



CITY OF HAMILTON
Corporate Services Department
Finance, Administration and Revenue Generation

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	May 20, 2015
SUBJECT/REPORT NO:	Revenue Generation and Cost Reduction Opportunities (FCS14069)(a) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brian MacDonald (905) 546-2424 Ext. 3048 John Hertel (905) 546-2424 Ext.2739
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That staff be directed to investigate the feasibility of Digital/LED based signage within the municipality on City of Hamilton owned lands and report to the General Issues Committee;
- (b) That staff be directed to investigate and report back to General Issues Committee on the potential revenue generation opportunities as they relate to the investment options of Municipal short term holdings.
- (c) That staff report back to the General Issues Committee with respect to resourcing the revenue generation strategy.

EXECUTIVE SUMMARY

Information Report FCS14069 respecting Revenue Generation and Cost Reduction Opportunities, dated September 17, 2014, presented a summary of the methodology and progress of the activities to date.

This report will provide a recap of revenue generating activities initiated in 2014 and forecasts the opportunities that are being assessed for action in 2015 and into 2016.

A significant key to success has proven to be the strong relationships developed across City departments. This collaboration has enabled the team to monetize inventory and leverage all potential assets and programs, often combining the interests of individual departments to create a cross departmental solution.

Successes in 2014 - The program has resonated with internal departments and external prospects because:

1. The approach is strategic, mapping out long term relationships versus monthly “asks” to support individual projects;
2. The team has become a single point of contact internally and externally;
3. The team has expertise that is not typically resident within a municipality.

This first phase of opportunities was predominately comprised of sponsorships, digital advertisement solutions, and centralized approaches to savings (e.g. media buying and contract reviews). During this process, the Revenue Generation Team has acted as a liaison between the business community and various City Departments in order to identify corporate partners that would be deemed a good fit. This engagement has helped reinforce the City of Hamilton’s “Open for Business” mentality, while generating significant sponsorship and advertising revenues.

These new revenue streams have helped provide enhancements to City Events and Programming, without affecting the tax levy. In addition to the financial benefit to the City, these efforts have helped forge strong corporate partnerships that have led to ongoing constructive dialogue with the business community. Please refer to Appendix ‘A’ which highlighted opportunities executed in 2014 and early 2015:

Broadly speaking there are two categories of opportunities:

1. Revenue
 - a. New Revenues – these are primarily new revenues generated solely through the Revenue Generation Section;
 - b. Incremental Revenues – these are revenues which utilize existing collateral throughout the enterprise that in turn create additional revenue.
2. Operational Efficiencies – these are savings procured through the addition of efficiencies to existing processes and operations.

Summary of Achievements to Date:

By December 31st 2014 the newly formed Revenue Generation Team executed contracts valued over \$529,000 in revenue generation opportunities and operational efficiencies (\$329,000 and \$200,000 respectively). These revenues and savings will be realized over 2014 and 2015. The team has also developed significant potential revenues for 2015 that are summarized in the table below and beyond as discussed further in this report.

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**Revenue:
(Realized)**

2014	
One-time	\$18,500
Annualized (Multi Year)	\$10,000
Total	\$28,500
2015	
One-time	\$136,500
Annualized (Multi Year)	\$164,000
Total	\$300,500

Advertising Opportunities:

Revenue Generation staff are in discussions with various advertisers of which it anticipates will materialize into significant multi-year opportunities. It is anticipated that annual contributions from these opportunities would net annual revenues in the range of \$600K - \$850K annually. The nature of these larger proposals would be outside of the scope of existing City advertising revenues and would represent a net new source of revenue for the City.

Sponsorships Opportunities:

In addition to extending and expanding the scope of existing sponsorship agreements, Revenue Generation staff are forecasting \$150,000 in net new sponsorship agreements during 2015. The breadth of these opportunities is wide-reaching and would provide additional revenues to various City Departments. Having had 2014 to collaborate with various City groups, Revenue Generation staff has a comprehensive database of marketable inventory and are well positioned to bundle various offerings into sponsorship packages that maximize value.

Other Revenue Generating Opportunities:

Opportunities that fall out of the scope of sponsorship and advertising (i.e., Municipal short-term holdings, Farmer's Market programs, etc.) represent an additional \$\$300K - 550K in new annual revenues.

A sample of 2015 opportunities acquired but not yet contracted can be reviewed in Appendix 'B'.

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(Potential)*

2015	
One-time	\$144,000
Annualized (Multi Year)	\$1,242,000
Total	\$1,368,000

Operational Efficiencies:

A number of areas have resulted in savings to the corporation and will continue to grow in 2015 and beyond. By centralizing media buying in early 2014, \$120,000 was obtained in additional discounts; another \$80,000 was saved by cancelling unnecessary Yellow Pages contracts. More savings will be realized as all departments are now participating in the program.

Operational Efficiencies:

2014	\$200,000
2015*	\$250,000

*forecasted

Key Success Factors for our 2015/2016 Forecast:

1. Execution of existing commitments;
2. Maintain and grow business and community relationships (both internal/external);
3. Council Support for Initiatives.

The Revenue Generation Section is forecasting \$1,400,000 worth of multi-year revenue generation opportunities and operational efficiencies to be phased in 2015. The first priority for Revenue Generation staff is to work with various City departments to execute existing commitments in an effort to turn their 2014 successes into reoccurring longer term commitments. It is through this sustained focus on building mutually beneficial relationships with corporate partners, that these “one-off” partnerships and pilots will become reoccurring sources of revenue.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial:

Zero net levy impact on staffing costs while increasing revenues and operational savings as outlined in the report.

Staffing:

Staff will report back to the General Issues Committee regarding the resources required to implement the revenue generation strategy.

Legal:

No Implications. City of Hamilton procurement policies are being honoured.

HISTORICAL BACKGROUND (Chronology of events)

In September of 2014, Revenue Generation Staff outlined in report (FCS14069) the initial focus of Revenue Generation areas of opportunity:

- Sponsorships;
- Advertising;
- Other revenue generation and operational efficiency opportunities

Sponsorship Opportunities:

While Revenue Generation staff have had success obtaining sponsors for individual events, they seek to apply a more comprehensive and rationalized approach moving forward. To achieve this end, Revenue Generation staff has created a database of all marketable City assets, events and programming that could be drawn upon when bundling customized sponsorship packages. This has allowed the Revenue Generation Division to offer potential sponsors a wide array of scalable offerings that can be customized to meet their target demographics.

In addition to building this extensive inventory, Revenue Generation staff have worked closely with the City's Communications Division to ensure that any sponsorship packages take full advantage of the City's website, social media and existing signage. This ensures that our sponsors receive value for their money as it significantly increases the number of touch points, thus maximizing their reach.

Not only does this rationalized approach maximize the sponsorship dollars that the City can expect to secure, it reduces the redundancies among individual City departments that are attempting to solicit their own sponsorship opportunities. This also allows the City to convey a more organized and streamlined approach to outreach, as it avoids multiple City groups contacting potential sponsors with separate sponsorship requests.

Advertising Opportunities:

Much like sponsorships, advertising dollars are maximized when a rationalized approach is exercised. By compiling a database of all marketable City assets, events and programming, Revenue Generation staff is well positioned to offer custom packages of advertisement opportunities. The opportunities currently in the Revenue Generation staff's funnel span, across numerous City Departments, include the use of billboards, signage, asset wraps, on-site LED displays and facility naming rights, to

name a few. The full gamut of advertising options allow for smaller one-off opportunities, larger multi-year deals and everything in between.

Revenue Generation staff have already been approached by a number of private businesses looking for advertising opportunities and advertising companies that could solicit opportunities on the City's behalf. By leveraging their database of opportunities, throughout the City, Revenue Generation staff is uniquely positioned to bring the relevant parties together and negotiate mutually beneficial deals that maximize the City's advertisement dollars.

Similarly, this rationalized approach allows the City to convey a more organized and professional image, as it avoids multiple City groups contacting potential advertisers. This also allows for the City's assets to be viewed from a more "business focused" lens, ensuring advertising opportunities are not overlooked.

Other Revenue Generation Opportunities:

When looking to identify other Revenue Generation opportunities the Revenue Generation staff looked into the following:

- Underutilized City assets;
- Operational departmental efficiencies;
- Areas of focus of other Municipalities focused on these activities (i.e., Ottawa).

Through this exercise, Revenue Generation staff have uncovered a wide array of opportunities, many of which were mentioned earlier in the report. Additional opportunities include expanding facility rentals, methods for increasing tax compliance, etc.

Revenue Generation staff have proactively and aggressively moved toward a full rationalization of both revenue generation and operational efficiency opportunities throughout the City.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

No policies will be affected by these recommendations.

RELEVANT CONSULTATION

As this report and recommendations are based on a corporate wide initiative all relevant and affected departments have been consulted whether through Departmental Management Team Meetings, specific departmental teams or one a one on one basis with those who have purview on the initiatives/opportunities our section is undertaking.

**ANALYSIS AND RATIONAL FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)**

During the General Issues Committee (GIC) meeting held on April 17, 2013, discussions regarding opportunities for service improvements which included KPMG's service assessment filter and a list of potential service improvement opportunities were brought forward. It was this work that helped inform the newly formed Revenue Generation Division as it shaped its' approach and methodology, to discover and subsequently execute, on high value revenue generation and operational efficiency opportunities.

The first phase of this methodology involved the investigation and rationalization of all potential marketable inventories within the City and the creation of a centrally controlled database to work from. This exercise involved extensive cross-departmental consultation with all relevant stakeholders across the City. These consultations helped to formulate the foundational database which includes, but is not limited to, City-wide building inventories, City hosted events, and City supported events, specialized programming and advertising sites. Revenue Generation staff continue to meet with these various stakeholder groups to ensure all opportunities are identified.

The second phase of the methodology included the development of a special project funnel. The funnel ensures that all identified marketable opportunities are fully vetted via feasibility and cost-benefit analysis. The project funnel has provided a rationale approach to evaluating all of the opportunities that have been identified to this point; over 75 opportunities have been vetted to date.

The funnel measures and prioritizes the economic impact of a potential opportunity, as well as, the completion timelines. This ensures tracking and accurate forecasting ability; new projects and opportunities are constantly being loaded into the funnel.

Based on this prioritization allocation and significant level of due diligence under taken, Staff is asking that Council support the initiatives and opportunities highlighted in this report.

**ALTERNATIVES FOR CONSIDERATION
(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

An alternative to the model and methodologies proposed in this report would see the Section employ the utilization of third party consultation and outsource many of the functions currently being managed internally.

Financial:

The fee and commission structures paid can be quite high eroding any real value from the activities being performed. As an example, on a \$100K naming right a industry based flat fee of \$30K would be required (retention of services), in addition to the flat fee a commission payment upwards of \$20K/year (standard industry practice) over the term of the deal (in most cases 4 years) would also be required. This results in a payment of \$110K. These funds could easily support an internal resource whose abilities would be deployed on numerous activities resulting in a much higher payback.

Staffing:

An outsourced solution may create an environment for reduced internal staff requirements, but at a higher overall cost to the City of Hamilton.

Legal:

As any potential opportunities would result from an outsourced solution, internal legal review would be required on all potential opportunities creating an increase workload for internal Legal staff and potentially requiring the outsourcing of this work increasing both internal and external legal costs.

Pros:

- While an outsourced solution would require less internal resources it comes with a much higher cost and has shown in other districts to be far less effective

Cons:

- Sustainable cost benefits are not achieved due to costly fee structures
- Engagements are narrow in focus, thus reducing value and lead to losses of scale of economies that could be delivered when evaluating multiple assets or collateral
- High costs for single engagement would be sufficient to support full time internal resource
- One of the strengths of an internal solution is the development of strong partnerships with corporate partners leading to highly integrated multi-year engagements. When third parties are utilized the relationship remains with that third party. The lack of established partnerships can be very detrimental to the long term sustainability of revenue programs.
- Outsourced solutions also struggle from the inability to effectively communicate across departments within the municipality. This can commonly lead to either duplication of efforts or misalignment of opportunities. In addition, this leads to an added burden on internal staff (not compensated through the payment structure) as internal staff becomes responsible to ensure needed support and alignment of

the outsourced projects is achieved. Again adding to the inefficiencies and costs associated with this model.

- In addition, as a result of the third party primarily being induced through a commissioned structure, in some cases the appropriateness and fit of potential opportunities fall outside the scope of the municipality. The level of due diligence conducted by the third party also tends to be far less than the scrutiny given to potential opportunities from internal Staff. Again this adds to the inefficiency of the solution and can have a stalling effective on the overall program

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

APPENDICES AND SCHEDULES ATTACHED

Appendix 'A' to report FCS14069(a)

Appendix 'B' to report FCS14069(a)