



Date: November 15, 2023
To: Tamara Bates, Legislative Coordinator, Office of the City Clerk
From: Paul Takala, CEO/Chief Librarian
Tony Del Monaco, Director Finance & Facilities
Subject: **Hamilton Public Library Surpluses and Deficits**

At the November 15, 2023 meeting, the Library Board adopted this response to the communication dated October 12, 2023, regarding Hamilton Police Service and Hamilton Public Library Surpluses and Deficits.

The Library Board respectfully requests City Council consider maintaining the current arrangements regarding year-end transfers and not implement the changes in authority to the Library Board as proposed by the AF&A motion. Further, we support efforts to improve transparency and ensure appropriate policies are in place to advance consistency and adherence to processes, without changing the authority of the Library Board. We do not take issue with Council's legal authority to make the proposed change; however, it would change a relationship that has worked well for over 20 years to the benefit of residents, Council and tax payers. Limiting HPL's ability to adapt to changing community needs will constrain our effectiveness over time.

Background

The current arrangement with Library Reserves goes back to 2001 when the new library system was being amalgamated. The Hamilton Public Library is proud of the work staff and the Board have done over the last 20-plus years to ensure this arrangement has been used responsibly to benefit residents and tax payers. Every year we have worked closely with Council to ensure we are delivering excellent library services while being mindful of financial challenges the City faces.

Transparency

The Library Board has strived to ensure we use the funds we receive in a responsible and transparent matter. We support efforts to improve awareness of how our funds are used and a formalization of processes to ensure there is a formal and well-understood policy to govern this process going forward. HPL publicly reports on the status of the operating budget to the Board three times per year – two of which are in-year updates with projections on surpluses and deficits to the end of the fiscal year. One final year-end report on budget surpluses and deficits provides the recommendations to transfer surpluses to reserves, or to draw on reserves to cover deficits. Reserve status reports are also brought to the Board twice per year with projected transfers in and out from reserves.

Library Board Autonomy

The Public Library Act enables communities across the province to establish public library services that are overseen by an arm's length Library Board that is appointed by Council. This enables public libraries to develop a range of services that support the needs and aspirations of the communities we serve. This arrangement minimizes the risk of direct political interference in decisions around library material selection and program/service offerings. Intellectual freedom is better supported when decisions around access are in the hands of professionals that are ethically obligated to err on the side of respecting people's ability to inform themselves. While the proposed change does not now directly impact our authority over collections or programs, we see elsewhere in Canada, attempts to undermine the authority of the Library Board to serve all residents. This change would create a mechanism that future Councils might decide to utilize to limit the Library Board's autonomy.

Accountability to Council and the Community

The Hamilton Public Library has a well established positive relationship with Council. We know that trust takes work and time to build and can be easily broken, especially during times of stress. Public libraries all over the world understand that our foundation is built on supporting families and residents in the communities in which we reside. HPL's tradition has been to adapt to new challenges and nurture relationships with as many people as we can within our funding and mandate. Taking away the Library Board's ability to use reserves to make strategic investments in operations and service would remove an important tool the Library Board has had to adapt to changing needs. We know that the investments we make from reserves needs to be done responsibly and that in any year, Council could decide to reduce investment in library capital or operating funding. Mechanisms already exist to ensure the Library is accountable to Council and residents.

Leveraging Reserves to Fund Infrastructure and Innovation

One type of use of the reserves has been to invest in branch renovations or new building projects. Library reserves are not large enough to fund major renovations or new builds alone, so these are necessarily done in close coordination with the City, since City capital funding and use of Development Charges (DCs) already require Council approval to advance.

Smaller investments are also made using library reserves. HPL has a long history of using innovation to control costs and invest in areas of emerging needs. One example is the Board's investment in RFID technology, that has over time eliminated a large amount of repetitive work and facilitated our ability to shift staff to expand library programs and services without expanding our overall FTE count. Because of our arrangement regarding reserves, HPL was able to make these investments many years

before some of our peer libraries that had to wait for City capital approval. Like other public libraries, HPL is a relatively small part of the City's overall operating budget; it was 2.8% in 2023. As a small part of the overall budget, removing the Board's ability to make modest investments in innovation and access would likely result in larger City priorities getting more attention and support.

Impact of the COVID-19 Pandemic and Current Budget Challenges

The COVID-19 pandemic created a tremendous disruption to our community and it significantly impacted our operations. This resulted in a few years of surpluses outside of normal ranges. In recent years, the Library Board, through the operating budget process, has worked with Council to leverage library reserves to smooth out the impacts of operating budget increases. Given the Mayoral Directive to Staff (MDI-202302), staff are working with the Library Board to responsibly look at ways we can incorporate use of reserves to offset the impact of budget increases in 2024.

Library Reserves Policy

While the Library Board is supportive of the current practice, the Board also sees benefit in formalizing and clarifying some aspects. To this end, the Library Board commits to working with Library Staff to develop a Library Reserves Policy that encompasses operating surpluses and deficits and will share the Policy proposal with City Council. The establishment of an official Library Tax Stabilization Reserve, with a targeted balance, where surpluses would first be transferred to and deficits first drawn from, would be one desired outcome.

Conclusion

In sum, the use of reserves promotes stability in funding through reserve management. For much the same reasons that the City has established various reserves and transfers annual surpluses to those reserves, the use of Library reserves has been established for the same purposes. Tax dollars allocated for library service, remain with the library and encourages a philosophy of efficiency in use of resources which can be carried over from one year to the next, as deemed necessary by the Board. Retention of operating surpluses supports sustainability in funding opportunities for future service delivery.

We agree that improvements can be made by formalizing our year-end process via an appropriate Policy. The Library Board is committed to maintaining a healthy relationship with Council in a spirit of co-operation for the benefit of our community. Attached is a draft Library Reserves Policy (Appendix A) that outlines Reserve purposes, funding sources, and target balances where applicable. This includes the establishment of a new Library Tax Stabilization Reserve.

Library Reserves Policy (Draft)

Policy Level:	Library Board
Author:	Director, Finance & Facilities
Review Period:	4 Years
Approval Date:	TBD

POLICY PURPOSE

This policy sets out the reserves to be established, along with guidelines for sources, uses, and appropriate target levels for the Library's Reserve Funds.

This policy identifies the current funding sources, if any. This policy supersedes previous Board approvals regarding sources of reserve funding, however sources of reserve funding may change over time as future budgets are approved.

KEY POINTS SUMMARY

- Reserves are a useful tool to enhance prudent financial management that prevents significant fluctuations in operating budgets and helps manage cash flow by providing a source of funding to offset extraordinary, unforeseen, or one-time expenditures.
- Reserves are not intended to be a funding source for general operations but may be drawn on to smooth out extraordinary operating budget impacts.
- All uses of funds from Library Reserves must be approved by the Library Board.
- To be sustainable, reserves should have established funding sources that are reviewed on a regular basis. Where appropriate, target reserve balances should be established.
- A Library Tax Stabilization Reserve is to be established, funded by operating surpluses and used to offset potential operating deficits. The reserve may also be used at the Board's discretion for other expenditures with the aim of maintaining the target balance.
- The use of the Library Tax Stabilization Reserve and other Library Reserves help minimize Library operating and capital impacts on the City levy.

POLICY DETAILS

The Library currently has 10 reserves and 6 Trusts that have been established over the years. Each reserve/trust has been set up to serve different purposes. Some have dedicated funding sources while others do not. As part of this policy document, some of those reserves are being merged as outlined in Appendix A. This policy document also sets out to identify funding sources and target reserve levels where appropriate.

Past practice has been that Library operating surpluses are transferred to Library reserves for future use by the Board, thereby reducing future operating and capital budget impacts to the City. While the Library has not run a deficit in recent memory, any operating deficit would be funded from Library Reserves.

Through this policy, it is the Board's intention to formalize that practice via the establishment of a Library Tax Stabilization Reserve.

Any library surpluses are to first be transferred to this reserve at year end. This Library Tax Stabilization Reserve is to be used as the funding source for any operating deficits the Library may incur. This reserve also helps manage resources by providing a source of funds for extraordinary, unforeseen, or one-time expenditures at the Board's discretion thereby reducing impacts that would otherwise be pressures on the levy.

The Library Tax Stabilization Reserve's target balance is 10% of the Library's net levy rounded to the nearest million dollars. (ie. currently \$3 million based on 2023 net levy). Funds in excess of this target level may be transferred to other Reserves at the Board's discretion.

While reserves are not intended to be a funding source for general operations, they may be drawn on to smooth out extraordinary operating budget and associated net levy impacts.