



**Date:** November 21, 2018  
**To:** Chair and Members of the Board  
**From:** Tony Del Monaco, Director of Finance & Facilities  
**Subject:** 2019 Operating Budget (2nd Review) - TD - Attachment #7.3

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### RECOMMENDATION:

That the Hamilton Public Library Board approve for submission to the City of Hamilton the 2019 Operating Budget at an increase of \$719,190, or 2.4%.

### FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

While no formal Council direction has been given with respect to the 2019 Operating Budget, staff have been working on the budget in an effort to meet the City of Hamilton's budget guideline of a 1.5% increase.

A 2.4% increase results in a \$719,190 increase to the 2019 Operating Budget. The net levy municipal contribution would be \$30,700,190.

### BACKGROUND:

The following outlines budget direction received by Council, submissions by the Library Board, and the Library's budget utilization rate:

	<b><u>Budget</u></b> <b><u>Direction</u></b>	<b><u>Library</u></b> <b><u>Budget Increase</u></b>	<b><u>Budget</u></b> <b><u>Utilization Rate</u></b>
2011	2.0%	0.7%	93.8%
2012	0.0%	1.0%	95.3%
2013	0.0%	0.0%	98.7%
2014	0.0%	0.2%	100.0%
2015	-----	1.5%	97.3%
2016	1.0%	1.0%	99.5%
2017	1.8%	1.8%	99.4%
2018	1.5%	1.8%	99.6%*

\*projected

As can be seen from past operating budget submissions, the Library has a strong track record of meeting City Council's budget guidelines. Going back to 2011 the average annual increase in the operating budget has been limited to 1.0% per year. Over recent years however, the budget utilization rate has been increasing. The budget utilization rate represents the percent of budgeted funds that actually gets spent in the year. As can be seen from recent years we are no longer in a position to

absorb increases within existing budget capacity.

### **2019 Budget Outlook:**

The 2019 Operating Budget is at a recommended municipal contribution of \$30,700,190 which is an increase of \$719,190 or 2.4% over the 2018 Restated Operating Budget of \$29,981,000.

Attached as Table 1 to this report is a 2019 Budget Outlook summarizing the changes by cost category.

Employee related expenses are currently budgeted to increase by \$440,740. This relates mainly to a 2% cost of living increase that has been factored into the budget. The City's major collective agreement is due for renewal in 2019. Should the cost of living increase come in lower than 2%, our actual expenses would be lower. Per our collective agreement, our actual salary & wage increase for unionized employees will be set to match the increase that ultimately gets negotiated at the City. Our non-union salary & wage increases are also set to match the City's Council approved non-union management and professional exempt staff for pay equity maintenance. It is estimated that each 0.5% reduction in the cost of living allowance would reduce our overall budget impact by approximately 0.25%.

<b>COLA Increase</b>	<b>Approx. Overall Budget Increase</b>
2.0%	2.4%
1.5%	2.15%
1.0%	1.9%
0.0%	1.65%

The 2019 budget includes a full-time equivalent (FTE) reduction of one, bringing our staffing complement to 298 FTEs. Addressing service hour gaps has been identified as a priority following feedback received from our customer surveys. Through a re-allocation of existing staff resources we will be able to open our Sunday branches throughout the summer months despite the reduction in FTE.

The planned increase in minimum wage to \$15 per hour has been rescinded by the provincial government. This has resulted in a cost avoidance of about \$83,000 as it relates to our Library page positions. A 2% cost of living increase has been built into the budget for these positions and is included as part of the overall increase in employee related costs.

Based on recent history for hydro expenses we have transferred some budget dollars from this budget line to the security budget which has historically been underfunded. A provision has also been included in the security budget to add guard services for the new Red Hill study hours. In all, \$28,670 has been added to the Building & Grounds budget.

Starting last year, we began a budget right-sizing phase-in for lease & service contracts related to equipment maintenance for sorters, RFID gates, and self-check units. A \$50,000 increase in the lease & service budget has been factored in to the 2019 budget and a further \$50,000 is planned for next year.

Other factors for the 2019 Contractual Services budget include increases in software license fees (\$50,000), and a provision for license fees for the new Extended Access

service at Lynden (\$5,600) has also been budgeted for.

We have increased budgeted expenses for photocopier and printer usage (\$32,000) to bring the budget back in line with actual expenses. Customer usage of our photocopiers and printers continues to increase which has allowed us to increase our photocopier and printer revenue budget by \$56,000 over the last 4 years. It appears that this trend will continue.

Another significant factor is the increase in our Recoveries budget related to our Facilities Cost recoveries and Insurance recoveries. In total, recoveries have gone up by \$122,010 and account for 0.4% of our overall budget increase. The direct insurance recovery increase relates to our share of new City insurance premiums and are not a reflection of any specific issue with Libraries. The direct facilities cost recovery increase is a continuation of the City's budget right-sizing phase in that began last year and the phase in is expected to continue for two more years at about \$50,000 per year.

The budget for certain revenue items has been increased including Room Rental revenues (\$10,000), Makerspace fees (\$15,000), Photocopy/Printer revenues (\$18,000) and third-party cost recoveries (\$4,400). This has allowed us to offset the overall budget increase to a degree, however as digital circulation continues to increase the corresponding decrease in physical circulation has necessitated a reduction in our fine revenues budget of \$30,000.

Attached to this report as Table 2 is a line by line detail of the 2019 operating budget changes.

### **What 1.5% would look like**

The Board passed a Statement on Sustainability, committing the library to maintaining investment in 5 key areas. Those key areas are: Collections; Facilities; Technology; Staff; and Programs and Services.

Reducing the budget from 2.4% to 1.5% would require a reduction of \$269,475.

Such a reduction would have to be done in as balanced a way as possible but would definitely constrain our ability to meet service demands, such as, Library service hours, collections and learning programs.

Results of our recently completed community survey show that the overwhelming majority of respondents are satisfied with library services but areas of improvement were service hours, digital collections, and program offerings all of which would be impacted by budget reductions.

In recent years, HPL's budget utilization rate has been at 99.5% which means there is very little room to absorb increases within the existing budget envelope without negatively impacting these key areas.

HPL has a history of leveraging technology to allow staff to focus on more value-added work. This has allowed us to reduce our FTE count from 314 in 2012 to 298 in 2019 through a combination of attrition and LEAN assessments. We will continue to look for and leverage these opportunities.

The recently published annual report of the Municipal Benchmarking Network of Canada further demonstrates that HPL provides service in a cost-effective manner –

currently at \$1.90 per use. HPL is one of the few comparator municipalities whose cost per use is consistently below the median of its' peers.

HPL prides itself on being able to provide value to the community in a cost-effective manner. A return-on-investment report completed earlier this year showed that for every \$1 utilized, HPL returned \$5.59 of economic benefit to the community.

### **Three Year Outlook**

The Library is participating in the City's multi-year budgeting initiative. Operating budgets are still approved on an annual basis, however a three year forecast – in addition to the current budget year - now accompanies the annual budget. The 3-year forecast is for information purposes only. The Library's operating budget is expected to increase at an average of 2.0% per year over the forecast period.

A 2.0% percent increase in employee related costs has been assumed over the 3 year forecast period to cover estimated 2% cost of living increases as well as potential increases in benefit costs.

A modest increase for Material & Supply costs has been assumed and Vehicle Expenses are assumed to increase by 2% inflation.

Building and Ground shows a decrease in costs for 2021 to reflect the termination of the Greenville Library lease once we move into our new location.

Phase in of the lease & service budget has been included as part of Contractual Services at \$50,000 in 2020. A provision for operating expenses of just under \$6,000 per year related to the Extended Access model at rural branches has also been factored.

### **ATTACHMENTS:**

Description	Upload Date	Type
Table 1 - 2019 Budget Submission	11/15/2018	Cover Memo
Table 2 - 2019 Operating Budget Changes	11/15/2018	Cover Memo
Table 3 - 2019 Plus Three Year Outlook	11/15/2018	Cover Memo

### Table 1 - 2019 Budget Submission

	2018	2019	2019-2018	2019-2018
	Restated	Budget	\$	%
	Budget	Submission		
<b>Net Levy</b>	<b>29,981,000</b>	<b>30,700,190</b>	<b>719,190</b>	<b>2.4%</b>
EMPLOYEE RELATED COST	21,564,670	22,005,410	440,740	2.0%
MATERIAL AND SUPPLY	3,836,880	3,853,880	17,000	0.4%
VEHICLE EXPENSES	80,640	82,790	2,150	2.7%
BUILDING AND GROUND	2,424,150	2,452,820	28,670	1.2%
CONTRACTUAL	1,247,380	1,367,980	120,600	9.7%
RESERVES / RECOVERIES	2,007,920	2,129,930	122,010	6.1%
COST ALLOCATIONS	229,660	233,080	3,420	1.5%
FINANCIAL	385,220	387,220	2,000	0.5%
<b>Total Expenses</b>	<b>31,776,520</b>	<b>32,513,110</b>	<b>736,590</b>	<b>2.3%</b>
FEEES AND GENERAL	(603,070)	(620,470)	(17,400)	2.9%
GRANTS AND SUBSIDIES	(1,192,450)	(1,192,450)	-	-
<b>Total Revenue</b>	<b>(1,795,520)</b>	<b>(1,812,920)</b>	<b>(17,400)</b>	<b>1.0%</b>

**Table 2 - 2019 Operating Budget Changes**

Category	Budget Change	Drivers
<b>EMPLOYEE RELATED COST</b>	<b>440,740</b>	
Salaries & Wages	277,860	2% COLA adjustment, step increases
Benefits	162,880	OMERS, Vacation Pay, Health Benefits
<b>MATERIAL AND SUPPLY</b>	<b>17,000</b>	
Photocopier & Printing Supplies	17,000	Increasing customer usage of Photocopier & Printers
<b>VEHICLE EXPENSES</b>	<b>2,150</b>	
Central Fleet Charges	2,020	Charges from City for vehicle maintenance
Licenses	130	Charges from City
<b>BUILDING AND GROUND</b>	<b>28,670</b>	
Hydro	(50,000)	Reduced to better reflect actual charges
IP Telephony Charges	3,290	City driven change
Security	75,380	\$17,000 for RH study hours; increases to better reflect actuals
<b>CONTRACTUAL SERVICES</b>	<b>120,600</b>	
Printers	15,000	Increasing customer usage of Photocopier & Printers
Lease & Service Contracts	50,000	Budget right-sizing for RFID, self check, and sorter maintenance costs
Software Maintenance	50,000	Software Licenses
Rural Extended Access	5,600	Open+ at Lynden
<b>RESERVES / RECOVERIES</b>	<b>122,010</b>	
Transfer to Vehicle/ Equipment Reserve	3,380	For future replacement of vehicles
City Direct Vehicle Insurance Recovery	820	Charges from City
City Direct Insurance Recovery	25,980	Charges from City
City Direct Facilities Recovery	91,830	Charges from City
<b>COST ALLOCATIONS</b>	<b>3,420</b>	
City Indirect Accounting Services Recovery	1,190	City driven cost
City Indirect Financial Applications Recovery	340	City driven cost
City Indirect Payroll Recovery	1,010	City driven cost
City Indirect Accounts Payable Recovery	360	City driven cost
City Indirect Procurement Recovery	230	City driven cost
City Indirect Budgets Recovery	290	City driven cost
<b>FINANCIAL EXPENSES</b>	<b>2,000</b>	
Appraisal Fees	2,000	Appraisal fees related to LH&A donations
<b>Expenses</b>	<b>736,590</b>	
<b>FEES AND GENERAL</b>	<b>(17,400)</b>	
Third Party Contributions/ Grants	(4,400)	DISP recoveries
Merchandise Sales	(15,000)	DML fees
Photocopier Revenues	(18,000)	Increased based on recent actuals
Rental Fees	(10,000)	Increased based on recent actuals
Fines	30,000	Reduced based on recent actuals
<b>Revenues</b>	<b>(17,400)</b>	
<b>Net Levy</b>	<b>719,190</b>	

**Table 3 - 2019 Plus Three Year Outlook**

	2018	2019	2019	2020	2021	2022
	Restated	Preliminary	\$	\$	\$	\$
	Budget	Budget	change	change	change	change
<b>Net Levy</b>	<b>29,981,000</b>	<b>30,700,190</b>	<b>719,190</b>	<b>643,559</b>	<b>580,300</b>	<b>588,005</b>
<b>% Increase</b>			<b>2.4%</b>	<b>2.1%</b>	<b>1.9%</b>	<b>1.8%</b>
EMPLOYEE RELATED COST	21,564,670	22,005,410	440,740	440,108	448,910	457,889
MATERIAL AND SUPPLY	3,836,880	3,853,880	17,000	19,269	38,731	39,119
VEHICLE EXPENSES	80,640	82,790	2,150	1,656	1,689	1,723
BUILDING AND GROUND	2,424,150	2,452,820	28,670	42,264	(27,858)	24,672
CONTRACTUAL	1,247,380	1,367,980	120,600	55,600	34,072	34,753
RESERVES / RECOVERIES	2,007,920	2,129,930	122,010	50,000	50,000	-
COST ALLOCATIONS	229,660	233,080	3,420	4,662	4,755	4,850
FINANCIAL	385,220	387,220	2,000	-	-	-
<b>Total Expenses</b>	<b>31,776,520</b>	<b>32,513,110</b>	<b>736,590</b>	<b>613,559</b>	<b>550,300</b>	<b>563,005</b>
FEES AND GENERAL	(603,070)	(620,470)	(17,400)	30,000	30,000	25,000
GRANTS AND SUBSIDIES	(1,192,450)	(1,192,450)	-	-	-	-
<b>Total Revenue</b>	<b>(1,795,520)</b>	<b>(1,812,920)</b>	<b>(17,400)</b>	<b>30,000</b>	<b>30,000</b>	<b>25,000</b>