

**City of Hamilton**  
**2016 Consolidated Financial Statements**  
**Analysis – May 2017**

**General**

The City of Hamilton's 2016 consolidated financial statements have been prepared by management and staff of the City of Hamilton in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

These financial statements, Appendix "B" to Report FCS17053, are based on the full accrual basis of accounting under the CPA Public Sector Accounting Handbook sections PS1201 Financial Statement Presentation. The consolidated statement of financial position provides a summary of the City's financial position as of the end of the year while the consolidated statement of operations provides a summary of the financial activity during the year.

Under the full accrual basis, expenditures related to the purchase and acquisition of tangible capital assets are reported as non-financial assets on the statement of financial position rather than as expenses in the statement of operations. Amounts received that relate to expenditures of future periods are recorded as deferred revenue and reported as liabilities on the statement of financial position.

Expenses are reported on the statement of operations by functional area. Expenses are also broken out by salaries and benefits, interest on long-term debt, materials and supplies, contracted services, rents and financial expenses, external transfers, and amortization of tangible capital assets over the useful life of the assets in the Schedule of Operations for Business Segments. Expenses include the change in liabilities for post-employment, retirement and pension benefits, contaminated sites, and solid waste landfill closure and post closure care costs.

In addition to taxation and investment income, reported revenues include government grants and development charges recognized in the period as well as tangible capital assets donated to the City.

The operating and capital budgets are prepared on the modified accrual basis of accounting. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

## 2016 City of Hamilton Consolidated Financial Statements Analysis

The consolidated financial statements report the financial transactions and estimates made by management during 2016. The consolidated financial statements report the City's municipal operations including all departments, Hamilton Police Service Board, Hamilton Public Library, Hamilton Street Railway Company, CityHousing Hamilton, Hamilton Business Improvement Areas, Flamborough Recreation Sub-Committees, Confederation Park, Hamilton Farmers Market and government business enterprises (Hamilton Utilities Corporation and Hamilton Renewable Power Inc.). Further information on reporting entities can be found in Note 1(a) to the financial statements in Appendix 'B' to FCS17053.

The Consolidated Financial Statements consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

## Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position consists of financial assets, liabilities, non-financial assets and accumulated surplus.

## Financial Assets

The City's total financial asset position increased in 2016 by \$162.2M to \$1.536B and is reported in the consolidated financial statements as:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 148,185	\$ 93,009
Taxes receivable	83,730	85,429
Accounts receivable	107,965	117,683
Other assets	651	674
Long term receivables	48,312	53,737
Portfolio investments	900,035	790,720
Investment in Government Business Enterprises	<u>247,386</u>	<u>232,811</u>
Total financial assets	<u>\$ 1,536,264</u>	<u>\$ 1,374,063</u>

Cash and cash equivalents	\$148.2M (2016)	\$93.0M (2015)
The total represents the balance in City's bank accounts, deposits held and housing short term investments. The bank accounts include the City's operating bank, accounts payable bank, payroll bank, Ontario Works bank, and		

**2016 City of Hamilton Consolidated Financial Statements Analysis**

CityHousing Hamilton bank. The balance increased in 2016 from 2015 as more money was held in the bank at year end. Of note, debenture proceeds were received in 2016 for \$128.4M (2015 - \$0.0M).

Taxes Receivable \$83.7M (2016) \$85.4M (2015)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes Receivable represent 8.0% of current year's tax levies (2015 – 8.7%). The 2016 balance includes an allowance for doubtful accounts of \$5.4M (2015 - \$5.2M).

Accounts Receivable \$108.0M (2016) \$117.7M (2015)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2016 balance consists of water and wastewater receivables (\$45.9M), general receivables & accruals (\$20.0M), HST receivables (\$8.6M), provincial and federal grants receivable (\$14.9M), and interest receivable (\$4.3M).

Long Term Receivables \$48.3M (2016) \$53.7M (2015)

Long Term Receivables represent the balance of loans and deferral agreements with agencies and organizations net of the provision for loans with concessionary terms. The long term receivables include:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>Development charge deferral agreements</b>	\$22,117	\$ 17,847
<b>Mortgages receivable:</b>		
Downtown convert to rent program	10,470	18,428
Hamilton Utilities Corporation	8,100	7,776
Hamilton Renewable Power Inc.	1,304	2,649
Sheraton Hotel loan	1,086	1,192
Other City loan programs	3,719	4,836
<b>Loans to other agencies and organizations</b>	4,357	4,931
<b>Less: Provision for loans with concessionary terms</b>	<u>(2,841)</u>	<u>(3,922)</u>
	\$48,312	\$ 53,737

Portfolio Investments \$900.0M (2016) \$790.7M (2015)

Portfolio investments represent the City's holdings, as prescribed by the Municipal Act, in short and long term fixed income securities. The investments earn various interest rates with different premiums, discounts and maturities. Portfolio investments have a market value of \$927.6M.

## **2016 City of Hamilton Consolidated Financial Statements Analysis**

### **Investment in Government Business Enterprises \$247.4M (2016) \$232.8M (2015)**

Investment in Government Business Enterprises represents net equity of the consolidation of the City’s subsidiary corporations, Hamilton Utilities Corp. (HUC) and Hamilton Renewable Power Inc. (HRPI). The consolidation of subsidiary corporations under the modified equity basis of accounting is required by the generally accepted accounting principles of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA). This PSAB recommendation was instituted in 2000 and also affects the reporting of the accumulated surplus and net municipal position in the consolidated financial statements. Dividends received in 2016 consisted of \$8.5M from HUC and \$0.06M from HRPI (2015 - \$9.6M from HUC and \$0.25M from HRPI).

### **Liabilities**

The City’s total liabilities position increased in 2016 by \$105.0M to \$1.395B and is reported in the consolidated financial statements as:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 268,174	\$ 251,933
Deferred revenue - general	59,618	45,593
Deferred revenue - obligatory reserve funds	213,247	226,745
Long term liabilities – Municipal Operations	408,735	321,590
Long term liabilities – Housing Corporations	64,070	69,466
Employee future benefits and other obligations	356,762	349,007
Solid waste landfill liabilities	<u>24,466</u>	<u>25,769</u>
Total liabilities	<u>\$ 1,395,072</u>	<u>\$ 1,290,103</u>

### **Accounts Payable and Accrued Liabilities \$268.2M (2016) \$251.9M (2015)**

Accounts Payable and Accrued Liabilities represent obligations owing by the City to third parties and employees at year end. The balance primarily consists of amounts payable to vendors and contractors (\$110.1M), payroll accruals (\$29.1M), amounts for insurance claims (\$20.3M), security deposits (\$22.9M), and the present value of the City’s commitment to the Randle Reef remediation project (\$11.4M).

### **Deferred Revenue -General \$59.6M (2016) \$45.6M (2015)**

Deferred Revenue represents amounts received that will be recorded as revenue in future years to match expenditures incurred for goods received and services performed. The balance includes federal and provincial government grants and subsidies (\$5.2M), future urban roads (\$11.1M), housing (\$19.0M), General Deferred (\$4.1M), and forestry (\$2.6M).

## **2016 City of Hamilton Consolidated Financial Statements Analysis**

Deferred Revenue – Obligatory Reserve Funds      \$213.2M (2016)      \$226.7M (2015)

Deferred Revenue – Obligatory Reserve Funds represents amounts received that will be recorded as revenues in future years to match expenditures incurred for goods received and services performed. The balance includes:

	<u>2016</u> \$000's	<u>2015</u> \$000's
Development charge reserve funds	\$127,959	\$131,527
Subdivider contributions	56	55
Recreational land dedicated under the Planning Act	32,493	31,357
Gasoline tax revenue: Provincial	18,774	22,389
Federal	16,265	24,066
Building Permit Revenue	17,671	17,323
Other (Ivor Wynne)	<u>29</u>	<u>28</u>
	<u>\$213,247</u>	<u>\$226,745</u>

Activity in the Development Charge and Special Area Reserve Funds is comprised of \$76.7M in collections less transfers to finance capital projects of \$70.1M and transfers to operating of \$12.0M. During 2016 the City received and accrued federal gas tax transfers of \$31.6M and provincial gas tax transfers of \$10.7M. Federal Gas Tax was allocated to capital upgrades to roads and bridges for \$33.9M and to transit for \$6.2M. The Provincial Gas Tax was allocated to transit related projects for \$3.7M and to transit operating budget for \$11.0M. During 2016 the City received parkland dedication fees of \$6.8M and \$6.7M was allocated to capital projects for future development of city parks. Approximately \$1.1M of the surplus building permit revenue in 2016 was transferred to the Building Permit Revenue reserve fund. “Other (Ivor Wynne)” refers to a reserve fund that was established in 2011 for the purpose of developing community projects within the Stadium neighbourhood.

Long Term Liabilities – Municipal Operations      \$408.7M (2016)      \$321.6M (2015)

Long Term Liabilities – Municipal Operations represents the outstanding principal for long term debt issued to finance capital expenditures and obligations for leased tangible capital assets. In 2016, the City made principal repayments on long term debt of \$42.2M (2015 - \$41.1M) and principal repayments on leased tangible capital assets of \$0.5M (2015 - \$1.1M). New debt was issued in 2016 of \$128.4M for capital projects (2015 – \$0.0M).

Long Term Liabilities – Housing Operations      \$64.1M (2016)      \$69.5M (2015)

Long Term Liabilities – Housing Operations represents the outstanding principal for loans and mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2016, CityHousing Hamilton made principal repayments on long term debt of \$5.4M (2015 - \$5.2M). No new debt was issued in 2016 to finance the acquisition of new property and buildings (2015 - \$0.0M).

## 2016 City of Hamilton Consolidated Financial Statements Analysis

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$17.0M (2015 - \$20.7M) is not reported in the consolidated financial statements.

Employee Future Benefits and Other Obligations    \$356.8M (2016)        \$349.0M (2015)

These estimates represent the liabilities associated with employee post-employment, retirement and pension benefits. The generally accepted accounting principles recognize the liabilities in the year in which the employees provide the services associated with the benefits.

The 2016 estimates are provided by independent actuaries from actuarial valuations performed for 2016 or performed for earlier years and extrapolated for 2016. The estimates use assumptions for inflationary increases of 2% to 2.25% annually, a discount rate of 3.5% to 5.1%, payroll increases of 3% to 3.5% and increases in pension plan assets of 5.1%. Projections for retirement benefits assumed that drug costs would increase by 8.0% in 2014 with future annual increases grading down linearly by 0.25% to an ultimate rate of 4.0% and dental costs will increase by 3.5% annually. These liabilities are not reported net of any reserves already setup on the balance sheet in the Statement of Financial Position.

The employee future benefits and other obligations are summarized in the consolidated financial statements as:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>Accrued Benefit Obligation</b>		
Sick leave benefit plan	\$ 55,108	\$ 55,029
Long term disability plan	23,819	22,729
Workplace safety and insurance board liabilities (WSIB)	78,297	75,572
Retirement benefits	142,509	138,789
Vacation benefits	26,291	26,077
Pension benefit plans	<u>32,634</u>	<u>26,268</u>
	358,658	344,464
Net unamortized actuarial gain (loss)	<u>(1,896)</u>	<u>4,543</u>
<b>Accrued Liability</b>	\$ 356,762	\$ 349,007
Less: Provisions in Reserves	<u>(66,142)</u>	<u>(69,093)</u>
<b>Unfunded Liability</b>	\$ 290,620	\$ 279,914

PSAB's disclosure requirements for employee benefits and other obligations are quite extensive. Notes 9 and 10 to the Consolidated Financial Statements provide the details of the actuarial valuations, the actuarial gains and losses, payments and expenses related to these liabilities.

## 2016 City of Hamilton Consolidated Financial Statements Analysis

Actuarial gains and losses, permitted in the PSAB accounting standards, result from changes in valuation assumptions used for the current valuations versus previous valuations. The net unamortized actuarial loss of \$1.9M represents a loss in long term disability of \$267,000, a loss in retirement benefits of \$20.6M, a gain in WSIB liabilities of \$312,000, a loss in sick leave obligations of \$8.1M and a gain in the pension plans of \$26.7M. These actuarial gains and losses will be spread over future periods and recognized as expenses under the category of salaries and benefits in the Statement of Operations.

Provisions have been made in the reserves for \$66.1M (2015 - \$69.1M) to fund a portion of these liabilities. These liabilities are only 18.6% funded (2015 – 19.8%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$290.6M from reserves or taxation at this time. These unfunded liabilities can be funded in future years as amounts are expensed in the operating budget for actual payments.

Solid Waste Landfill Liabilities	\$24.5M (2016)	\$25.7M (2015)
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This amount represents the estimate of the liability for closure and post closure costs of the City's twelve closed and one open landfill sites. The liability is calculated by discounting the future years' expected cash outflows for the spending on eligible activities on the landfill sites. For liability calculation purposes the open landfill site has been divided into two phases. Phase 1 is expected to close in 2018 and Phase 2, which has yet to begin accepting fill, is expected to close in 2043. Expenses for the post-closure care of the open landfill site are estimated for 50 years after each phase is expected to close. The City's expenses related to spending on capital projects and the change in the estimated liability are reflected in the Statement of Operations.

Waste diversion rates, waste initiatives such as the green cart program and composting, new waste technologies and ongoing assessments of the closed sites impact the landfill liabilities. The City's waste diversion rate for 2016 was 45% (2015 – 45%).

Provisions have been made in a reserve of \$1.0M (2015 - \$1.0M) to fund a portion of this liability. There is no PSAB requirement to fund the liability at this time.

### **Non-Financial Assets**

The City's total non-financial assets position increased in 2016 by \$123.9M to \$5.291B and is reported in the consolidated financial statements as:

2016

2015

**2016 City of Hamilton Consolidated Financial Statements Analysis**

	\$000's	\$000's
<b>Non-Financial Assets</b>		
Tangible capital assets	\$ 5,271,414	\$ 5,150,288
Inventories	11,733	10,301
Prepaid expenses	<u>7,915</u>	<u>6,533</u>
	\$ 5,291,062	\$ 5,167,122

Tangible Capital Assets (TCAs) \$5.3B (2016)      \$5.2B (2015)

The City's general and infrastructure tangible capital assets include land, land improvements, buildings, vehicles, computer, other machinery and equipment, roads, bridges and structures, water and wastewater plants, facilities and underground infrastructure networks. The net book value of \$5.3B represents the cost of the tangible capital assets less accumulated amortization over the life of the assets. The TCA total includes amounts spent to the end of the year on tangible capital assets under construction.

A summary of the tangible capital assets valued as at Dec. 31, 2016 include:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>General</b>		
Land	\$ 315,467	\$ 304,977
Land improvements	150,337	135,252
Buildings	761,396	735,926
Vehicles	133,786	107,241
Computer hardware and software	11,058	7,876
Other	103,490	92,098
<b>Infrastructure</b>		
Roads	1,253,561	1,248,288
Bridges and structures	184,213	184,794
Water and wastewater facilities	396,884	385,404
Underground and other networks	<u>1,761,542</u>	<u>1,713,019</u>
<b>Net Book Value</b>	\$ 5,071,734	\$ 4,914,875
<b>Assets under construction</b>	<u>199,680</u>	<u>235,413</u>
<b>Total</b>	\$ 5,271,414	\$ 5,150,288

The Schedule of Tangible Capital Assets in the Consolidated Financial Statements contains additional information on these non-financial assets. The replacement cost of assets valued as at Dec. 31, 2016 is estimated at \$19.5B.

Inventories	\$11.7M (2016)	\$10.3M (2015)
Prepaid expenses	\$ 7.9M (2016)	\$ 6.5M (2015)



## **2016 City of Hamilton Consolidated Financial Statements Analysis**

Two other categories of non-financial assets are inventories of goods for use in the delivery of services and prepaid expenses for purchases made in 2016 for expenses to be incurred in 2017.

### **Accumulated Surplus**

#### **Net Municipal Financial Position**

**\$5.432B (2016)      \$5.251B (2015)**

The City’s accumulated surplus represents the net municipal financial position in PSAB’s financial statement presentation requirements for 2016. The balance is comprised of the following:

	<u>2016</u> \$000's	<u>2015</u> \$000's
<b>Accumulated surplus (Net municipal financial position)</b>		
Operating surplus of BIA, Flamborough Recreation sub-committee, Confederation Park and Westfield Heritage Village	\$ 2,414	\$ 2,102
Operating surplus – housing	(394)	203
Capital surplus – municipal	65,205	(71,909)
Capital surplus – housing	4,816	1,151
Reserves and Reserve Funds	690,357	698,468
Unfunded liabilities – Employee benefits	(333,787)	(326,627)
Unfunded liabilities – Landfill sites	(24,466)	(25,769)
Investment in Government Business Enterprises	247,386	232,811
Investment in tangible capital assets	<u>4,780,723</u>	<u>4,740,652</u>
Total accumulated surplus	\$ 5,432,254	\$ 5,251,082

### **Consolidated Statement of Operations**

The Consolidated Statement of Operations represents the revenue and expenses under the PSAB format for financial statements introduced in 2009. The budget and actual revenues and expenses reported in the Consolidated Statement of Operations will not match amounts reported to Council for a number of reasons. The consolidated financial statements include revenues from donated capital assets, expenses from the amortization of tangible capital assets and change in unfunded liabilities which are not included in the budget. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

## 2016 City of Hamilton Consolidated Financial Statements Analysis

These financial statements reflect the transfers to reserves of the City's municipal tax and rate operating budget surplus of \$30.5M as reported in report FCS16058b. The tax supported surplus was \$8.7M and the rate supported surplus was \$21.8M.

The annual surplus in the Consolidated Statement of Operations of \$181.0M represents the excess of revenue over expenses for 2016 under PSAB's full accrual basis of accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

**Revenue** increased by \$74.3M to \$1.838B in 2016 from \$1.764B in 2015 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2016</u> \$000's	Actual <u>2016</u> \$000's	Actual <u>2015</u> \$000's restated
<b>Revenue</b>			
Taxation	\$ 855,882	\$ 854,709	\$ 831,645
Government grants and contributions	369,634	385,447	384,363
User charges	309,888	332,601	315,340
Development charges and subdivider contributions	85,234	82,025	25,611
Donated tangible capital assets	16,646	16,646	43,571
Investment and dividend income	30,330	27,067	30,284
Net income from Government Business Enterprises	-	22,851	18,765
Other	<u>98,611</u>	<u>116,549</u>	<u>114,019</u>
Total revenue	\$ <u>1,766,225</u>	\$ <u>1,837,901</u>	\$ <u>1,763,591</u>

The increase in taxation revenue includes the 2016 Operating Budget property tax increase of 1.7%.

Government grants and contributions revenue increased by \$1.0M from 2015 to 2016. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2016</u> \$ millions	<u>2015</u> \$ millions
Ontario Works	128.2	124.3
Child Care	53.4	49.2
Public Health Services	28.8	33.0
Social Housing	21.7	31.0
Federal Gas Tax	40.1	36.6
Homes for the Aged	21.1	20.7
Emergency Medical Services - Ambulance	21.8	20.9
Homelessness	19.0	19.0
Pan American and Parapan American Games	4.6	7.7

## **2016 City of Hamilton Consolidated Financial Statements Analysis**

Provincial Gas Tax	14.7	15.3
Other capital grants	6.6	0.3
TradePort Infrastructure Funding	0.0	1.0
Other operating program grants	<u>25.4</u>	<u>25.4</u>
	385.4	384.4

User charges of \$332.6M primarily consist of water and wastewater revenues of \$200.3M (\$181.8M in 2015) and transit fares and fees of \$54.8M (\$59.4M in 2015). Other user fees are recorded in Recreation & Cultural Services of \$24.9M (\$20.2M in 2015), Social and Family Services of \$13.1M (\$13.1M in 2015), Waste Diversion & Disposal of \$10.9M (\$9.3M in 2015), Planning and Development of \$10.0M (\$11.2M in 2015) and Protection Services of \$5.7M (\$5.9M in 2015).

Development charges and sub-dividers’ contributions of \$82.0M was recognized as revenue in 2016 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

Donated tangible capital assets of \$16.6M represent assets that were donated or contributed to the City by developers and recorded as revenue as per PSAB accounting standards.

Investment and dividend income consists of investment income of \$27.1M from City municipal and housing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of \$22.9M from HUC and HRPI for 2016 (\$18.8M in 2015). This includes dividends to the City in 2016 of \$8.5M from HUC (\$9.6M in 2015) and \$0.06M from HRPI (\$0.25M in 2015). The “other comprehensive income (loss) from Government Business Enterprises” was an income of \$0.3M in 2016 (2015 - \$0.2M income) and represents the re-measurement of gains and losses arising from HUC’s post-employment liabilities.

Other Revenue of \$116.5M represents revenue from licenses and permits of \$19.5M (\$17.5M in 2015), rents of \$41.7M (\$39.9M in 2015), fines and penalties of \$28.5M (\$28.8M in 2015) and other miscellaneous revenue of \$26.8M (\$27.8M in 2015).

**Expenses** increased by \$29.8M to \$1.657B in 2016 from \$1.627B in 2015 and are reported in the Consolidated Statement of Operations as:

**2016 City of Hamilton Consolidated Financial Statements Analysis**

	Budget <u>2016</u> \$000's	Actual <u>2016</u> \$000's	Actual <u>2015</u> \$000's
<b>Expenses</b>			
General government	\$ 58,321	\$ 72,550	\$ 57,664
Protection services	298,473	306,629	300,362
Transportation services	326,663	310,190	318,605
Environmental services	253,034	238,553	219,339
Health services	99,141	98,443	105,377
Social and family services	301,465	302,830	294,343
Social housing	105,658	111,113	120,898
Recreation and cultural services	172,256	165,214	155,720
Planning and development	<u>52,903</u>	<u>51,514</u>	<u>54,882</u>
Total expenses	<u>\$1,667,914</u>	<u>\$ 1,657,036</u>	<u>\$ 1,627,190</u>

Expenses are summarized by the functional categories above in the Statement of Operations and by object of expenses in the Schedule of Operations for Business Segments in the Notes to the Consolidated Financial Statements. Expenses include salaries and benefits, interest on long term debt, material and supplies, contracted services, rents and financial expenses, external transfers, amortization of tangible capital assets and inter-functional transfers. These include expenses in the operating budget programs and expenses from specific projects in the capital budget that are not tangible capital assets. Expenses exclude principal repayments on long term debt recorded as reductions of long term debt and capital expenditures recorded as acquisitions and construction of tangible capital assets.

Expenses are summarized in the following categories as:

	<u>2016</u> \$ M	<u>2015</u> \$ M
Salaries and benefits	\$ 741.9	\$ 723.3
Interest on long term debt	12.9	14.3
Materials and supplies	221.5	223.4
Contracted services	276.2	248.8
Rents and financial expenses	34.3	36.4
External transfers	184.5	202.9
Amortization	<u>185.7</u>	<u>178.1</u>
Total	\$1,657.0	\$1,627.2

Expenses increased by \$29.8M to \$1,657.0M in 2016. The primary drivers of this increase are a \$27.4M increase in contracted services, \$18.6M increase in salaries, benefits and pensions and an increase of \$7.6M related to amortization of tangible capital assets. Reductions offset these increases with an \$18.4M reduction in external transfers, a \$1.9M reduction in materials and supplies, a \$2.1M reduction in rents and financial expenses and a reduction of \$1.4M for interest paid on long term debt.