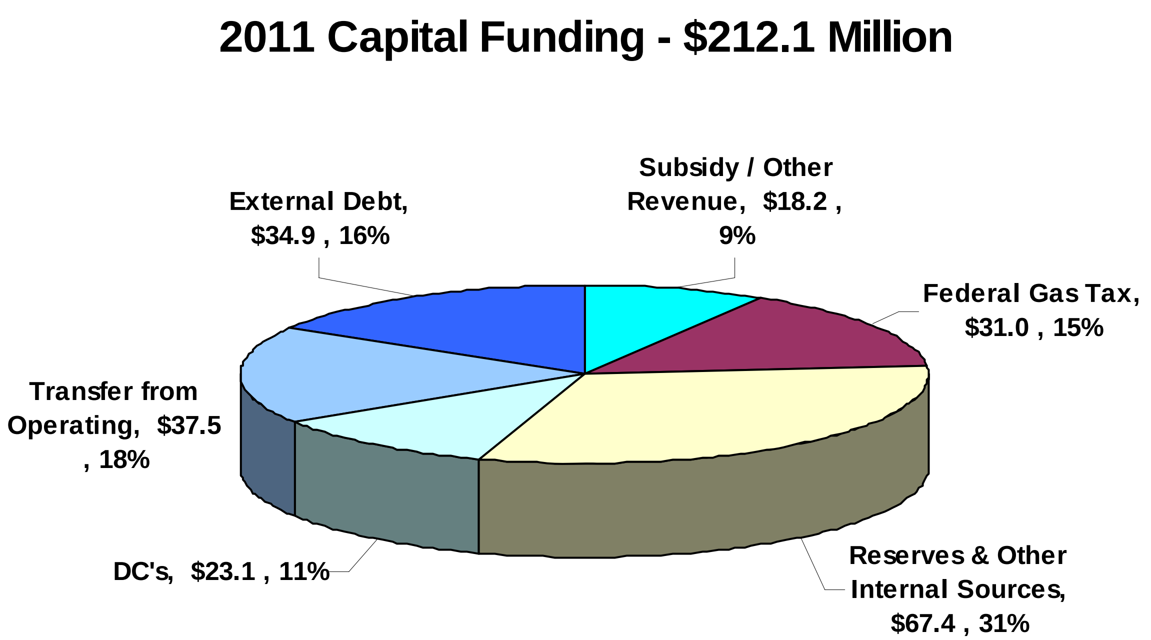
Tax Levy Impact Summary ($ Millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Tax Levy	461.3	477.1	495.5	527.4	555.3	574.4	601.6	630.1	649.1	673.0
Capital Levy	60.4	62.8	66.3	69.3	71.4	73.5	75.0	77.5	77.5	80.4
Capital Levy % of Total Levy	13.1%	13.2%	13.4%	13.1%	12.9%	12.8%	12.5%	12.3%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

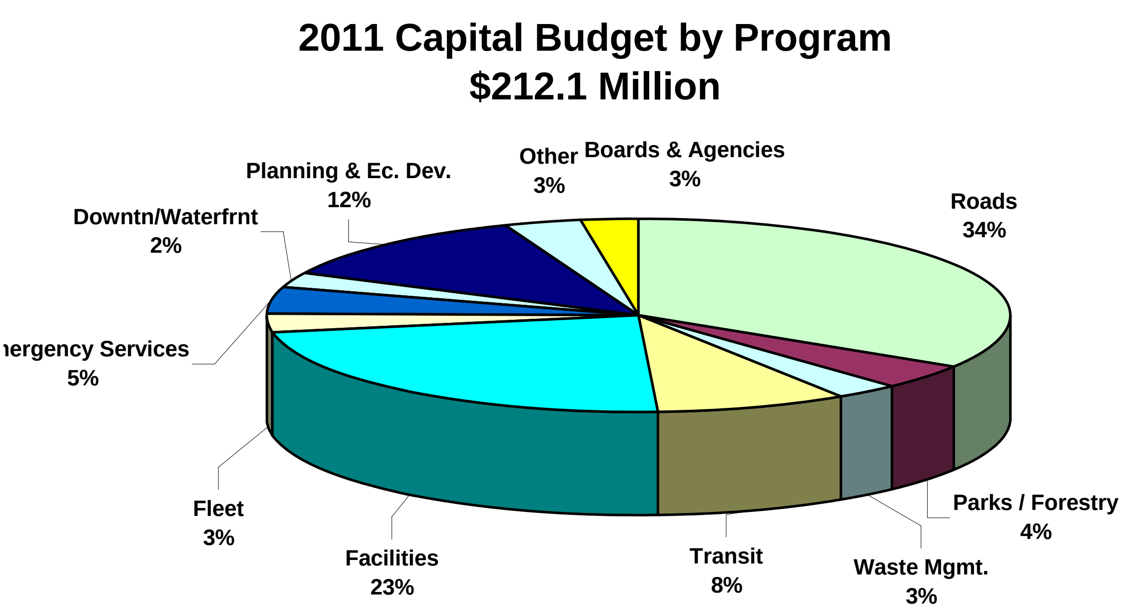
TABLE 4

CAPITAL BUDGET IMPACT ON OPERATING BUDGET ($000's)		1.5% Levy Increase		
	2010 APPROVED	2011 PROPOSED	CHANGE $	%
Debt Charges	49,538	51,829	2,291	4.6%
Transfer from Operating	30,898	38,357	7,459	24.1%
Total Impact	80,436	90,186	9,750	12.1%
Impact on Average Residential 1.5% ($42 increase per average assessed home)				

As per Table 4, in 2010, $80.4 million (11.9 % of the City's $673 million tax levy) was used for capital purposes. For 2011, staff are recommending a $90.2 million capital envelope consisting of $51.8 million in budgeted debt charges and a $38.4 million transfer from operating to capital (direct dollar funding). This is an increase of 12.1% ($9.75 million) over the previous year.

The following 2 pie charts illustrate the 2011 Capital funding sources and programs.





5.0 <u>2011 TAX CAPITAL BUDGET PRIORITIZATION PROCESS:</u>

Prior to 2002, the City of Hamilton used a corporate ranking system to prioritize Capital projects for the City's Capital Program. Shortcomings of this methodology included the following;

1. Incompatibility of ranking hard infrastructure projects (roads) against capital projects in program areas such as culture, recreation, housing, culture studies,…etc. The specific ranking methodology used was geared for the ranking of "public-works" projects.

2. Not conducive to long-term capital planning. Program areas did not know from one year to the next how many of their projects would be approved and therefore could not complete long-term work plans, proper staffing levels,…etc.

3. Program areas submitted annually many more projects than they could realistically complete in the hope that the more they submitted, the more there was a chance that some of them would be approved.

4. A staff committee approved the final ranking scores of projects which may not reflect a project's ranking within a specific program area. Program areas ranked their capital based on criteria specific to their needs which included input from various stakeholders associated with the public (i.e., the taxpayer). The corporate ranking system did not take this into account and therefore was deficient in recognizing these characteristics.

Starting with the 2002 City Capital Budget Process (refer FCS02017), Council approved a hybrid Capital Block Funding Prioritization methodology. This process sought to improve upon the short-comings referred to above for the major program areas while still providing funding for strategic capital projects subject to direct Council input.

The process for the 2011 Capital Budget was as follows:

a) 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 2010 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.

6.0 2011 TAX CAPITAL BUDGET FUNDING OPTIONS:

The following Table 5 summarizes the 4 staff recommended Capital Budget Options by program area and compares it to the previous year's capital program. Staff are recommending the 1.5% Option. Table 5 starts with a 0% option and shows a base funding amount for all the program areas. The other options consist of increase increments of ½% of the total levy which equals $3.25 million. Therefore, should Council choose the 0.5% Option, the additional $3.25 million would be allocated to the local roads program. The 1.0% option allocates the additional $3.25 million to Strategic Priority programs and the 1.5% option allocates an additional $2.5 million to local roads and $750k to Strategic programs (total of $3.25 million).

TABLE 5

CITY OF HAMILTON
2011 PROPOSED TAX SUPPORTED CAPITAL BUDGET FUNDING OPTIONS
($ 000's)

	2010		0.0% Reallocated SWMMP		0.5% Local Roads	1.0% Strategic Priorities	1.5% Local Roads/ Strategic
	GROSS $	NET $	GROSS $	NET $	NET $	NET $	NET $
Proposed Block Funding							
Recreation	2,000	2,000	9,280	9,000			
Culture	1,931	1,593	3,500	3,186			
Public Art Program	250	250	250	250			
Downtown Renewal\Waterfront	3,000	3,000	2,000	2,000			
Downtown Renewal - Suburban Downtown	250	250	250	250			
Fleet and Facilities – Corporate Buildings	6,558	6,000	5,717	5,000			
Forestry Maintenance Includes Tree Plantir	1,500	1,500	1,500	1,500			
Open Space Development	9,508	5,770	5,841	2,075			
Housing	500	500	500	500			
Parks & Cemeteries	1,251	1,200	1,270	1,270			
Public Health	250	250	250	250			
Community Services - Other Divisions	250	250	300	300			
Roads	75,040	40,000	68,879	40,000			
Local Roads			**2,750**	**2,750**	**3,250**		**2,500**
Total Block Funding	**102,288**	**62,563**	**102,287**	**68,331**			
Special Levies & Boards							
HECFI Renovations & Replacements	1,350	0	1,300	0			
Hamilton Public Library	1,940	250	0	0			
Hamilton Waterfront Trust	0	0	1,900	0			
Conservation Authorities	2,005	2,005	2,000	2,000			
Other Major Projects							
Council Strategic Initiatives	5,000	5,000	0	0		**2,000**	**750**
Brownfield Development Opportunities	0	0	0	0		**750**	
Economic Development Initiatives	2,500	2,500	1,500	1,500		**500**	
West Harbourfront Redevelopment Initiative	2,000	2,000	0	0			
Lister Rehabilitation Project	0	0	29,800	22,100			
Transit Services	14,862	0	17,723	3,700			
Pan Am Games	5,573	0	10,569	0			
Hamilton Emergency Services	13,604	7,889	9,453	8,117			
Planning & Development	4,260	642	6,636	661			
Waste Management	4,158	3,392	3,185	3,175			
Information Technology	3,500	880	2,040	1,890			
Industrial Land & Airport Development	5,650	0	3,350	3,350			
City Hall Renovations	15,400	15,400	0	0			
ISF\RINc Projects	88,685	16,611	0	0			
Other Recommended Projects	15,288	5,479	10,623	356			
Total Capital	**288,063**	**124,611**	**202,366**	**115,180**	**3,250**	**3,250**	**3,250**

7.0 2012 – 2020 TAX CAPITAL FORECAST HIGHLIGHTS:

1. Over the last 2-years, the senior levels of government have significantly increased infrastructure subsidies to municipalities and subsequently the City has been able to address a portion of past infrastructure deficits. Through the ISF and RInC/REC approved projects the City has invested approximately $68.2 million to leverage $136.4 million in 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. Capital Funding has decreased from $288 million in 2010 to a proposed $212 million in 2011 and $180m in 2012. Many of the City's Capital program areas will 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 ($100m plus ??)
   - Additional Pan-Am related costs (velodrome, stadium, existing land purchases)
   - 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)

3. 10-year Budgeted Debt Level Forecast Peak (2011 - $429 million) is an 6.2% increase from last years forecast debt peak (refer Table 11).

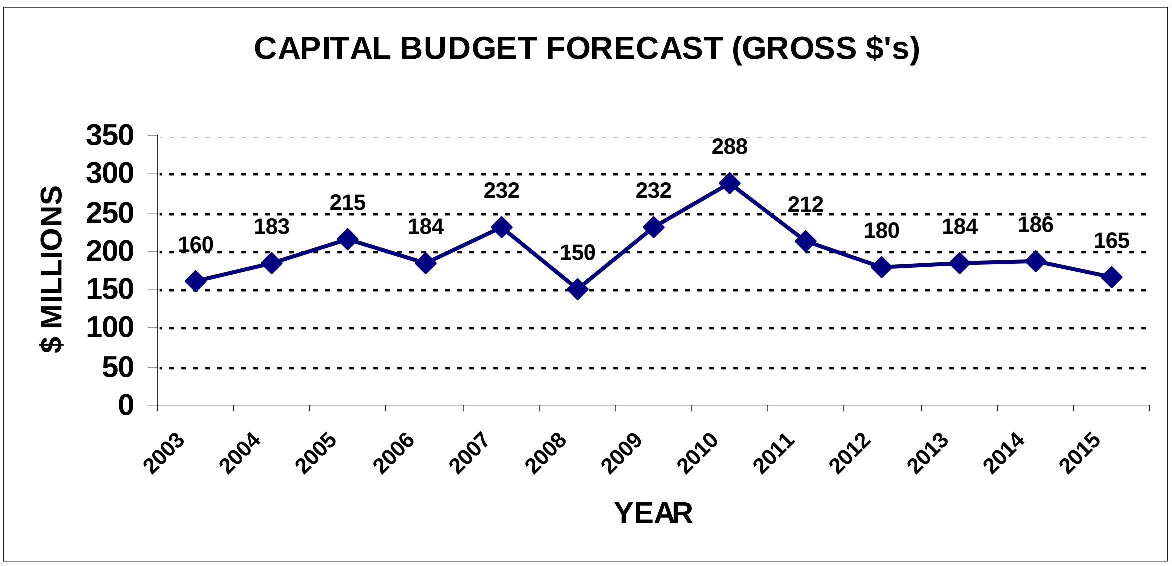
4. In order to provide sustainable funding to support Capital programs, Federal and Provincial partners will be required to continue to provide additional infrastructure funding to municipalities, recognizing that many of the assets held by municipalities are a legacy of previous Federal and/or Provincial funding commitments. In addition, the City will be required to increase own source funding through future Capital levy increases through the Tax-Supported Budget process. Staff's recommended 10-year financial sustainability strategy for capital incorporates a commitment to the first 3 years of annual levy increases of 1.5% and then 7 years of annual Levy increases of 1% (refer Table 9). This type of strategy would provide flexibility with regards to current and future capital requirements. It would allow for $440 million more in capital projects over a 10-year period versus a 0% increase in the capital levy.

5. Operating Costs. The operating impact of capital projects are identified on the "2010 – 2019 Capital Budget Project List" and on the "Capital Budget Project Detail Sheets." Over the last 9 years, these operating costs have not been incorporated into the City's budget except for large significant capital projects.

6. Staff recommend incorporating the operating impact of capital projects in the 2011 operating budget. In 2010, the operating impact of Capital for inclusion into the 2011 operating budget was $582,000. The operating impact of the 2011 Capital Budget on 2012 is $1.3 million (and 8 FTE's).

8.0 2011 – 2020 TAX SUPPORTED CAPITAL FORECAST:

The following 12-year Capital Budget graph and corresponding forecast Tables are based on staff's recommended 3-year 1.5% Capital Levy Increase Option ($9.75m) and 1% ($6.5m) for subsequent years. This 10-year plan would add $440 million more in capital over a 10-year period compared to a 0% increase for 10 years. This represents an increase of $44m more capital projects each year.



The City's declining capital affordability is due to;

a) Decreased Capital Funding capacity due to major capital project debt commitments (refer Table 9).
b) Aging Infrastructure.
c) A reduced amount of property tax revenue (proportionate) dedicated to capital.
d) Inflationary pressures of capital expenditures.

a) Decreased Capital Funding capacity due to major capital project debt commitments (refer Table 6). Past expenditures on the major projects listed below make up a significant portion of the $51.8 million debt charge component of the Capital Levy (approximately $16.5 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 Capital Levy.

TABLE 6

MAJOR PROJECTS
($ Millions)

	2010 & Prior	2011	2012	2013	2014	2015	Total
Red Hill Valley Project	439.0						439.0
City Hall	73.9						73.9
Waste Management	127.3	5.7	11.6	23.3	16.2	14.6	198.7
Lister Block	-	29.8					29.8
Total	640.2	35.5	11.6	23.3	16.2	14.6	741.4
Debt Charges on above projects (decline starts 2017 - Red Hill $2m)		16.5	18.0	18.2	18.2	18.1	89.0

b) Aging Infrastructure. Municipalities, particularly older ones like Hamilton, are experiencing significant annual infrastructure deficits (refer Table 7, $195 million) as well as a significant accumulated backlog of repairs which staff estimate at $2 billion (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 1.5% total tax levy increases dedicated to the Capital Levy for the 1st 3 years and 1% for the next 7 years. Increasing the City's own source funding by $440 million (over a 10-year 0% increase) would be a significant factor in dealing with our infrastructure deterioration.

TABLE 7

2011 Infrastructure Funding Deficit (Annual)
($ 000's)

	2011 Required	2011 Funding	Infrastructure Deficit
Roads	138,000	52,650	85,350
Corp Facilities	27,000	5,700	21,300
Recreation	17,000	9,280	7,720
Culture	7,000	4,100	2,900
Parks / Open Space	10,000	7,200	2,800
Forestry	10,000	1,500	8,500
Waste Management	5,685	5,685	-
Fleet	8,000	6,260	1,740
Transit	17,700	17,700	-
Housing	45,000	7,500	37,500
Long - Term Care	2,000	767	1,233
Total	287,385	92,375	195,010

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) Inflationary pressures of capital expenditures relative to the inflationary capacity of property tax increases. The cost of asset rehabilitation and new construction has far outpaced the City's property tax increases as evidenced by Table 8.

TABLE 8

Inflationary Pressures on Capital Expenditures - (%)

	2003	2004	2005	2006	2007	2008	2009
Non-Residential Building Construction Price Index	3.69	6.62	5.3	6.76	6.74	8.58	-1.93
Property Tax Increase	3.6	5.9	3.2	2.3	3.4	3.8	1.7

9.0 2011 – 2020 TAX CAPITAL FORECAST ASSUMPTIONS:

1. Budgeted debt financing. For 2011 debt financed capital projects, it is assumed that debt repayments start July 1 (at 6.00% 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, we have incorporated $2 million in dividends from Hydro to fund the Capital Program in 2011 and $2 million in each subsequent year thereafter.

Table 9 on the following page provides a 6-year discretionary capital forecast for 2011 – 2016 summarized by program area and the amount of discretionary funding available. It does not include available funding which must be used for a specific purpose (dedicated reserves such as Development Charges, Fleet, etc). Discretionary funds may be directed by Council to whatever purpose it deems necessary. Table 9 assumes an annual 1.5% increase of the total tax levy ($9.75m) dedicated to Capital financing for 2011- 2013 and then a 1% increase ($6.5m) per annum, starting in 2014.

TABLE 9

Discretionary Tax Supported Net Capital Funding Forecast 2011 - 2020

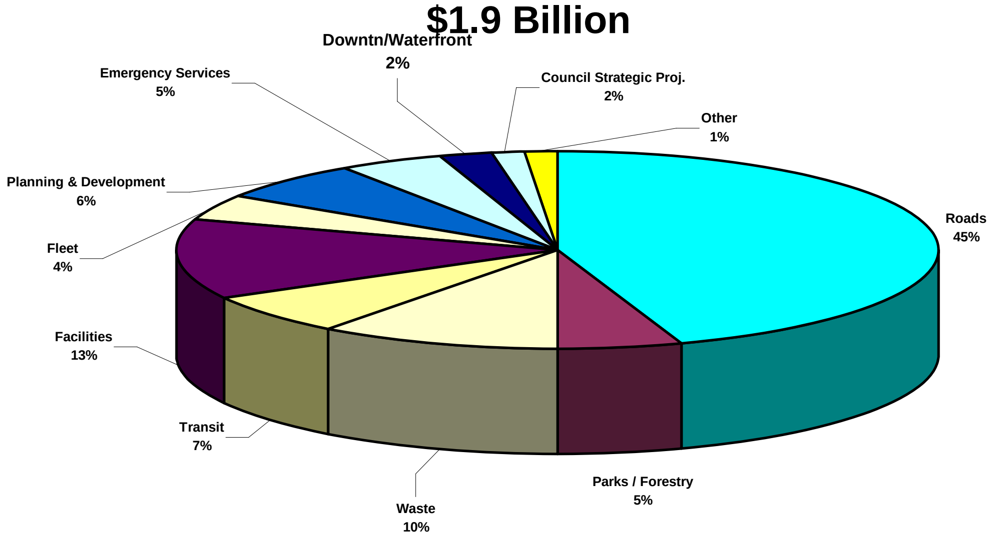
($000's) **1.5% ($9.750M) 2011 - 2013 1.0% ($6.5M 2014 - 2020)**

(Excludes City Hall, SWMMP, Lister, Corp. Trunk Radio)

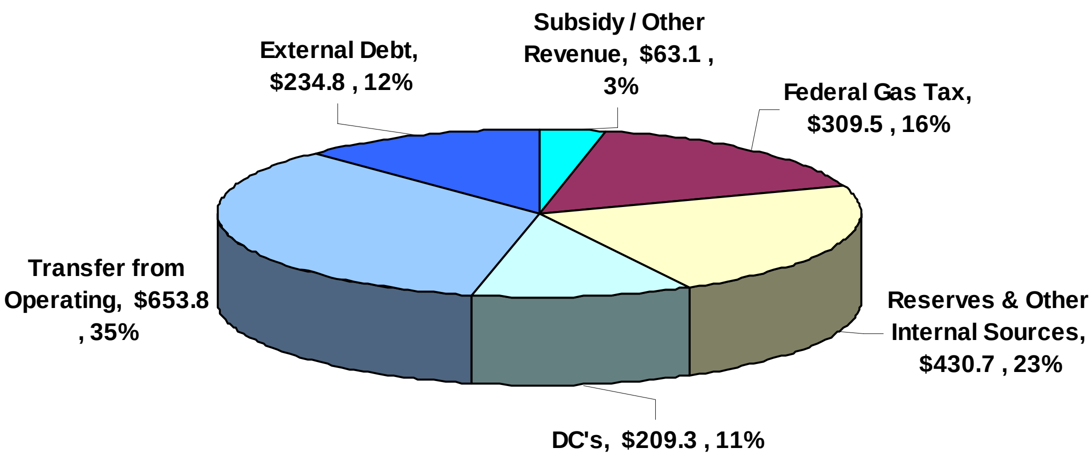
Sources of Funding (Net)	2010 Approved	2011 Proposed	2012 Proposed	2013 Proposed	2014 Proposed	2015 Proposed	2016 Proposed
Contribution from Operating	24,698	37,557	40,569	49,984	54,893	60,116	62,875
External Debt	16,640	6,000	8,000	7,000	6,000	5,000	-
Hydro Dividends ($2M)	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Federal Gas Tax - Roads	31,893	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	75,231	76,512	81,524	89,939	93,848	98,071	95,830
Previous Yrs. Budgeted Debt Interest Savings	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Annual Unallocated Cap Reserve Loan Repymnts	3,069	3,696	2,779	2,779	1,805	1,026	1,026
WIP Funding Interest	500	5,098	500	500	500	500	500
pre 2001 DC Reserves		3,000					
WIP adjustments	-	-	-	-	-	-	-
Total Funding (Net)	80,800	90,306	86,803	95,218	98,153	101,597	99,356
Expenditures (net)							
Roads	**40,000**	**48,500**	**46,500**	**49,750**	**49,750**	**49,750**	**49,750**
Corporate Facilities	**6,000**	**5,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Recreation Facilities	**2,000**	**9,000**	**9,000**	**9,320**	**9,410**	**9,490**	**9,500**
Cultural Facilities	**1,500**	**3,186**	**2,000**	**3,500**	**3,500**	**3,500**	**3,500**
Park Development (New/Expansion)	**6,000**	**2,075**	**4,000**	**4,000**	**5,000**	**5,000**	**5,000**
Hamilton Downtown	**3,000**	**2,000**	**2,450**	**2,540**	**3,000**	**3,000**	**3,000**
Suburban Downtowns (B.I.A.s)	250	250	250	250	250	250	250
Forestry	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Park's Operations	1,200	1,270	1,200	1,200	1,200	1,200	1,200
Housing	500	500	500	500	500	500	500
Community Services - Other	250	835	250	250	250	250	250
Public Health	250	572	250	250	250	250	250
Corporate Projects	100	327	100	100	100	100	100
Public Art	250	250	250	250	250	250	250
Block Funding Total	**62,800**	**75,265**	**74,250**	**79,410**	**80,960**	**81,040**	**81,050**
Major Capital Initiatives							
Fleet		370					
Housing rehab	-						
Social Services	333						
Public Health Bus							
Corporate Services	425						
Randle Reef	2,000						
DC exemptions	-	-	-	-	2,500	2,500	2,500
Lodges	500	767					
Fire / EMS	250	1,518	2,000	2,000	2,000	2,000	2,000
ITS	880	1,890					
Forestry / Parks - Other	1,215						
Central Library Improvements	250						
City Manager's Initiatives		475					
Airport		-					
Planning / Development	642	661					
Police - New Investigative Police Building		-					
Hamilton Conservation Authority	2,005	2,000	2,000	2,000	2,000	2,000	2,000
Downtown Market Relocation	-	890					
Waterfront Development	2,000	-					
Economic Development Initiatives	2,500	2,000	2,000	5,000	5,000	5,000	5,000
Brownfield Development		750					
Council Strategic Capital	5,000	2,750	3,000	3,000	3,000	3,000	3,000
Transit (FGT)		3,700	3,000	3,000	3,000	3,000	3,000
Total Expenditures (Net)	80,800	93,036	86,250	94,410	98,460	98,540	98,550

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.

2011 - 2020 Capital Forecast by Program $1.9 Billion



2011 - 2020 Capital Funding Forecast $1.9 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 $2.7 billion, the 2010 - 2019 capital forecast can only support $1.9 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 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 over a $408 million infrastructure funding shortfall for the 5-year period (2011 – 2015).

TABLE 10

2011 - 2015 CAPITAL FORECAST
PROJECTED GROSS CAPITAL & FUNDING SOURCES

SOURCES OF FINANCING	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**5 YEAR TOTAL**
SUBSIDY / OTHER REVENUE	93,193	18,217	5,129	5,098	5,093	5,093	38,630
RESERVES / OTHER INTERNAL	36,611	61,673	62,086	46,896	49,777	28,919	249,351
DEVELOPMENT CHARGES	41,272	23,090	21,984	21,610	22,567	20,000	109,251
HAMILTON FUTURE FUND	3,392	5,675	3,055		-	-	8,730
FEDERAL GAS TAX	31,893	30,955	30,955	30,955	30,955	30,955	154,775
TRANSFER FROM OPERATING	30,898	37,557	40,569	49,984	54,893	60,116	243,119
EXTERNAL DEBT	50,804	34,949	16,511	29,239	22,225	19,595	122,519
TOTAL CAPITAL FINANCING AVAILABLE	288,063	212,116	180,289	183,782	185,510	164,678	926,375
TOTAL CAPITAL SUBMITTED	314,854	241,922	293,507	278,452	264,586	256,126	1,334,593
UNAFFORDABLE	(26,791)	(29,806)	(113,218)	(94,670)	(79,076)	(91,448)	(408,218)

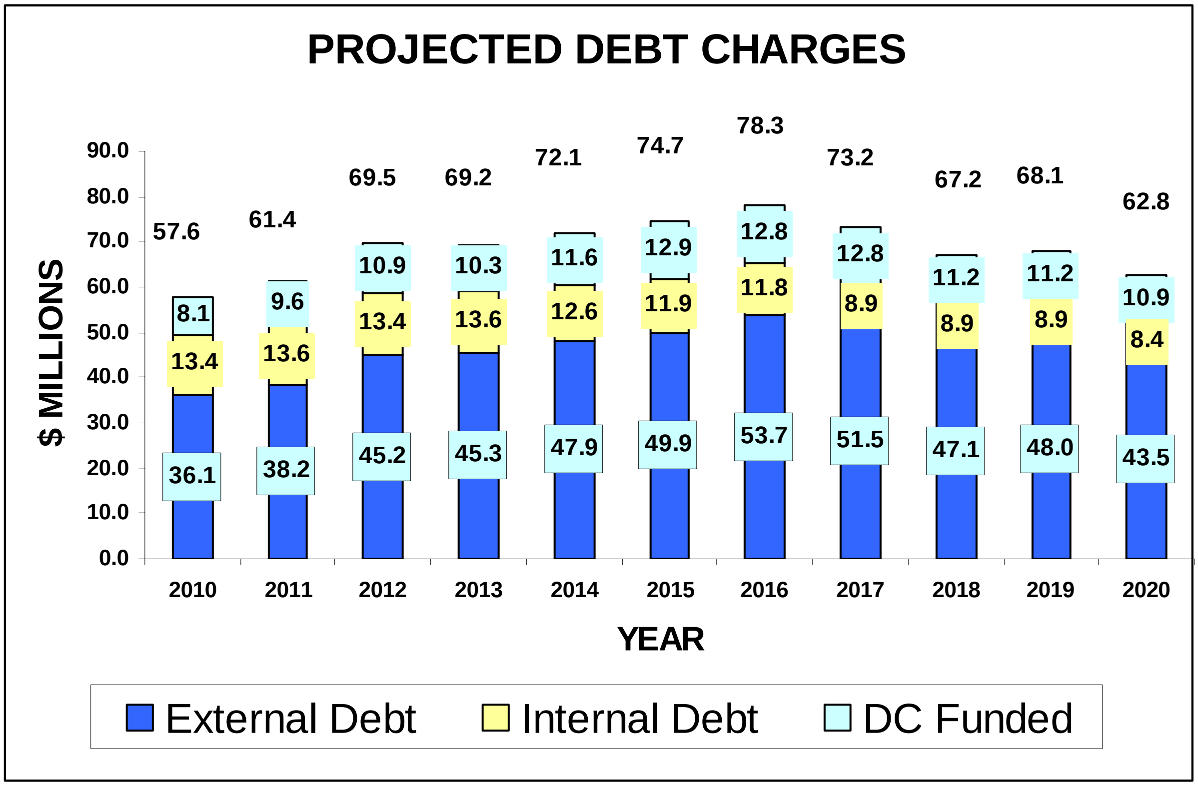
10.0 TAX-SUPPORTED DEBT AND DEBT FORECAST:

In the proposed 2011-2020 ten-year financing plan, tax-supported budgeted external - debt levels peak in 2011 at $429 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.

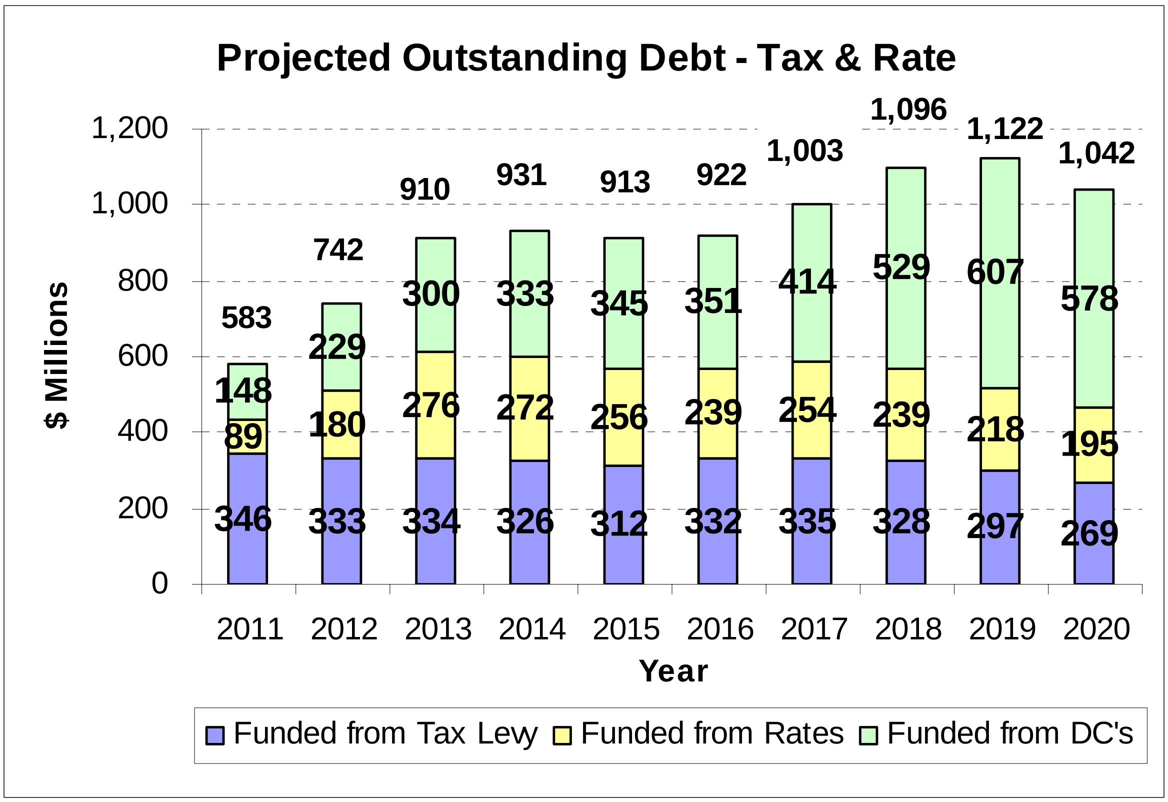
TABLE 11

TAX SUPPORTED EXTERNAL DEBT FORECAST
($ Millions)

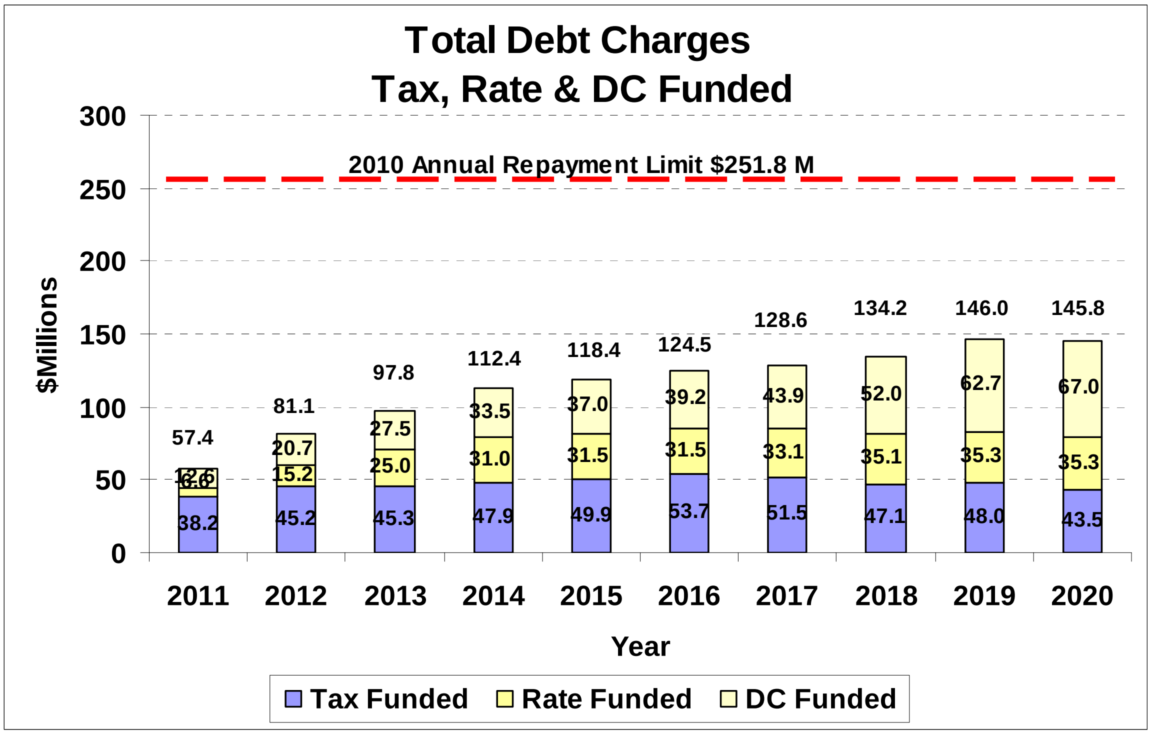
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011 - 2020 FINANCING PLAN											
TAX SUPPORTED	236	346	333	334	326	312	332	335	328	297	269
FUNDED FROM DC's	64	83	77	71	88	81	72	64	56	49	42
TOTAL BUDGETED DEBT	300	429	410	405	414	393	404	399	384	346	311
PROJECTED ACTUAL	300	360	350	350	350	340	330	330	330	320	311
2010 - 2019 FINANCING PLAN											
TAX SUPPORTED	336	338	342	329	315	299	315	315	306	274	
FUNDED FROM DC's	64	59	54	49	44	39	33	28	23	19	
TOTAL BUDGETED DEBT	400	397	396	378	359	338	348	343	329	293	



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 ($550m), 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.



The following graph compares the total forecast City debt charges for the10-year Capital Plan (rate and tax-supported) against the Province's 2010 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.



11.0 TRANSIT CAPITAL PROGRAM:

Table 12 provides a 5 year forecast of the City's Transit Service capital program. For 2011, the projected balance as at December 31 is $18 million. As some of the existing Transit subsidies expire / expended, the forecast balance for the remaining 4 years remains constant at $11 million. The Transit 5 year capital plan is mostly funded from transit reserves and subsidy. The transit vehicle reserve currently has a $3.7 million annual provision built into the City's operating budget.

TABLE 12

Transit Capital Forecast
($000's)

	2011	2012	2013	2014	2015
HSR Bus Replacement	8,261	8,385	8,511	8,638	8,768
ATS Vehicle Replacement	-	1,939	1,977	2,017	2,057
Expansion Buses re HSR Operational Review	2,000				
Expansion Buses re ATS Eligibility & Registration	400				
Fund Transit Reserve - Re Cancellation of OBRP	3,700				
Non Revenue Vehicle Replacement	50	85	86	143	135
Trapeze Analysis and Optimization	100				
Customer Service Software Update	720				
ATS Mobile Data Terminals (MDT's)	1,210				
Bus Stop Landing Pads	145	73	73	73	73
AODA Initiative - Bus Stop Benches	50	50	50	50	50
Transit Hybrid Bus Battery Replacement	127	164	203	209	215
ATS Marketing & Satisfaction Survey	200	-	-	-	
Fare Cards - System Enhancement	400	-	-	-	
Replace Transit Fleet Bus Hoists	360	360	360	360	360
Total	17,723	11,056	11,260	11,490	11,658

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 the Tax Capital Budget for 2011 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 in order to sustain the City's Bus Replacement Program at the current 12-year cycle.

TABLE 13

Transit Subsidy Revenue Forecast ($000's)	2008	2009	2010	2011	2012	2013
Ontario Transit Capital Grant	7,523	-	-	-	-	
Metrolinx	29,991	-	-	-	-	
Provincial Gas Tax	11,187	11,035	10,698	10,532	10,532	10,532
Ontario Bus Replacement Program (OBRP) - HSR	2,344	2,500	2,802	-	-	-
Ontario Bus Replacement Program (OBRP) - ATS	470	727	704	-	-	-
Total	51,515	14,262	14,204	10,532	10,532	10,532

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 2014.

TABLE 14

Transit Reserves Forecast ($000's)	2009	2010	2011	2012	2013	2014
HSR Vehicle Replacement	9,444	11,313	9,332	7,087	4,600	1,939
ATS Vehicle Replacement	5,566	3,671	4,983	4,389	3,736	3,043
Provincial Gas Tax Reserve	20,222	12,221	10,012	9,349	8,276	6,773
Federal Public Transit Funds (Fed. Gas Tax)	6,038	1,120	1,012	973	933	891
Ontario Transit Capital	6,748	5,728	4,672	3,579	2,447	1,276
Rapid Transit (Metrolinx)	14,374	13,648	7,382	1,174	-	-
Transit Capital Reserve	2,661	1,731	1,082	613	126	-

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 is behind by 4197 units since 2005 (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

Average Single Detached Unit Equivalent Construction Versus Provincial Forecast

	2005-2008	2009	2010	2011	2012-2020
Staff Budget/Act	1,401	891	1,400	1,500	1,825
Places To Grow	2,500	2,500	2,500	2,500	2,500

TABLE 16

Average Square Footage Non-Residential Construction versus Provincial Forecast

	2001-2008	2009	2010	2011	2012-2031
Staff Budget/Act	1,796,000	1,401,890	2,000,000	1,500,000	2,112,500
Places To Grow	2,008,588	2,008,588	2,008,588	2,008,588	2,008,588

Tables 17 and 18 summarize the proposed Capital projects which will contribute towards assessment growth. As the 2011 Tax Capital Budget and Table 17 and 18 illustrate, staff will continue to prioritize and plan for growth.

TABLE 17

Assessment Growth Projects 2011 ($000's)		
DC funded projects	Gross	Net
PD11 (Governor's Road) Watermain Extension (W-05)	30	-
McNeilly - Barton to South Service	100	50
PD22 (Governor's Road) Watermain Extension (W-06)	80	-
Airport Employment Growth District - Phase 3 and 4 Class EA Studies	150	30
Parkside Dr - Hwy 6 to Main St Class EA	200	80
Airport Employment Growth District - Phase 3 and 4 Class EA Studies	200	-
Annual Intensification Infrastructure Upgrades - Wastewater	400	200
RR 56 - Binbrook Rd to 180m s/o Viking Dr	230	30
Binbrook Rd - Royal Winter Drive to RR 56	320	90
Binbrook Rd - Royal Winter Drive to RR 56	350	100
Green Mountain - First Rd W to Upper Centennial (SCU W-09)	760	460
Secondary Plan for Aerotropolis	350	-
Scenic Dr - 250 metres n/o San Pedro to Goulding	350	-
Arvin Ave - Jones to existing West end	370	20
Dartnall - Stone Church to Rymal	500	80
Carlisle Elevated Storage & Additional Well	500	-
Highland Rd - Winterberry to Upper Mount Albion	520	-
Arvin Ave - extending east to McNeilly	560	30
RR 56 - Binbrook Rd to 180m s/o Viking Dr	660	90
Binbrook Rd - Royal Winter Drive to RR 56	1,150	330
RR 56 - Southbrook to Binbrook Rd	1,000	140
Arvin Ave - Jones to existing West end	910	46
Hamilton International Airport Land Acquisitions	3,000	-
Watercourse 5 and 6	1,600	-
Highland - Upper Mount Albion to Pritchard	2,140	860
Green Mountain - First Rd W to Upper Centennial	1,840	100
Kenora - Barton to Bancroft & Bancroft - Nash to Kenora	3,600	-
City Share of Servicing Costs under Subdivision Agreements-Annual Program	4,000	-
Dartnall - Rymal to Twenty	4,400	220
Woodward Wastewater Treatment Plant Expansion	35,000	9,730
Sub-total DC funded	**65,270**	**12,686**

Table 19 illustrates the amount of growth capital budgeted for in 2011. 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 $3.4 million dedicated towards industrial park servicing funded from development charges.

TABLE 18

Assessment Growth Projects 2011 ($000's)		
Non-DC funded projects	Gross	Net
Lister Rehabilitation Project	29,800	22,100
Pan American/Para Pan American Games Planning	10,569	-
Burlington - Birch to Parkdale Ave & Industrial Dr	4,150	4,150
Upper James - Stone Church to Rymal	4,000	2,250
Council Initiated Strategic Projects	3,000	3,000
Rapid Transit Studies	2,520	-
Lincoln Alexander Parkway	2,500	2,500
Rapid Transit Project - Property Acquisitions for LRT	2,250	
Economic Development Initiatives	2,000	2,000
Glanbrook Landfill-Stage 3 Development	2,000	2,000
West Harbourfront Redevelopment Initiatives	2,000	2,000
Hamilton Waterfront Trusts Projects	1,900	-
Senior Centre - Waterdown	1,300	1,300
Mixed Use Commercial/Housing development in the Downtown Core	1,130	1,130
Brownfield Development Opportunities	1,000	1,000
Crockett Street - Upper Wentworth to Upper Sherman	1,000	1,000
Wellington/Victoria - Barton to Burlington & Birge / Sawyer	930	930
Wellington/Victoria - Barton to Burlington & Birge / Sawyer	700	700
Annual SWMMP - Planning & Approvals	550	550
Development or Purchase of Affordable Housing Units	500	500
Commercial Property Improvement Grant-Annual Program	400	400
Community Downtowns and Business Improvement Areas (B.I.A.s)-Annual	250	250
Digital Submission and Tracking Planning Applications	150	100
Nodes and Corridors Secondary Plans	125	90
Bayfront Industrial Secondary Plan/Redevelopment Strategy	84	-
Hamilton Downtown Office Tenancy Asistance Program (Downtown Block)	75	75
Residential Intensification Strategy	52	6
Sub-total non-DC funded	**74,935**	**48,031**

The total amount of budgeted development charge revenue required for the 2011 growth tax-supported Capital budget is $23 million and for the rate capital budget is approximately $39 million. Annual revenues from the Development Charge (DC) program for 2010 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 2011- 2020 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 exposure 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 (no negative balances). 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

2011 CAPITAL BUDGET GROWTH CAPITAL		DC Funding ($000s)
Industrial		
tax	**Airport Employment Growth District - Phase 3 and**	120
tax	**Hamilton International Airport Land Acquisitions**	1,000
tax	**Secondary Plan for Aerotropolis**	350
tax	**Arvin Ave - Jones to existing West end**	864
tax	**Arvin Ave - extending east to McNeilly**	530
rate	**Airport Employment Growth District - Phase 3 and**	200
rate	**Arvin Ave - Jones to existing West end**	350
	Total Industrial Projects	**3,414**
Non-industrial		
rate	**Water**	5,800
rate	**Wastewater**	10,646
rate	**Stormwater**	13,460
tax	**Roads**	11,765
tax	**Community Services**	45
tax	**Planning-Development**	5,122
tax	**Parks Development**	1,134
tax	**Hamilton Emergency Services**	-
tax	**Transit**	2,160
	Total Non-industrial Projects	**50,132**
	TOTAL TAX BUDGET	**23,090**
	TOTAL RATE BUDGET	**30,456**
	TOTAL ALL	**53,546**

13.0 DEVELOPMENT CHARGE RESERVES:

The over-all Development Charge Reserves balance increased from $30 million to $46 million as illustrated in Table 20. This increase in mainly due to the Rate supported DC Reserves increasing due to collections for large growth infrastructure (wastewater plant expansion and large linear projects) which have in large part not incurred to date. Once these projects reach construction mode the funds will be dispersed. The objective in managing DC reserves is to balance the timing of the revenues with growth expenditures so that the City does not have to fund growth costs with property tax revenues.

TABLE 20

2010 DC Reserve Forecast (Jan.01 - Dec.31)	Opening Balance ($000s)	Collections ($000s)	Payments ($000s)	Ending Balance ($000s)
Water	22,464	5,500	(5,000)	22,964
Wastewater Plant	17,855	7,872	(800)	24,927
Wasterwater Linear	2,022	6,000	(5,000)	3,022
Stormwater	(2,282)	4,500	1,000	3,218
Roads	(769)	8,188	(7,000)	419
Community Services	(391)	2,781	(4,677)	(2,287)
Planning-Development	(5,102)	280	2,570	(2,252)
Parks Development	(2,760)	942	(980)	(2,798)
Hamilton Emergency Services	(2,654)	653	(1,000)	(3,001)
Transit	2,049	355	(360)	2,044
Total	**30,432**	**37,071**	**(21,247)**	**46,256**

14.0 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 $553 million projected as at December 31, 2010. Table 21 illustrates the City's reserve history for the period 2006 – 2010 and specific reserve projections which fund the tax capital program for the next 5 years.

TABLE 21

THE CITY OF HAMILTON
RESERVE FORECAST 2006 - 2014 ($ 000's) (Dec.31)

	Actual Balances December 31				Projected Balances December 31				
YEAR	2006	2007	2008	2009	2010	2011	2012	2013	2014
CAPITAL RESERVES									
DEVELOPMENT CHARGES	18,348	9,333	36,480	34,849	38,745	46,000	45,000	45,000	45,000
EQUIPMENT REPLACEMENT	4,893	4,179	6,010	4,061	2,762	4,745	5,530	6,360	6,015
VEHICLE REPLACEMENT	14,378	12,074	21,076	28,167	20,898	18,571	7,859	1,903	(6,231)
CAPITAL RESERVES - TAX	25,571	29,586	79,277	54,896	20,220	9,901	1,096	10,652	10,220
HECFI	1,022	825	1,035	502	502	627	297	665	439
GAS TAX RESERVES	14,806	15,048	18,734	21,395	12,289	10,128	10,027	9,737	9,249
PARKLAND RESERVES	5,030	5,942	8,187	6,651	9,391	7,519	7,663	7,812	7,967
TOTAL CAPITAL RESERVES	84,048	76,987	170,799	150,521	104,807	97,491	77,472	82,129	72,659
NON-CAPITAL RESERVES									
RATE CAPITAL RESERVES	59,709	72,049	79,672	75,989	61,580	20,208	21,408	17,957	18,189
PROVINCIAL FUNDS - WTP UPGRADES	0	0	0	0	101,500	84,434	74,711	68,768	66,116
TAX STABILIZATION	12,509	9,808	9,398	10,974	7,603	6,247	5,814	5,662	5,832
WORKING FUND RESERVES	13,626	8,642	18,031	28,443	32,462	24,561	26,346	28,108	28,178
EMPLOYEE BENEFIT / ANCILLARY	64,882	63,729	65,181	70,581	72,616	73,646	73,696	73,994	74,270
PROGRAM SPECIFIC RESERVES	99,426	116,861	155,957	135,589	110,394	98,362	95,672	97,414	101,099
OTHER	7,187	7,689	6,028	5,109	6,500	6,500	6,500	6,500	6,500
TOTAL NON-CAPITAL RESERVES	257,339	278,778	334,267	326,685	392,655	313,958	304,147	298,403	300,184
TOTAL RESERVES BEFORE FUTURE FU	341,387	355,765	505,066	477,206	497,462	411,449	381,619	380,532	372,843
FUTURE FUND RESERVES									
HAMILTON FUTURE FUND A	68,667	62,971	62,891	64,616	49,439	45,138	29,719	21,873	21,624
HAMILTON FUTURE FUND B	13,715	12,042	12,037	8,809	6,065	3,225	1,906	1,973	2,042
TOTAL NON-CAPITAL RESERVES	82,382	75,013	74,928	73,425	55,504	48,363	31,625	23,846	23,666
TOTAL ALL RESERVES	423,769	430,778	579,994	550,631	552,966	459,812	413,244	404,378	396,509

This 2010 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 remained relatively stable over the last 5 years (from $84 million to $104 million) if you exclude one-time capital subsidies received from the senior levels of government for the refurbishment of existing capital.

2. The total reserve and reserve funds position for the City of Hamilton has increased from $424 million in 2006 to a forecast $552 million for 2010.

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:

- 2011 = $85 million or 40 % 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.

15.0 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.

TABLE 22

HAMILTON FUTURE FUND A

($ 000's)		Actual Pre 2009	Actual 2009	Projected 2010	2011	2012	2013	2014	2015
Initial Investment		100,000							
Revenues									
Investment Income @	3.5%	27,633	3,621	1,854	1,486	1,138	733	594	757
Loan Repayment (P&I)		11,702	5,656	6,269	8,174	8,687	8,961	8,961	8,962
Expenditures									
Transfer to Operating		(13,845)	-	-	-	-	-	-	-
Loans to Fund Capital		(62,599)	(7,552)	(17,727)	(3,392)	(5,675)	(3,055)		
Pan Am Games		-		(5,573)	(10,569)	(19,569)	(14,485)	(9,804)	
Balance - End of Year		62,891	64,616	49,439	45,138	29,719	21,873	21,624	31,343

In 2011 it is expected approximately $13.9 million will be borrowed from Fund A to fund capital. It is projected the fund balance will be $45.1 million in 2011, and then decrease in 2012 and beyond as the commitment for Pan Am games funding is expended.

16.0 CONCLUSION:

This report has 4 Tax-Supported 2011 Capital Budget funding Options. They are a 0% total Tax Levy increase to be dedicated to the Capital Levy, a 0.5% increase, 1% increase and a 1.5% increase. City staff recommends an annual 1.5% total Tax Levy increase dedicated to Capital for 2011. Staff are recommending this option for the following reasons;

a) The City has a $2 billion infrastructure deficit backlog through all program areas and a projected 2011 annual infrastructure deficit of $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.
b) The City in its 10-year Strategic Tax-Supported Capital Plan has potentially major capital commitments in the form of Light Rail Transit, Pan Am games, Park developments and other significant infrastructure investments, particularly in the Downtown core.
c) In order to finance some or all of (b) and still maintain its existing asset inventory, the City must dramatically increase its own source funding. This means that the Capital levy must increase faster than the operating levy to address past Capital Levy under-funding.

Whichever option Council picks, staff included in the base (0%) 2011 Capital Budget, elements common to all options. They are;

1) Keeps roads funding at the previous 3-year historical block-funding level of $43 million with a renewed emphasis on the rehabilitation of local roads.
2) Restores the Recreation Block funding from the previous years reduced level.
3) New investment in strategic capital areas such as Cultural facilities. Information Technology, City Manager’s Initiative and others.
4) Proposed strategic investments in projects such as Lister Building rehabilitation, Pan-Am Games and others.

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. The City must increase its own source funding. Staff recommend that Council commit to a 2011 Tax Capital Budget increase of 1.5%. Staff also provide for Councils consideration a 10-year Capital Plan which would add $440 million more in Capital Projects. If the City cannot significantly increase the amount of funds for its Capital program, the Capital program will primarily consist of emergency repairs to its existing assets.