



Date: November 23, 2022
To: Chair and Members of the Board
c.c.: Paul Takala, Chief Librarian/CEO
From: Tony Del Monaco, Director of Finance & Facilities
Subject: **2023 Operating Budget Report (2nd Review)**

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The 2023 Operating Budget is being submitted at a 3.5% increase which would result in a \$1,151,341 increase. The net levy municipal contribution would be \$33,861,325.

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. A 3.5% budget increase allows the Library to achieve these priorities and meet customer service demands.

BACKGROUND:

Over the last several years, the following direction has been received by Council and subsequent submissions by the Library Board:

	<u>Direction</u>	<u>Library</u>
2014	0.0%	0.2%
2015	-----	1.5%
2016	1.0%	1.0%
2017	1.8%	1.8%
2018	1.5%	1.8%
2019	-----	2.4%
2020	2.0%	2.0%
2021	2.0%	1.5%
2022	2.0%	2.5%
2023	-----	3.5%

As can be seen from past operating budget submissions, the Library has a strong track record of meeting City Council’s budget guidelines (no Council direction given this budget year). Over the past 10 budget cycles, the average annual increase in HPL’s operating budget has been limited to 1.8% per year (including this 2023 year).

HPL’s 2023 operating budget increase is at 3.5%.

2023 Budget Outlook:

The 2023 Operating Budget request is at a municipal contribution of \$33,861,325 which is an increase of \$1,151,341 or 3.5% over the 2022 Operating Budget of \$32,709,984.

Attached as Table 1 to this report is a 2023 Budget Outlook summarizing the changes by cost category.

Employee-related expenses are the primary driver and are budgeted to increase by \$1,115,691.

A 2.5% cost of living adjustment (COLA) for employee salary & wages has been built into the budget. This is higher than the COLA we've been using in recent years which was 1.6%. No formal budget direction has been received from City Council. The COLA of 2.5% is being used for budgeting purposes only. About \$480,000 of the staffing increase is related to the COLA adjustment factor.

The actual COLA for 2023 will be dependent on the outcome of contract negotiations between the City and their Union, CUPE 5167. Per the Library's contract with CUPE 932, we will match the COLA increases negotiated by the City and CUPE 5167 as they are our pay equity comparators. These negotiations are anticipated to take place sometime in 2023 with contracts being retroactive to January 2023.

Several positions were added to the budget bringing our Full-Time Equivalent (FTE) count from 297 up to 304. Positions added are a combination of management and customer service staff. In 2022 we made sweeping changes to our service hours system-wide. We listened to community member feedback and eliminated closed days during the week and expanded Sunday hours to include all regional branches in addition to Central. Operating under this model for a year has allowed us to identify needs in our staffing model that will be addressed with these additional positions. Salary and Wages of added positions total \$470,000. While FTE levels have fluctuated from year to year, overall levels have remained relatively controlled and stable over the past 10 years at an average of 302 FTE per year.

As for Employee Benefits, these are budgeted to increase \$277,000 overall. A driver that's new for the 2023 budget is the ability of more part-time staff to opt in to the OMERS pension plan. The current eligibility requirements for non-full-time employees have been removed so now all non-full-time employees may elect to join the OMERS Plan at any time. For those staff that elect to opt in, the Library would provide matching pension contributions. This will allow up to 80 part-time staff plus about 130 Pages to join. We have estimated that 30% of those eligible will opt to join the plan and have included a budgeted provision of \$132,000 to cover these expected costs.

To offset these expenses, we've increased our budget for gapping - ie. a budget provision for positions that remain vacant for a period of time during the year - from \$490,000 to \$600,000. This is based on past experience as well as expectation that higher than normal staff vacancy levels we're currently experiencing will continue to persist, albeit at much lower vacancy levels, into the first quarter of 2023.

Other Budget Areas

We've moved \$25,000 from the software budget (Materials & Supplies) to Service Contracts budget (Contractual Services). Occasionally we buy software, but it's more likely that we subscribe to it, and pay an annual fee through the Service Contracts budget. This is an area we'll need to monitor for future years' budgets for potential contract and inflationary increases.

The Vehicle Repairs for Auto Equipment budget has been reduced by \$20,000. This is something that was added to budget several years ago when Central Fleet charges kept coming in over budget. Central Fleet has since adjusted their budget for our vehicle repairs and actuals are now more consistently coming in close to budget which is allowing us to eliminate this budget item.

City charges for our share of the increase in City insurance premiums is resulting in a \$47,000 budget increase. There is a result of a city-wide increase in insurance premiums for 2023 over 2022.

Building and Ground – the City has changed the way they charge us for Hydro and Gas related to the Central Library. The Central Library's hydro and gas, along with many other downtown buildings, is provided by the Central Utilities Plant. Rather than charging the library budget directly for energy costs, the City will be charging first to a City Cost Centre which is then subsequently recovered from the Library. From a budgeting perspective, this is a neutral change. Charges will now be coming through the "Reserve Recoveries" budget line instead of the "Building & Grounds" budget line. This change has been reflected by a reduction in the Building & Grounds line and increase in the City Direct Facility Recoveries line.

Revenues

On the revenue side, minor changes include budgeted increases for expected increases in Newcomer Learning Centre grant funding (\$10,000). Photocopier revenue is expected to increase slightly (\$5,000) as operations continue to normalize after the pandemic.

Reserve Funding

Last year as part of the operating budget we introduced a transfer from library reserves to offset operating budget impacts. That budgeted transfer was for \$160,000 and was to be phased out over 5 years for a total reserve contribution to operating of \$500,000.

Due to higher than usual staffing vacancies that we continue to experience, we are expecting another larger than normal operating surplus again this year. Given that, we would like to use some of our surplus to offset a portion of the net City impact of our budget and have increased the budgeted reserve contribution for 2023 to \$200,000 and plan to extend the phase out period to 7 years for a total reserve contribution of \$700,000.

Table 2 provides a line by line breakdown of proposed budget changes for 2023.

Three Year Outlook

The Library participates 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 and is presented in Table 3.

We are forecasting an average increase of 2.8% from 2024 to 2026 to maintain levels of service. The following are key drivers of the 2024 to 2026 forecast:

- COLA has been budgeted at 2.5% for the three-year forecast period. A 3.0% percent increase in employee related costs has been assumed over the 3-year period to cover estimated 2.5% cost of living increases as well as increases in benefit costs.
- Building and Ground shows an increase for lease costs and security contract costs. Our security contract is coming up for renewal during the three-year period. We are expecting we will need to increase the budget provision for potential increases under the new contract.
- After Hours Study Halls is a service we're re-introducing. Pre-pandemic the service was offered at select branches from the closing of regular open hours until midnight. The cost of this service is about \$20,000 per year per location. The goal is to offer this service at Central and the six Regional branches. This would allow us to provide 108 Study Hall hours per week once it's fully rolled out. Costs of that service are built into the forecast as well.
- A provision for other general contract cost increases has been included as part of Contractual Services at \$25,000 to \$75,000 per year.
- A provision of \$30,000 to \$80,000 per year has been included in the Reserves/Recoveries budget as an estimate for City cost recovery increases and increased reserve provisions for capital enhancements.
- Indirect City Cost allocations have been estimated to increase by 2.5% inflation.
- Fees & General revenues are projected to remain stable with modest increases in grant revenue for the Newcomer Learning Centre program.
- Contribution from Reserves to support Operations is forecast to decrease by \$30,000 to \$40,000 per year until fully eliminated over a 7-year period.

Table 1 - 2023 Operating Budget Summary

	2022 Budget	2023 Budget	2023 \$ Budget Variance	2023 % Budget Variance
Hamilton Public Library				
Expenses Total	34,530,374	35,733,855	1,203,481	3.5%
Employee Related Cost Total	23,099,408	24,215,099	1,115,691	4.8%
Material & Supply Total	3,751,280	3,721,840	(29,440)	(0.8%)
Vehicle Expenses Total	108,541	90,024	(18,516)	(17.1%)
Building & Ground Total	2,604,130	2,014,610	(589,520)	(22.6%)
Contractual Total	1,696,770	1,721,770	25,000	1.5%
Reserves/Recoveries Total	2,495,188	3,183,928	688,740	27.6%
Cost Allocations Total	399,637	411,164	11,527	2.9%
Financial Total	375,420	375,420	0	0.0%
Revenues Total	(1,820,390)	(1,872,530)	(52,140)	2.9%
Fees & General Total	(380,940)	(383,080)	(2,140)	0.6%
Grants & Subsidies Total	(1,279,450)	(1,289,450)	(10,000)	0.8%
Reserves Total	(160,000)	(200,000)	(40,000)	25.0%
Net Levy	32,709,984	33,861,325	1,151,341	3.5%

Table 2 - 2023 Operating Budget Changes

Category	Budget Change \$	Drivers
EMPLOYEE RELATED COST	1,115,691	
Salaries & Wages	948,224	COLA adjustment, staffing changes
Benefits	277,467	OMERS, Vacation Pay, Health Benefits
Gapping	(110,000)	expected vacancies
MATERIAL AND SUPPLY	(29,440)	
Software Purchases	(25,000)	Budget moved to Contractual Services
Equipment Repairs	(4,440)	
VEHICLE EXPENSES	(18,516)	
Central Fleet Charges	(899)	Charges from City for vehicle maintenance
Licenses	(177)	Charges from City
Fuel-Diesel	1,220	Fuel for Bookmobiles
Fuel-Unleaded Gasoline	1,340	Fuel for Courier Trucks & Vans
Repairs - Auto Equipment	(20,000)	Already covered off in Central Fleet Charges
BUILDING AND GROUND	(589,520)	
Heating Fuel	(77,230)	Change to billing process; now charges to Recoveries Budget
Hydro	(505,260)	Change to billing process; now charges to Recoveries Budget
Water & Sewer	(15,260)	Change to billing process; now charges to Recoveries Budget
Security	8,680	Contract increases
IP Telephony Charges	(450)	City driven change
CONTRACTUAL SERVICES	25,000	
Lease & Service Contracts	25,000	Contract increases
RESERVES / RECOVERIES	688,740	
Transfer to Vehicle/ Equipment Reserve	4,000	City charge for future replacement of vehicles
City Direct Vehicle Insurance Recovery	4,644	Charges from City
City Direct Insurance Recovery	46,648	Charges from City
City Direct Facilities Recovery	635,543	Charges from City -- offset by reductions to Hydro, Gas, Water/Sewer budgets
City Postage/Freight/Courier Recovery	(2,095)	
COST ALLOCATIONS	11,527	
Facilities Helpdesk	5,813	City driven cost -- offset by Facilities Recovery decrease above
Driver Training	295	City driven cost
City Indirect Accounting Services Recovery	1,669	City driven cost
City Indirect Financial Applications Recovery	584	City driven cost
City Indirect Payroll Recovery	1,703	City driven cost
City Indirect Accounts Payable Recovery	607	City driven cost
City Indirect Procurement Recovery	379	City driven cost
City Indirect Budgets Recovery	393	City driven cost
City Legal Services Recovery	82	City driven cost
FINANCIAL EXPENSES	-	
EXPENSES	1,203,481	
FEES, GENERAL, & OTHER GRANTS	(2,140)	
Administration Fees	(1,000)	Lease revenue related to Carlisle branch ATM
Book Sales	4,000	Book sales being phased out
Photocopier Revenue	(5,000)	
Research Fees	(140)	
GOVERNMENT GRANTS & SUBSIDIES	(10,000)	
Federal Grants	(10,000)	Newcomer Learning Centre grant
RESERVES	(40,000)	
Contribution from Reserves	(40,000)	Contribution from Library Reserves now at \$200,000 for 2023
REVENUES	(52,140)	
NET LEVY	1,151,341	

Table 3 - Three Year Forecast

	2022	2023	2023	2024	2025	2026
	Budget	Budget	Change	Change	Change	Change
Total Expenses	34,530,374	35,733,855	1,203,481	923,983	995,783	963,300
EMPLOYEE RELATED COST	23,099,408	24,215,099	1,115,691	726,453	748,247	770,694
MATERIAL AND SUPPLY	3,751,280	3,721,840	(29,440)	5,000	5,000	8,000
VEHICLE EXPENSES	108,541	90,024	(18,516)	2,251	(20,000)	1,807
BUILDING AND GROUND	2,604,130	2,014,610	(589,520)	100,000	100,000	25,000
CONSULTING	-	-	-		20,000	
CONTRACTUAL	1,696,770	1,721,770	25,000	50,000	50,000	75,000
RESERVES / RECOVERIES	2,495,188	3,183,928	688,740	30,000	80,000	70,000
COST ALLOCATIONS	399,637	411,164	11,527	10,279	10,536	10,799
FINANCIAL	375,420	375,420	-	-	2,000	2,000
Total Revenue	(1,820,390)	(1,872,530)	(52,140)	20,000	10,000	10,000
FEES, GENERAL, & OTHER GRANTS	(380,940)	(383,080)	(2,140)	(10,000)	(10,000)	(10,000)
GOVERNMENT GRANTS AND SUBSIDIES	(1,279,450)	(1,289,450)	(10,000)	(10,000)	(10,000)	(10,000)
RESERVES	(160,000)	(200,000)	(40,000)	40,000	30,000	30,000
\$ Net Levy	32,709,984	33,861,325	1,151,341	943,983	1,005,783	973,300
% increase			3.5%	2.8%	2.9%	2.7%