



DATE: March 22, 2023
TO: Chair and Members of the Board
FROM: Tony Del Monaco, Director, Finance and Facilities
SUBJECT: Initial Report on Last Year Financials (Pre-Audit) - TD

RECOMMENDATION:

That the 2022 operating budget surplus of \$2,140,741 be transferred to the Library Major Capital Projects Reserve (#106008) in the amount of \$1,000,000 and to the Library General Development Reserve (#106007) in the amount of \$1,140,741.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The Hamilton Public Library experienced an operating budget surplus of \$2,140,741 in the 2022 fiscal year.

Including the budgeted municipal contribution of \$32,875,994, total revenues in 2022 were \$34,829,978 and 2022 total expenses (including reserve transfers) were \$32,689,238.

Table 1 provides a summary breakdown of 2022 revenues, expenses, and corresponding surplus. An explanation of the type of revenues and expenditures contained with each budget line of the Operating Budget Variance Report is provided along with an explanation of significant variances.

ATTACHMENTS:

- Year End 2022 Operating Budget Variance Report.pdf
- Table 1 - 2022 BVR Summary.pdf
- Table 2 - Financial, Materials and Supplies Detail.pdf
- Table 3 - Reserves and Recoveries Detail.pdf

Date: March 22, 2023
To: Chair and Members of the Board
c.c. Paul Takala, Chief Librarian
From: Tony Del Monaco, Director of Finance & Facilities
Subject: **2022 Operating Budget Variance Report**

REVENUES

SENIOR GOVERNMENT GRANTS AND SUBSIDIES

\$21,487 Favourable (2021 - \$30,360 Unfavourable)

This line includes the annual operating grant from the Province of Ontario which is received annually for \$949,450 and other funding by Provincial and Federal governments for specific grant programs such as the Newcomer Learning Centre (NLC) grant. The claims for funding of the NLC program are submitted quarterly to the federal government.

The favourable variance is attributable to the Healthy Communities WiFi Grant in the amount of \$50,000. The grant allowed us to install additional WiFi access points at various locations to improve WiFi connectivity. We also budgeted \$25,000 for New Horizon's grant funding for seniors' programs however our 2020 grant was extended to March 2022 and so only \$9,000 was recognized in the 2022 fiscal year.

FEES, GENERAL, & OTHER GRANTS

\$41,228 Unfavourable (2021 - \$141,948 Favourable)

Major items contained in this line are revenues from photocopier & printer revenues, third-party grants and contributions, as well as any donations received.

Printer/photocopier usage was impacted by reduced branch hours and in-person visits in the first half of the year but has been trending up as visits have been increasing. As a result, printer/ photocopy revenue was only \$99,000 in the year, or \$50,000 under budget. For the same reason Room Rental fees were also about \$20,000 under budget.

We do not budget for donations, however donations received in the year of \$20,688 helped offset the negative variance. Many of these same factors existed last year, however we received over \$200,000 in donations last year that resulted in the \$142,000 favourable variance in this budget category in 2021.

RESERVE RECOVERIES

\$128,154 Unfavourable (2021 - \$3 Favourable)

We had budgeted a reserve transfer of \$160,000 from library reserves to support the operating budget in 2022. Given the surplus, this reserve transfer was not needed and is the main reason for the variance.

A \$25,000 transfer from the Donations Reserve was approved to offset the costs related to the purchase of Youth PRESTO passes. This is offsetting the variance.

EXPENSES

EMPLOYEE RELATED COSTS

\$2,300,473 Favourable (2021 - \$4,065,046 Favourable)

This line includes all the employee related costs such as salaries, wages, and government and employer benefits including medical, dental, OMERS, and WSIB.

We continued to experience higher than normal levels of staff vacancies in the first half of the year which was the main driver of the variance. As vacancies were filled we began to open for longer hours with Central and select regional branches now open on Sundays starting as of mid-September. Now that COVID-19 impacts on staffing have diminished, staff secondments have ended, and we continue to build out staffing to meet our new target open hours, we do not anticipate that we will experience such a variance in 2023.

To start 2022, we also had about 20 staff seconded to the City to help with the pandemic response and vaccine rollout efforts. Those secondments have since ended. While on secondment the wages and benefits of those employees were paid by the relevant City department which has contributed about \$160,000 towards the favourable variance.

CAPITAL FINANCING

\$166,962 Favourable (2021 - \$3 Unfavourable)

This line reflects the repayment of debentures issued by the City of Hamilton to fund Library capital projects. Any budget variance does not contribute to the Library's surplus position however, since any surplus/deficit is transferred to/from other City cost centres.

FINANCIAL

\$155,718 Favourable (2021 - \$158,154 Favourable)

The favourable variance is primarily a result of savings related to processing fees for library materials of about \$160,000. Processing fees are tied to the level of material purchases which is outlined below.

More detail on Financial expenses follows at the end of this report in Table 2.

MATERIALS AND SUPPLIES

\$50,927 Favourable (2021 - \$600,161 Favourable)

Spending on Collection Materials and Subscriptions was \$375,000 under budget. Factors include lower than anticipated spending for cost-per-circulation based e-products such as Kanopy and Hoopla Digital streaming services, lower than anticipated processing costs for collection items and less collections-related projects carried out in 2022 compared to 2021. With in-person visits and physical circulation expected to continue to rise back to pre-pandemic levels we expect collections spending to be closer to budget going forward.

Offsetting that was spending on operating equipment which was \$130,000 over budget as a result of spending on new WiFi access points across the system along with the new boardroom interactive display and security camera upgrades. Spending on the WiFi access points was funded in part by grant funding in the government grants and subsidies budget line.

The operating supplies budget was \$87,000 over budget, partly related to the purchase of Youth PRESTO passes which were funded in part by a \$25,000 transfer from the Donations Reserve. About \$20,000 was incurred for pandemic-related supplies such as for laminator machines and related supplies. We also incurred \$31,000 in unbudgeted pandemic related supplies costs for personal protective equipment (masks) and cleaning supplies (wipes, hand sanitizer).

More detail on Materials and Supplies expenses follows at the end of this report in Table 2.

VEHICLE EXPENSES

\$13,202 Favourable (2021 - \$38,202 Favourable)

This line includes vehicle expenses such as maintenance costs, fuel costs, and vehicle washing. Included are fleet related work orders done by the City to maintain our vehicles. The main reason for the favourable variance is due to Central Fleet maintenance work orders and repairs being under budget.

BUILDINGS AND GROUNDS

\$456,048 Favourable (2021 - \$59,940 Favourable)

This line includes facility related costs that are paid directly by the Library and not through a cost allocation from the City. It includes costs for security guards and utilities costs for buildings that are not shared with other City facilities such as heating, hydro, data, and external telephone lines.

Starting in 2022, the City changed the way they charge us for Hydro and Gas related to the Central Library. Rather than charging the library budget directly for

energy costs, the City is charging first to a City Cost Centre which is then subsequently recovered from the Library.

From an overall budgeting perspective, this is a neutral change. Charges are now coming through the "Reserve Recoveries" budget line instead of this "Building & Grounds" budget line which is the primary reason for the favourable variance of \$665,000 in this budget category.

Offsetting this was expenses relating to security guard charges which were \$324,000 unfavourable. Some of this however - about \$140,000 - was recovered from the Hamilton Farmer's Market (as can be seen from the Reserves/Recoveries budget line). With masking requirements still in place for much of the first half of the year we had guards stationed at entrances at Central and rural extended access hours locations to ensure compliance. We also began offering Study Hall hours at select regional branches in the fall.

Also contributing to the favourable variance is the Capital Enhancement account surplus (\$85,000 favourable) which was transferred to the Capital Enhancement Reserve.

CONSULTING

\$0 Variance (2021 - \$20,414 Unfavourable)

There is currently no budget for consulting and no operating expenses on consulting were incurred in 2022.

CONTRACTUAL

\$239,901 Unfavourable (2021 - \$119,180 Unfavourable)

This line includes expenditures for items such as computers, servers, photocopiers, advertising, service contracts, and programming.

The main contributor to the variance relates to the public computer renewal we undertook in 2022. We spent about \$350,000 on new public computers and iMacs across the system. However, we did not spend operating dollars on new servers this year. In total the Computer & Servers replacement budget was about \$138,000 over budget.

Other contributors to the variance are higher than budgeted service contracts for equipment such as sorter, self-check, and RFID maintenance as well as systems such as the ILS system and Collections catalogue (\$137,000 unfavourable).

Unbudgeted COVID related cleaning costs of \$37,000 were also incurred. Additional cleaning measures were put in place to ensure that our branches were cleaned and sanitized to ensure the safety of the public and our staff. As of the beginning of May, we returned to pre-pandemic cleaning practices as it relates to

touch points and surfaces which was in line with recommendations from Public Health.

The Programming budget was \$55,000 favourable this year which offset these costs to a degree.

RESERVES/RECOVERIES

\$614,793 Unfavourable (2021 - \$190,212 Unfavourable)

This line includes expenses for City cost recoveries as well as reserve transfers.

Cost recoveries include the cost of insurance, building repairs, regular contract cleaning, snow removal, landscaping, and utility allocations for heat and hydro in shared facilities and now our Central Branch. Also included are salary allocations for City maintenance staff that work in-part for the Library.

City cost recoveries were \$540,000 over budget mainly related to the change in charging for utilities at Central which was noted in the "Buildings and Grounds" budget category. In 2022, the budget for these charges was in the "Buildings & Grounds" line while the charges were expensed to the "Reserves/Recoveries" budget. The budget for these charges has since been moved to this Reserve/Recoveries line for the 2023 year.

The City's capital financing surplus transfer to City Reserves (\$166,000) is also another factor that results in an unfavourable variance for this line item. As mentioned above, this unfavourable variance is offset by the surplus identified in the Capital Financing budget line, so there is no net impact to the Library.

Also contributing to the unfavourable variance is the first of five annual payments back to the City related to the LED Upgrade Project was made in 2022 (\$58,000). A total of \$130,000 remains to be repaid out of the operating budget over a 5-year period. Payments decrease gradually each year. The City funded a large portion of the project costs from their reserves with the understanding that the Library would repay the reserves. The City Office of Energy Initiatives estimates that the project will result in an annual energy cost savings of \$38,500 per year.

Market recoveries for security guard charges offset the variance by \$100,000.

Account surplus transfers to reserve included \$50,000 related to printer/photocopier revenues, over \$16,000 in undirected donations, and \$85,000 related to the Capital Enhancement account surplus.

There was not a surplus in the Computers and Servers account this year as a result of the computer purchases that were all paid out of the operating budget.

A breakdown of the Reserves/Recoveries variance is provided in Table 3 to this report.

NET SURPLUS

\$2,140,741 Favourable (2021 - \$4,702,285 Favourable)

Overall, the 2022 net operating surplus was \$2,140,741. We are recommending to transfer this surplus to the Library Reserves in the amounts noted in the recommendation that accompanies this report.

Table 1: Budget Variance Report				
For Year Ended December 31, 2022				
	Annual Budget	Actual	Variance Favourable/ (Unfavourable)	% Spent
Revenues:	\$	\$	\$	
Municipal Contribution	(32,875,994)	(32,875,994)	-	100.0%
Gov't Grants & Subsidies	(1,279,450)	(1,300,937)	21,487	101.7%
Fees, General, & Other Grants	(380,940)	(339,712)	(41,228)	89.2%
Reserves/Capital Recoveries	(441,490)	(313,336)	(128,154)	71.0%
	(34,977,874)	(34,829,978)	(147,895)	99.6%
Expenditures:				
Employee Related Costs	23,099,408	20,798,935	2,300,473	90.0%
Capital Financing	447,500	280,538	166,962	-
Financial	375,420	219,702	155,718	58.5%
Materials and Supplies	3,751,280	3,700,353	50,927	98.6%
Vehicle Expenses	108,540	95,338	13,202	87.8%
Building and Grounds	1,837,510	1,381,461	456,048	75.2%
Consulting	-	-	-	-
Contractual	2,463,390	2,703,291	(239,901)	109.7%
Reserves and Recoveries	2,894,825	3,509,619	(614,793)	121.2%
	34,977,874	32,689,238	2,288,636	93.5%
Net Surplus	-	(2,140,741)	2,140,741	93.9%

Table 2: Financial, Materials and Supplies Details				
Description	Budget	Estimated Actual	Favourable/ (Unfavourable) Variance	Explanation
Legal Fees	40,000	42,415	(2,415)	
Cash Over/Short	-	(360)	360	
Debit & Credit Card Processing Charges	14,680	10,163	4,517	Charges for customer use of eCommerce, credit, and debit cards. Reduced in-person activity resulted in less fees.
Audit Fees	7,220	10,685	(3,465)	Our share of increase in fees as approved by City.
Appraisal Fees	2,000	2,243	(243)	
Processing Fees	300,000	139,710	160,290	Tied to Library Materials spending
Other Fees & Services	11,520	14,847	(3,327)	
FINANCIAL TOTAL	375,420	219,702	155,718	
Operating Supplies	216,900	304,376	(87,477)	Purchases of Presto Passes; new Central sorter supplies; iPads for Customer Survey; Laminators and supplies
Computer Software	53,060	1,267	51,793	Most software we use is leased rather than bought. Consider moving funds to lease/contract budget.
Covid Safety Equip & Cleaning Supplies	-	31,390	(31,390)	Masks, Wipes, Hand Sanitizer
Operating Equipment	135,020	266,820	(131,800)	New WiFi access points (related to the Healthy Communities WiFi Grant), Boardroom AV, Security Camera upgrades
Furniture & Fixtures	50,000	82,917	(32,917)	Includes Westdale Shelving, new book trucks
Library Materials	2,432,570	2,208,497	224,073	
Subscriptions	700,000	548,561	151,439	
Repairs-Equipment	4,440	346	4,094	
Postage/ Freight/ Courier	3,270	7,946	(4,676)	
Printing and Reproduction	82,000	106,000	(24,000)	Increasing Printer & Copier usage
Other Fees & Services	74,020	142,233	(68,213)	
MATERIAL & SUPPLIES TOTAL	3,751,280	3,700,353	50,927	
Processing Fee	300,000	139,710	160,290	
Library Materials	2,432,570	2,208,497	224,073	
Subscriptions	700,000	548,561	151,439	
Total Collections	3,432,570	2,896,768	535,802	

Table 3 - Breakout of Reserve/ Recoveries Variance

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favourable/ (Unfavourable)</u>	<u>Notes</u>
<u>City Cost Recoveries</u>				
Direct Cost Recoveries	\$ 2,306,274	\$ 2,845,859	\$ (539,585)	Costs that City incurs and directly recovers from us based on actual related costs
Indirect Cost Recoveries	\$ 235,581	\$ 235,581	\$ (0)	Costs that City incurs and indirectly recovers from us based on cost allocation estimates
Other Recoveries	\$ (38,100)	\$ (140,027)	\$ 101,927	Recovery from Market for security
<u>City Financing</u>				
Capital Financing Surplus	\$ -	\$ 166,010	\$ (166,010)	Fully funded and paid by City (offset by favourable variance in the Capital Financing line).
Internal Debt Charge	\$ -	\$ 58,210	\$ (58,210)	Repayment to City Energy Reserve for LED Lighting Replacement project.
<u>Budgeted Reserve Transfers</u>				
Transfers to Reserve	\$ 194,630	\$ 151,786	\$ 42,844	See below for breakdown of actual transfers to reserve
Trsf To Veh/Equip Rsve	\$ 23,440	\$ 19,200	\$ 4,240	Transfers to City Reserves for replacement of Library vehicles (excludes Bookmobiles)
Provision For Collections & Equipment	\$ 49,000	\$ 49,000	\$ (0)	Transfer to Library Collections Reserve (\$25k) and Computer Equipment Reserve (\$24k)
Provision to Reserve for Cap Enhance	\$ 85,000	\$ 85,000	\$ 0	New transfer to Library Capital Enhancement Reserve
Replace Of Auto Equip	\$ 30,000	\$ 30,000	\$ -	Transfer to the Library Mobile Equipment Reserve (future Bookmobile replacements)
Provision-R & M Grounds	\$ 9,000	\$ 9,000	\$ -	Transfer to the Library Major Capital Reserve
Reserves/ Recoveries Variance	\$ 2,894,825	\$ 3,509,619	\$ (614,793)	

Actual Transfers to Reserve

Donations	\$ 16,878	Revenue is recognized in the Fees, General & Other Grants line, contributing to that favourable variance.
Copier/Printer Revenues	\$ 50,000	Revenue is recognized in the Fees, General & Other Grants line, contributing to that favourable variance.
Capital Enhancement Account Surplus	\$ 84,908	Account surplus reflected in the Buildings & Grounds line
Computer/Servers Account Surplus	\$ -	No surplus for this account.
	\$ 151,786	