

CITY OF HAMILTON

CORPORATE SERVICES
Financial Planning and Policy

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: February 15, 2012	
SUBJECT/REPORT NO: Area Rating Special Capital Re-Investment (FCS12024) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	PREPARED BY: Mike Zegarac (905) 546-2424 Ext. 2739
SIGNATURE:	

RECOMMENDATION

- (a) That the proposed Area Rating Special Capital Re-Investment Policy, as outlined in Appendix A to Report FCS12024, be approved;
- (b) That the annual Special Capital Re-Investment be allocated equally across the 8 Ward Special Capital Re-Investment Reserves (Wards 1-8);
- (c) That a capital project be created for, and funded by, each of the 8 Ward Special Capital Re-Investment Reserves, in the amount of \$100,000, to be used in the respective Ward to fund in-year infrastructure priorities;
- (d) That, subject to the approval of Recommendation (c) of Report FCS12024, that any unspent or uncommitted funding in the capital projects be closed at year-end and the unspent and uncommitted proceeds be transferred to the Ward Reserve;
- (e) That, subject to the approval of Recommendation (c) of Report FCS12024, the 8 capital projects be set-up annually in conjunction with the approved City of Hamilton Capital Budget.

EXECUTIVE SUMMARY

At the April 14, 2011, Council meeting, amendments to the area rating methodology, constituting an “Urban/Rural” model of area rating, were approved. Included in those amendments was the approval of a tax shift variance to be phased-in over the period 2011 to 2014 and re-invested into the former City of Hamilton to address its infrastructure deficit. At the completion of the area rating phase-in, the above-noted tax shift represents a Special Capital Re-Investment forecast at \$13.4 million or \$3.36 million per year, over 4 years. With respect to the allocation of the Special Capital Re-Investment across affected wards, Recommendation (b) of Report FCS12024 assumes the annual Special Capital Re-Investment will be distributed equally across each of the eight affected wards and phased-in accordingly:

Annual Allocation and Base Budget per Affect Ward	Special Capital Re-Investment	Special Capital Re-Investment Base Budget	Special Capital Re-Investment Allocation per Affected Ward	Special Capital Re-Investment Base Budget per Affected Ward
2011	\$3,357,220	\$3,357,220	\$417,000	\$419,650
2012	\$3,357,220	\$6,714,440	\$417,000	\$839,300
2013	\$3,357,220	\$10,071,650	\$417,000	\$1,258,950
2014	\$3,357,220	\$13,428,870	\$417,000	\$1,678,600
Annual Re-Investment (beyond 2014)	\$0	\$13,428,870	\$0	\$1,678,600

Numbers may not be exact due to rounding.

As the Area Rating Special Capital Re-Investment Policy was not developed prior to 2012, the 2011 Special Capital Re-Investment of \$3.36 million was not allocated and therefore was carried over to 2012. Consequently, the 2011 Special Capital Re-Investment will be available for allocation in 2012. When incorporating the carried over 2011 Special Capital Re-Investment of \$3.36 million with the 2012 Special Capital Re-Investment base budget of \$6.71 million, a total of \$10.07 million, or \$1.26 million per affected ward, will be available in 2012 for consideration.

For 2012, staff recommends that any projects being considered for funding through the Special Capital Re-Investment be directed through formal reporting to General Issues Committee for consideration and approval. Beyond 2012, staff recommends that projects being considered for funding through the Special Capital Re-Investment be directed to the annual Capital Budget process. The Capital Budget process lends itself to the availability of focused discussions, with affected ward councillors, of infrastructure priorities within the respective wards that meet the guidelines listed below, and which may be feasible in terms of service/program delivery within the relevant time period.

Both, the annual capital budget and the annual Special Capital Re-Investment, will be subject to Council approval.

Recommendation (c) of Report FCS12024 recommends that a capital project be created for, and funded by, each of the 8 Ward Special Capital Re-Investment Reserves, in the amount of \$100,000, to be used in the respective Ward to fund in-year infrastructure priorities. This recommendation will provide some financial capacity to affected Ward Councillors in funding in-year infrastructure and/or one-time funding requirements, with no associated operating impacts, that are not of the financial scale that would otherwise be considered through the capital budgeting process. Examples of such investments may include: historical plaques, small beautification projects and one-time maintenance initiatives, to name a few.

In consultation with Councillors affected by the Special Capital Re-Investment, a series of guidelines were developed in relation to the process and the nature of investments the Special Capital Re-Investment may be allocated against. These guidelines are listed below:

- Funding should be targeted at infrastructure and/or one-time funding of a principally capital nature to address the infrastructure deficit/shortfall within affected wards;
- Funding of a one-time nature may include funding that is committed in an effort to leverage similar funding from an outside organization or senior level of government;
- Funding expended through the Special Capital Re-Investment should not replace the regular Tax Supported Capital Budget, although consideration can be made to accelerate projects which may otherwise be deemed unaffordable within the 10-year forecast;
- Projects must be approved by Council and all potential operating and financial impacts should be identified;
- Beyond 2012, projects should be brought forward in conjunction with the annual capital budget process; and
- Funding may be banked for the purpose of providing funding in whole, or in part, towards a financially significant infrastructure/one-time investment.

With respect to the allocation of funding and the transfers of funding, Council approved through the 2010 Reserve Report and the 2010 Reserves Detail Report (Report FCS11068) the creation of 8 reserves, one for each of Wards 1 to 8, to be used to fund the infrastructure deficits in these Wards through the Special Capital Re-Investment.

To date, a total of three projects have been approved by Council for funding through the Special Capital Re-Investment. The following table summaries the 3 approved projects.

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Ward	Project Description	Approved Funding	Date of Motion	Date of Council Approval
1	Signal Kent and Aberdeen	\$80,000	PW – June 20/11	June 29/11
5	Slope Failure – Cherry Road	\$24,186	PW – Sept. 6/11	Sept. 14/11
8	Signal – 1045 Upper Paradise	\$80,000	PW – June 20/11	June 29/11

Alternatives for Consideration – See Page 6

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: At the April 14, 2011, Council meeting, amendments to the area rating methodology, constituting an “Urban/Rural” model of area rating, were approved. It should be noted that area rating does not result in more revenue to the City. It is simply a method of allocating the cost of specific services to the taxpayer. A change to the method of area rating simply re-distributes who ultimately is paying for the service.

Included in April 2011 amendments was the approval of a tax shift variance to be phased-in over the period 2011 to 2014 and re-invested into the former City of Hamilton to address its infrastructure deficit. The above-noted tax shift represents a special capital Re-Investment forecast at \$13.4 million or \$3.36 million per year, over 4 years.

Staffing: Any operating impacts associated with projects approved through the Special Capital Re-Investment, should be identified and approved by Council, through the completion of a Capital Detail Sheet (refer to Appendix B of report FCS12024).

Legal: N/A.

HISTORICAL BACKGROUND (Chronology of events)

Over the period November, 2009 to April 2011, staff presented a series of reports specific to “Area Rating Options” (FCS09087). In general, the area rating reports focused on an urban/rural model of area rating to align with the way municipal services are being provided. The area rating process included a Citizen’s Forum to review the staff report and make recommendations on area rating. In general, the Citizens’ Forum agreed with staff’s recommended urban/rural model of area rating, with the exception of Ancaster Sidewalk Snow Removal, Fire Services and the length of a phase-in plan.

At the April 14, 2011, Council meeting, amendments to the area rating methodology, constituting an “Urban/Rural” model of area rating, were approved, as follows:

- (a) That the following proposed amendments to the current method of area rating, constituting an “Urban/Rural” model of area rating, be approved:
 - i. Elimination of Culture from area rating;
 - ii. Area rating of Recreation based on urban/rural model;
 - iii. Continuation of Area Rating of Parkland purchases by former area municipality;
 - iv. Area rating of Fire services based on an urban/rural model to align to the Fire primary response area;
 - v. Continuation of area rating Sidewalk Snow Clearing within the transit area of Ward 12;
 - vi. Area rating of Sidewalks and Street Lighting based on an urban/rural model to align to the service area;

- (b) That the proposed urban/rural method of area rating, as identified in Recommendation (a), be phased-in over four years;

- (c) That changes to the area rating of Transit be deferred until completion of an approved implementation plan for Transit service improvements in response to the recently complete IBI Study;

- (d) That the tax shift variance be phased-in and re-invested into former City of Hamilton to address its infrastructure needs.

This report focuses on the process and principles for the final recommendation noted above, that is, the phased-in re-investment of the Special Capital Re-Investment (tax shift variance).

The history of area rating in Hamilton, a complete review of all services and a survey of all municipalities that use area rating are contained in the November, 2009 staff report (FCS09087).

POLICY IMPLICATIONS

In 2011, Council approved the revised Area Rating Policy which included the recommendation that the tax shift variance be phased-in and re-invested into former City of Hamilton to address its infrastructure needs. This policy (Special Capital Re-Investment) addresses the process and principles for the re-investment of the tax shift variance as per the revised Area Rating Policy.

Area rating is an annual decision, implemented through the annual tax levy by-law passed in April of each year.

RELEVANT CONSULTATION

Councillors Wards 1-8.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The 4 year total tax shifts as per the approved Urban/Rural model are:

Total Tax Shift	
Stoney Creek	\$4,879,755
Glanbrook	\$2,792,722
Ancaster	\$2057,442
Hamilton	(\$13,428,869)
Dundas	\$1,601,220
Flamborough	\$2,097,730

As per the approved area rating policy, the above tax shifts will be phased in over the 4-year period, 2011- 2014.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

An alternative to an equal allocation of the Special Capital Re-Investment across the affected wards is an allocation of the Special Capital Re-Investment based on the ward's respective share of the weighted taxable assessment. Under this alternative, the range in the annual Special Capital Re-Investment, when fully implemented after 4 years, would be \$1.42M to \$2.45M, when compared to \$1.68M, as per Page 2 of 6 of Report FCS12024, under the recommended equal allocation.

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Former City of Hamilton

	2011 Weighted Taxable Assessment		Share of \$13.4M	
Ward 1	3,529,680,554	10.6%	\$ 1,417,674	10.6%
Ward 2	3,895,233,288	11.7%	\$ 1,564,496	11.7%
Ward 3	3,406,436,078	10.2%	\$ 1,368,174	10.2%
Ward 4	3,992,120,399	11.9%	\$ 1,603,410	11.9%
Ward 5	4,131,643,776	12.4%	\$ 1,659,449	12.4%
Ward 6	3,804,750,381	11.4%	\$ 1,528,154	11.4%
Ward 7	6,097,524,809	18.2%	\$ 2,449,033	18.2%
Ward 8	4,570,794,279	13.7%	\$ 1,835,831	13.7%
Total	33,428,183,563	100.0%	\$ 13,426,221	100.0%

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability,
3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development,
6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ◆ Address infrastructure deficiencies and unfunded liabilities.

APPENDICES / SCHEDULES

Appendix "A" to report FCS12024 – Area Rating Special Capital Re-Investment Policy
Appendix "B" to report FCS12024 – Capital Detail Sheet template

Area Rating Special Capital Re-Investment Policy	 Hamilton	Appendix "A" to FCS12024 Page 2 of 2
Policy No: XXX - X		
Page 1 of 2		Approval: YEAR-MM-DD

<i>Area Rating Special Capital Re-Investment Policy</i>	
POLICY STATEMENT	The City of Hamilton annual capital deficit is projected at \$195 million (2011\$). The Area Rating Special Capital Re-Investment will aid in addressing the required infrastructure investments within the former City of Hamilton which has some of the oldest infrastructure.
PURPOSE	The purpose of this policy is to ensure that the Area Rating Special Capital Re-Investment is managed in a transparent and effective manner.
SCOPE	This policy applies to the tax shifts that result as a direct result of the phased-in approach to amending the area rating methodology to an “Urban/Rural” model.
DEFINITIONS “Area Rating Special Capital Re-Investment” “Council Approval” “Infrastructure” “Affected Wards” “Phase-in”	The following terms referenced in this Policy are defined as: The tax capacity that will be directed in the former City of Hamilton to infrastructure investments as a result of the shift in area rating methodology. Can be gained through motion, staff report or the budget approval process. Is basic physical and organizational structures needed for the operation of a service and facility. The term typically refers to the technical structures that support a society, such as roads, water supply, sewer supply, facilities and so forth, and are deemed essential to enable, sustain, or enhance societal living conditions. Former City of Hamilton Wards 1 through 8. The period of 2011-2014, represents the period the tax shift variance will be implemented.
PRINCIPLES	The following principles apply to this Policy: <ol style="list-style-type: none"> 1) Approved Special Capital Re-Investment will be allocated to affected Wards by Council for the purpose of investment in infrastructure projects and/or one-time funding of a principally capital nature to address the infrastructure deficit/shortfall. 2) Ward Councillors, within the affected wards, are provided adequate flexibility to identify infrastructure priorities within



their wards for consideration and approval of Council to ensure efficient and effective delivery of programs/services.

- 3) Funding through the Special Capital Re-Investment should not replace the Tax Supported Capital Budget, although consideration can be made to accelerate projects which may otherwise be deemed unaffordable.
- 4) Projects must be approved by Council and all potential operating and financial impacts should be identified.
- 5) Funding can be banked for the purpose of providing funding in whole, or in part, towards a financially significant infrastructure/one-time investment.

TERMS & CONDITIONS

Approval Process

The following outlines various change scenarios and the applicable approval process required:

- 1) The Special Capital Re-Investment will be allocated equally across the 8 affected Wards (1-8).
- 2) Projects funded in full or part through the Special Capital Re-Investment must be approved by Council and follow the City of Hamilton's Procurement Policy.
- 3) Projects being considered for funding through the Special Capital Re-Investment must include a completed Capital Detail Sheet (see Appendix B of FCS12024) prior to deliberation by Council; and
- 4) Beyond 2012, projects should be brought forward in conjunction with the annual capital budget process.

This policy was drafted by Financial Planning and Policy, Corporate Services; Council approval pending.

**CITY OF HAMILTON
2012-2036 CAPITAL BUDGET PROJECT DETAIL SHEET**

Division/Department:: _____ Project ID: _____ Category: _____

Project Name: _____ Ward (s): _____

Objectives: _____ Status: _____

Capital Budget Initiation:

Start Date:

Completion Date:

Tangible Capital Asset:

Expense (000's)	Total	Pre 2012	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022-36
	0	0	0	0	0		0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expense	0	0	0	0	0	0	0	0	0	0	0	0	0

Revenue	Total	Pre 2012	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022-36
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0

City's Share	0	0	0	0	0	0	0	0	0	0	0	0	0
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Operating Budget Impact:

	2011	2012	2013 onward
Costs (Savings)			
Staffing Impacts (F.T.E.)			

Project Rating Attributes	Weighted Rank	
	Weight	Rating
(Project Justification):		(1-10)

Contractual/Legislated Obligations

Health and Safety

Operating Budget/Financial Impact

Strategic Direction (Dominant Project Theme)