

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

Report to: Mayor and Members Committee of the Whole	Submitted by: Roberto Rossini General Manager Finance and Corporate Services
Date: September 8, 2009	Prepared by: John Savoia, ext. 7298 Charlie Elliott ext. 2162

**SUBJECT: Infrastructure Stimulus Project Financing Strategy
(FCS09052(c)) (City Wide)**

RECOMMENDATION:

- (a) That \$38.8 million in previously approved Water / Wastewater / Storm capital projects be closed and the related funding be realigned during the 2010 Rate Budget process to fund the Water/Wastewater/Storm ISF projects;
- (b) That \$8.333 million in Development Charges be used to fund the Emergency Services Training Facility;
- (c) That \$400,000 for the Energy Retrofit – Lister District Energy project be funded from the price adjustment mechanism in the Agreement of Purchase and Sale;
- (d) That the Financing Strategy for the tax supported Infrastructure Stimulus Projects, identified as Option 2 (i.e. \$16.5 million in debt financing funded through 0.3% tax increase) in report FCS09052(c), be approved; and
- (e) That further capital levy increases be considered during the 2010 Capital Budget process.

Roberto Rossini
General Manager,
Finance and Corporate Services

EXECUTIVE SUMMARY:

On June 5, 2009, the Federal and Provincial governments announced grant allocations under the Infrastructure Stimulus Fund (ISF). The Federal \$4-billion Infrastructure Stimulus Fund provides funding to construction-ready infrastructure projects that will be built by March 31, 2011. The \$4 billion is notionally allocated, on a per capita basis, for projects in each province and territory. Based on 2005 Census data, Ontario's share of the \$4 billion would be approximately \$1.5 billion. The Infrastructure Canada news release of June 5, 2009, identifies federal and provincial matching contributions of approximately \$927 million each.

The City of Hamilton received approval for approximately \$122.8 million in federal and provincial funding for 14 ISF Hamilton projects. The total gross cost of the capital projects approved for the City is \$184.1 million. The City, along with the Federal and Provincial Governments will each be contributing \$61.4 million. Approximately \$116 million of the City's approved projects relate to the water, wastewater and storm supported budget and the balance (\$68 million) relates to the tax supported budget.

Table 1 of report FCS09052(c) provides the list of approved ISF projects for Hamilton, as well as, the funding allocation by funding partner:

TABLE 1

City of Hamilton Approved Infrastructure Stimulus Fund Projects

ISF Project #	Project Title	Approved ISF Funding			
		Federal	Provincial	Municipal	Total
1212	Woodward Water Treatment Plant Upgrades	14,000,000	14,000,000	14,000,000	42,000,000
660	Biogas/Digester (Energy Recovery)	10,000,000	10,000,000	10,000,000	30,000,000
672	Ferguson Pumping Station Upgrades	6,666,667	6,666,667	6,666,666	20,000,000
714	Hillcrest Water Reservoir Upgrades	2,866,667	2,866,667	2,866,666	8,600,000
687	Kenilworth Water Reservoir and Pumping Station Upgrades	2,266,667	2,266,667	2,266,666	6,800,000
700	Stone Church Water Reservoir and Pumping Station Upgrades	1,500,000	1,500,000	1,500,000	4,500,000
968	Energy Retrofit - 700 Woodward Ave	1,500,000	1,500,000	1,500,000	4,500,000
Sub-total Water, Wastewater & Storm Projects		38,800,001	38,800,001	38,799,998	116,400,000
1728	Emergency Services Training Facility /Emergency Operations Centre	8,333,333	8,333,333	8,333,334	25,000,000
2344	Westmount Recreation Centre	7,000,000	7,000,000	7,000,000	21,000,000
2296	Lower Stoney Creek Recreation Centre - Phase One	4,333,333	4,333,333	4,333,334	13,000,000
2380	Coronation Arena Redevelopment	1,000,000	1,000,000	1,000,000	3,000,000
2400	Sir Allan MacNab Rehabilitation Project	1,000,000	1,000,000	1,000,000	3,000,000
2411	Sir Wilfrid Laurier Rehabilitation	500,000	500,000	500,000	1,500,000
898	Energy Retrofit - Lister District Energy Expansion	400,000	400,000	400,000	1,200,000
Sub-total Tax Projects		22,566,666	22,566,666	22,566,668	67,700,000
Total Infrastructure Stimulus Fund Projects		61,366,667	61,366,667	61,366,666	184,100,000

On July 2, 2009, the Federal and Provincial governments announced grant allocations under the new Recreational Infrastructure Canada (RInC) Program in Ontario and Ontario Recreation Programs (REC). Projects were selected on the basis of merit and construction readiness.

RInC and REC funding announcements committed approximately \$6.8 million to 6 City of Hamilton projects. The total gross cost of the capital projects approved for the City of Hamilton is \$10.25 million. The City, along with the Federal and Provincial Governments will each be contributing approximately \$3.42 million.

Table 2 of report FCS09052(c) provides the list of approved RInC/REC projects for Hamilton, as well as, the funding allocation by funding partner:

TABLE 2

City of Hamilton Approved RInC/REC Projects

RInC/REC Project #	Project Title	Approved RInC/REC Funding			
		Federal	Provincial	Municipal	Total
3	Turner Park Ball Sports Field Lighting and Washroom Facility	550,000	550,000	550,000	1,650,000
9	Chedoke Arena Twin Pad Rehabilitation	550,000	550,000	550,000	1,650,000
13	Carlisle Arena Rehabilitation	550,000	550,000	550,000	1,650,000
16	Inch Park Arena Rehabilitation	550,000	550,000	550,000	1,650,000
18	Rosedale Arena Rehabilitation	550,000	550,000	550,000	1,650,000
19	Inch Park Outdoor Pool Rehabilitation	666,667	666,667	666,666	2,000,000
Total RInC/REC Projects (Tax)		3,416,667	3,416,667	3,416,666	10,250,000

Staff has reviewed the ISF and RInC/REC approved projects to identify where applicable, what funding had been identified in the 2009-2018 Capital Budget and what financing is currently available in order to recommend a financing strategy for the City's combined \$64.8 million contribution related to all above approved stimulus projects.

Staff were directed to report back to the Committee of the Whole with respect to a financing strategy for the City's required one-third contribution for ISF and RInC/REC funded projects. Report FCS09052(c) requests Council's approval of the proposed financing strategy for the approved projects referred to as Option 2 in the Analysis/Rational section of this report.

BACKGROUND:

The 2009 Federal Budget established a new \$4-billion Infrastructure Stimulus Fund (ISF) that provides funding towards the rehabilitation or construction of provincial, territorial, municipal and community infrastructure projects. Additionally, the budget provided \$500 million over two years for RInC support upgrading and renewal of recreational facilities in communities across Canada. Ontario's 2009 provincial budget provided \$32.5 billion in infrastructure investments over the next two years, including \$195 million for recreation

infrastructure projects. Projects under both programs were selected on the basis of merit and construction readiness.

On June 5, 2009, the Federal and Provincial governments announced grant allocations under the Infrastructure Stimulus Fund (ISF). Close to 1,200 infrastructure projects in communities across Ontario will receive a total of \$1.85 billion in joint federal and provincial investments, of which approximately \$122.8 million will be directed to 14 Hamilton projects. The total gross cost of the capital projects approved for the City of Hamilton is \$184.1 million. The City, along with the Federal and Provincial Governments will each be contributing \$61.4 million. Approximately \$112 million of the City's approved projects relate to the rate supported budget and the balance (\$72 million) relates to the tax supported budget.

On July 2, 2009, the Federal and Provincial governments announced grant allocations under the new Recreational Infrastructure Canada (RInC) Program in Ontario and Ontario Recreation Programs (REC). RInC and REC funding announcements committed \$380 million towards 758 projects, fully subscribing the program just one month after it was launched. Of the total commitment approximately \$6.8 million will be directed to 6 City of Hamilton projects. The total gross cost of the capital projects approved for the City of Hamilton is \$10.25 million. The City, along with the Federal and Provincial Governments will each be contributing approximately \$3.42 million.

ANALYSIS/RATIONALE:

Financing Strategy

The proposed funding of the City's share of the ISF and RInC/REC projects (\$64.8 M) is summarized in Table 3 of report FCS09052(c) below. With respect to the **Recreation** projects, as indicated in Table 3, a funding source is required for the combined municipal tax based non water/wastewater/storm contribution of \$16.530 million under both the ISF and the RInC/REC programs.

The City's share of the **Water / Wastewater / Storm** projects totalling \$38.8 million will be funded from projects previously approved in prior years (WIPs) and the related funding be realigned to fund the ISF projects. The WIP funding transfers will be reflected in the 2010 Rate Capital budget and Capital Financing Plan.

The **Emergency Services Training Facility** project is identified in the 2009 Development Charges Background Study with \$8.540 million in costs related to growth. Therefore the City's share of \$8.333 million will be funded from DC's.

The **Energy Retrofit – Lister District Energy** project has a City cost component of \$400,000 that will be funded by the price adjustment mechanism in the Agreement of Purchase and Sale for the Lister Block, whereby, the purchase price will be adjusted to reflect the net cost differential of proceeding with the district energy system versus a stand-alone heating and cooling system.

Two (2) of the **ISF & RInC/REC Recreation** projects have budget amounts approved in the 2009 Capital Budget. (Sir Allan MacNab Rehabilitation \$320,000, Turner Park Lighting and Washrooms \$400,000) totalling \$720,000. The \$720,000 of prior approved WIP funding will be used to partially fund the City's \$17.250 million share of funding the recreation projects, leaving \$16.530 million to be funded, for which 4 funding options are provided in this report.

TABLE 3

Funding Sources for City's Share \$000's	Total Budget	City's Share	Funding Source
Water /Wastewater/Storm Projects	116,400	38,800	Water /Wastewater/Storm WIP's
Emergency Services Training Facility	25,000	8,333	Development Charges
Energy Retrofit - Lister District Energy	1,200	400	Lister Project
Recreation Projects - ISF & RInC/REC	51,750	720	WIPs
		16,530	Refer to funding options - Table 4
		17,250	
Total	194,350	64,783	

Staff has developed four (4) financing options for funding the \$16.530 million required to fund the recreation projects. Below are the assumptions used for each of the funding options.

- Option 1 -** 0%, \$0 Tax Levy increase and no additional debt, resulting in a decrease in Block funding for other capital programs i.e. Capital budget from previous 2010 forecasts would be reduced.
- Option 2 -** 0.3%, \$1.702 million Tax Levy increase, to fund debt costs on additional debt of \$16.530 million to fund the recreation projects as noted in Table 3 of report FCS09052(c)
- Option 3 -** 0.5% dedicated capital Tax Levy increase of \$2.9 million, used to fund debt costs on additional debt of \$28.165 million for ISF, RInC/REC and other strategic capital investments
- Option 4 -** 1% dedicated capital Tax Levy increase of \$5.8 million, used to fund debt costs on additional debt of \$56.330 million for ISF, RInC/REC and other strategic capital investments

Table 4 of report FCS09052(c) below summarizes the impact on capital funding available and the proposed capital program funding for the 4 options.

TABLE 4

2010 CAPITAL BUDGET FUNDING OPTIONS SUMMARY

2010 Capital Budget Implications	Approved 2009 Discretionary Capital Budget	Preliminary 2010 Discretionary Capital Forecast (Exclusive of ISF/RInC/REC)	OPTION 1 0% Levy Increase No Additional Debt	OPTION 2 0.3% Levy Increase New Debt = \$16.5m	OPTION 3 0.5% Levy Increase New Debt = \$28m	OPTION 4 1.0% Levy Increase New Debt = \$56m
Roads Funding	\$ 59,600,000	\$ 27,160,000	\$ 19,630,000	\$ 32,500,000	\$ 40,000,000	\$ 60,000,000
Recreation ISF/RInC/REC Total	\$ -	\$ -	\$ 51,750,000	\$ 51,750,000	\$ 51,750,000	\$ 51,750,000
Recreation Block	\$ 15,000,000	\$ 11,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Park Development	\$ 6,478,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 6,000,000	\$ 8,000,000
Council Strategic Capital	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
New Park Acquisition Reserve	\$ -	\$ -	\$ -	\$ -	\$ 5,000,000	\$ 10,000,000
Total	\$ 86,078,000	\$ 47,160,000	\$ 82,380,000	\$ 95,250,000	\$ 109,750,000	\$ 136,750,000
Increase Relative to 2010 Preliminary Forecast		\$ -	\$ 35,220,000	\$ 48,090,000	\$ 62,590,000	\$ 89,590,000

Note:

For purposes of this Table only, staff have deducted any significant funding changes from the Roads program since it represented more than 60% of 2009 Block Funding excluding Recreation.

As indicated in Table 4 of report FCS09052(c) Option 1 has no levy impact, the additional funding for the recreation projects would be accommodated by decreasing 2010 block funding for Recreation and Roads by \$9.0 million and \$7.5 million respectively from the Preliminary 2010 forecast prior to the ISF and RInC/REC funding announcements.

Option 2 (recommended) proposes a \$1.702 million (0.3%) levy increase to fund the debt costs on \$16.5 million debt to fund the ISF and RInC/REC recreation projects, therefore increasing the available funding over Option 1, enabling a \$12.9 million increase to Roads' 2010 block funding to \$32.5 million.

Option 3 proposes a \$2.9 million (0.5%) levy increase to be used to fund the debt costs on \$28 million debt. The \$28 million in debt financing would be used to fund the \$16.5 M for the subsidized recreation projects, as well as funding an increase to the Roads' 2010 block to \$40 million, an increase to bring the Park Development block to \$6 million and a \$5 million contribution to a New Park Acquisition Reserve which has been identified as a Council priority.

Option 4 proposes a \$5.8 million (1.0%) levy increase to be used to fund the debt costs on \$56 million debt. The \$56 million in debt financing would be used to fund the \$16.5 million for the subsidized recreation projects, as well as funding an increase to the Roads 2010 block to \$60 million, an increase bringing the Park Development block to \$8 million and a \$10 million contribution to a New Park Acquisition Reserve.

At this time, staff is recommending Option 2 as there is less impact on the levy compared to Options 3 and 4 while still maintaining a reasonable block funding level for Roads and

Park Development (\$32.5 million & \$4 million respectively). For comparative purposes, the average block funding for the past 3 years (2007–2009) for Roads and Park Development is \$45.7 million and \$4.7 million respectively. Further capital tax levy increases could be considered by Council during the 2010 budget process.

The announcement of the ISF and RInC/REC approved projects provides the opportunity for the City to invest approximately \$64.8 million to leverage \$129.6 million in funding from the senior levels of government. Additionally, the ISF and RInC/REC programs promote economic stimulus to the local economy and the creation of jobs.

All of the Federal and Provincial contributions to economic stimulus funding are being debt financed. Since many of the City's tax based ISF projects that were approved were not funded in the 10 year capital forecast, we will have to consider additional debt financing or constrain the remaining capital forecast. Since we have a significant infrastructure deficit, it is not reasonable or likely that Hamilton can or should reduce the roads capital budget forecast. Accordingly, Option 1 is not recommended. A minimum of \$16.5 million in additional debt financing is required. As a result, Option 2 with a 0.3% tax levy impact has the least impact and is being recommended at this time. Council could consider additional debt financing and a higher tax capital levy increase to support new projects / expanded programs during the 2010 Budget process.

ALTERNATIVES FOR CONSIDERATION:

Staff has provided four (4) funding options in the Executive Summary of this report FCS09052(c) for Council's consideration.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial - Options 1 as presented in the Analysis/Rationale section of this report FCS09052(c) has no impact on the Levy. Option 2 would increase the Capital Levy by \$1.7 million (0.3%) Option 3 would increase the Capital Levy by \$2.9 million (0.5%). Option 4 would increase the Capital Levy by \$5.8 million (1.0%).

Staffing – N/A.

Legal - N/A.

POLICIES AFFECTING PROPOSAL:

N/A.

RELEVANT CONSULTATION:

Community Services – Recreation Division
Public Works – Water and Wastewater Division

CITY STRATEGIC COMMITMENT:

By evaluating the “**Triple Bottom Line**”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. **Yes** **No**
Partnerships are promoted.

Environmental Well-Being is enhanced. **Yes** **No**

Economic Well-Being is enhanced. **Yes** **No**
Investment in Hamilton is enhanced and supported.

Does the option you are recommending create value across all three bottom lines?
 Yes **No**

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
 Yes **No**