

To: COUNCIL

Meeting Date: 04/16/20

Subject: 2020 Cost Containment Plan

Submitted By: Sheryl Ayres, Chief Financial Officer

Prepared By: Sheryl Ayres, Chief Financial Officer

Report No.: 20-118(CRS)

File No.: C1101

Recommendation(s)

THAT report 20-118 (CRS), re: 2020 Cost Containment Plan be received for information.

AND THAT the Federal and Provincial governments be requested to provide municipalities with an operating grant to help municipalities fund current operations and maintain appropriate service levels during the COVID-19 crisis, and further allow for service levels to quickly be re-established during the period of recovery.

AND FURTHER THAT this report be forwarded to the local MP, MPP, FCM, AMO, the Federal Minister of Finance and the Ministers of Municipal Affairs and Housing and the Minister of Finance for the Province of Ontario.

Executive Summary

Purpose

- To advise Council of a Cost Containment Plan that is being implemented to ensure financial sustainability of the City through controlling costs to the greatest extent possible and to offset lost revenues due to COVID-19.

Key Findings

- The COVID-19 pandemic is expected to impact the world economy.
- Locally the pandemic is creating financial challenges for the City as well as residents and businesses in the community.

- Tax policy changes to waive penalties and interest for April and May, a reduction in revenues such as parking and licenses as well as the closure of our facilities and cancellation of programs, events, and rentals have a significant impact on the people we serve while also leading to a significant loss in revenue for the City.

Financial Implications

- Based on an initial analysis of the expected loss of revenues and additional costs related to the pandemic, it's estimated that the City will experience a monthly loss of \$625,200 in tax-supported operations and \$13,500 for water utility operations.
- These initial estimates will likely increase over time based on the overall duration of the event and the response efforts that are required.
- The City's cashflow and investment income continues to be monitored in light of lower than anticipated revenues and likely delayed collections of property taxes and water utility bills, as well as interest rate cuts by the Bank of Canada announced in March 2020.
- The purpose of the City's Rate Stabilization Reserve is to provide funding for unforeseen events such as the current pandemic. However, the reserve is currently underfunded and may not be sufficient to absorb the full financial impact if the pandemic continues for an extended length of time or there is another unforeseen circumstance that requires funding.
- Staff have implemented a Cost Containment Plan with a number of directives to reduce costs and offset lost revenues as a result of COVID-19 and to ensure the long term financial sustainability of the City.
- As per the Municipal Act, the City must fund any annual deficit through the budget in the following year. Given the current crisis, this has the potential to create a significant burden on the ratepayers in the community. Therefore, financial assistance will be required from the provincial and federal governments.

Background

On March 25, 2020 Council approved report 20-108 (CRS) which outlined the financial implications related to COVID-19. The overall financial impact of the COVID-19 pandemic loss of revenues is estimated to be \$1,250,400 for tax-supported operations and \$27,000 for water utility operations for the months of April and May. Depending on the length of time the pandemic occurs, the financial loss to the City has the potential to be significantly more than this estimate.

With lower than anticipated cash-flows due to lost revenues, as well as likely delayed payments on property tax and water utility accounts, it is expected that the City's investment income will be impacted. The Bank of Canada lowered its overnight rate by a full percent through two announcements in March, in efforts to counter the impacts of COVID-19 on the economy. This will further affect the City's investment income. Staff continue to monitor the City's cash flow and investments, and resulting forecasted investment income.

The report approved by Council indicated there is sufficient funding in reserves to cover the financial loss estimated at the time of writing the report. Any resulting deficit in the tax-supported operations may be funded from the Rate Stabilization Reserve, which has an uncommitted balance of \$2,962,406 as of December 31, 2019. Both the Government Finance Officers Association and BMA Management Consulting recommend a target balance for the Rate Stabilization Reserve between 5% - 15% of tax revenues. For the City of Cambridge this translates to a target of \$4.68M - \$14.06M. Although there is sufficient funding currently in the reserve to cover the estimated loss for the months of April and May, the City's reserve is currently underfunded and this leaves the City at great risk if the COVID-19 pandemic continues for an extended length of time or there is another unforeseen circumstance that we need to draw funds for. Therefore, a cost containment plan has been implemented to ensure financial sustainability of the City through controlling costs to the greatest extent possible and to offset lost revenues due to COVID-19.

Analysis

Strategic Alignment

PEOPLE To actively engage, inform and create opportunities for people to participate in community building – making Cambridge a better place to live, work, play and learn for all.

Goal #2 - Governance and Leadership

Objective 2.5 Focus on the responsible management of financial resources, ensuring transparency and accountability.

The 2020 Cost Containment Plan supports responsible oversight of financial resources. It also ensures program managers and departments are held accountable for the programs they manage and provide transparency as to where public dollars are spent.

Comments

Cost Containment Plan Principle:

Ensure financial sustainability of the City through controlling of costs to the greatest extent possible and offsetting lost revenues as a result of COVID-19.

Outcomes:

1. Control costs through the management of discretionary spending items
2. Recover costs where possible through grants and other forms of financial assistance
3. Minimize any potential deficit in the City's operating fund at end of year
4. Mitigate the impact on the City's reserves

Action Items:

The Cost Containment Plan includes the following list of initiatives and directions, which can be categorized by City directed initiatives versus ongoing and naturally occurring items:

City Directed Initiatives

Account/Initiative	Direction	Estimated Savings
Professional Development	All <i>discretionary</i> Professional Development shall be cancelled in 2020. Professional development that is required as per legislation, to maintain a professional designation or continuing education in which the City has committed to through Human Resources will be permitted.	\$245,000
Overtime	Minimal overtime shall be incurred as there are staff at home on standby that can be filling in where needed.	\$540,000
Program Supplies and Materials	Reduction to Program Supplies and Materials accounts by 25%.	\$805,000
Other Staffing Costs (Meals and Catering, Mileage and Clothing Allowance)	Reduction to Other Staffing Costs accounts by 25%. This includes reductions to meals and catering, mileage and employee Clothing Allowance especially in areas where employees are at home on standby.	\$159,000

Account/Initiative	Direction	Estimated Savings
General Maintenance contracts	Reduction to General Maintenance contracts – contacting vendors who do regular services in our facilities and advise that service levels are either reduced and/or suspended since facilities are closed (ie. Floor mats, living wall in City Hall, janitorial services, window cleaning).	\$24,000 per month (Dependant on timing of facility closures).
HR Recruitment	All HR recruitment is on hold unless approved by the Corporate Leadership Team.	To be determined in consultation with departments.
Recreation Programs	Review and consider cancelling any recreation programs that run significant deficits and/or are heavily subsidized by the tax base.	To be determined in consultation with departments.
Reduction in levels of service *	Consideration for reducing levels of service possible (ie. reduction of grass cutting and other maintenance activities on sports fields; only responding to urgent calls for urban forestry).	<p>To be determined in consultation with departments.</p> <p>Examples could include:</p> <ul style="list-style-type: none"> • Urban Forest Renewal • Leaf Pickup • Condition Assessments • Traffic Safety Program (2020 Growth Item) • Sidewalk and Pavement Management • Outdoor Pools
New programs and initiatives included in the 2020 budget	Consideration of not proceeding with new programs and initiatives included in the 2020 budget and delaying implementation until 2021.	To be determined in consultation with departments.
2020 Capital Projects	Defer potential 2020 capital projects to help with cash flow.	To be determined in consultation with departments.

* When considering reduction to levels of service, careful consideration will be given to risk and liability to the City.

Naturally Occurring

- Additional salary gapping savings as well as savings related to the closure of recreation facilities and program cancellations;
- Identify fuel savings for vehicles and equipment considering the reduction in gas prices and utilization;
- Forecast hydro and natural gas savings as a result of facility closures and the Province's announcement of rate reductions.

Roles and Responsibilities

The Cost Containment Plan has been approved by the Corporate Leadership Team and presented to the Senior Management Team and communicated to program managers and program staff accountable for budgets. Initiatives have either already been implemented or will take effect immediately. Finance staff and Human Resources will support staff in implementing the directives and identifying savings related to each item listed above.

Reporting

Any departmental savings identified through the Cost Containment Plan will be included in the April and September Forecast reports to Budget and Audit Committee.

Existing Policy/By-Law

There is no existing policy/by-law.

Financial Impact

The overall monthly financial impact of the COVID-19 pandemic loss of revenues and additional costs is estimated to be a deficit of \$625,200 for tax-supported operations and \$13,500 for water utility operations, at this time. However, this initial estimate has the potential to increase depending on a number of factors such as the duration of the pandemic, the overall impact to the economy and the response efforts required.

A reduction in revenue and delay in collection of property taxes and water utility bills will impact the City's cash flow and in turn investment income. Further compounding the impact to investment income, the Bank of Canada announced interest rate cuts that impact the rate of return on future investments. The overall impact to cash flow and investment income is being monitored on a regular basis.

To reduce the impact on the City's Rate Stabilization Reserve, which is currently underfunded compared to municipal best practices, staff have implemented a Cost

Containment Plan with a number of directives to reduce costs and offset lost revenues as a result of COVID-19. These measures have been put in place to ensure the long term financial sustainability of the City.

Under the Ontario Municipal Act, a municipality must fund any annual deficit through the budget in the following year. Given the current crisis, this has the potential to create a significant burden on the ratepayers in the community. Staff will continue to identify areas where costs can be avoided but it's difficult to accurately forecast the full financial impact at this time since the end of this crisis cannot be predicted. Therefore, financial assistance will be required from the provincial and federal governments.

Public Input

Posted publicly as part of the report process.

Internal/External Consultation

The cost containment measures have been discussed with the municipalities in the Region of Waterloo. Similar measures are being implemented in each municipality to mitigate the impacts of the current economic crisis on the greater community.

Conclusion

As a result of the current pandemic, the City of Cambridge will be impacted through financial loss as a result of a reduction in overall revenue, delays in collection of property taxes and water utility bills and increased costs. The financial impact is estimated to result in a deficit to the City in 2020 of which the full extent cannot be quantified at this time and is dependent on the duration of the pandemic, the overall impact to the economy and the response efforts required.

The City is taking proactive measures to mitigate the overall impact through a Cost Containment Plan; however, further assistance will be required from the Federal and Provincial governments to reduce the overall financial burden on the community.

Signature

Division Approval

Reviewed by Legal Services



Name: Sheryl Ayres
Title: Chief Financial Officer

Departmental Approval



Name: Dave Bush

Title: Deputy City Manager, Corporate Services

City Manager Approval



Name: David Calder

Title: City Manager

Attachments

- N/A