

# Grand River Conservation Authority

**Report number:** GM-10-22-81

**Date:** October 28, 2022

**To:** Members of the Grand River Conservation Authority

**Subject:** Budget 2023 – Draft #1

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## Recommendation:

THAT Report Number GM-10-22-81 - Budget 2023 - Draft #1 be received as information.

## Summary:

This report summarizes the first draft of the 2023 Budget which shows breakeven results. Overall the 2023 Budget includes \$33,279,188 in expenditures (Budget 2022: \$34,874,364) and Municipal General Levy is budgeted to increase by \$438,000 (or 3.5%) to \$12,968,000.

The budget outlines revenue and expenses for current GRCA Programs which have been categorized as:

- Operating
- Capital Maintenance
- Special projects

GRCA programs are funded by:

- Municipal General Levy
- Other Municipal Funding (by special agreements)
- Provincial and Federal Grants
- Self-Generated Revenue
- Funding from Reserves

The operating budget assumes the continuation of current GRCA programs and services and their associated funding sources. The new government regulations pertaining to mandatory versus non-mandatory programs (Category 1, 2, 3) will come into force on January 1<sup>st</sup>, 2024. As a result, this draft assumes Municipal General Levy will continue to apply in 2023 in the same manner as it has in the past.

This draft 2023 budget assumes that the \$449,688 provincial section 39 grant will be the same as the 2022 grant amount.

The special projects category represents spending on projects where special funding is received and does not rely on Municipal General Levy for funding.

	2023	2022	Increase/(decrease)
<b><u>EXPENDITURES</u></b>			
Operating Expenses	\$27,695,188	\$26,497,365	\$1,197,823
Capital Expenses	\$4,104,000	\$5,102,000	(\$998,000)
Special Projects	<u>\$1,480,000</u>	<u>\$3,275,000</u>	<u>(\$1,795,000)</u>
<b>Total</b>	<b><u>\$33,279,188</u></b>	<b><u>\$34,874,365</u></b>	<b><u>(\$1,595,177)</u></b>

Note: Use of the term capital expenses for spending that is funded with municipal general levy refers to major maintenance, water control structure studies, or water management equipment.

## Report:

### A. OPERATING BUDGET

#### (a) Mandatory vs Non-Mandatory Program Mandate

This draft assumes no change to current program delivery for 2023 except the following:

- Continuation of the wind-down of the residential property rental program that was approved by the General Membership on July 22, 2016.
- Conservation Area budget will be based on 2022 activity. Continue to set target of breakeven result for Conservation Area Operations excluding the allocation of corporate overhead costs.
- Resource Planning fee revenue continues to realize revenue in excess of the current year budget. Staffing has been increased to help address the increased demand. This budget draft assumes that the revenue trend will continue into 2023.
- Environmental Education budget will assume that only school program contracts will be in place. There is no activity assumed for community programs and no day camp activity.

#### (b) Section 39 Funding

- It is assumed that there will no further cutbacks in the provincial Section 39 grant for the period April 1, 2023 to March 31, 2024 and therefore the Section 39 grant amount will remain at \$449,688.

#### (c) Municipal General Levy

- The 2023 Budget includes \$12,968,000 in municipal general levy, which is a \$438,000 (or 3.5%) increase over 2022. This amount represents an increase of \$438,000 to the operating levy component and no change to the major maintenance levy component.

#### (d) Surplus Assumption

- The budget draft assumes a \$100,000 surplus carry forward from 2022.

#### (e) Transition Reserve (created in 2021)

- The rationale (purpose) for the reserve is to fund expenditures related to the transitioning of GRCA to new provincial regulations requirements and/or fund costs related to managing expenses impacted by COVID-19 or revenue losses due to COVID-19. As at December 31, 2021, the reserve balance is approximately \$1.6 million.
- The strategy for Budget 2023 draft #1 is to utilize the transition reserve to fund one temporary staff position to assist with some of the deliverables required by the new regulations. The reserve is budgeted to be drawn down by \$100,000

#### (f) Compensation and Benefits and Staffing Comments:

- The 2023 draft budget includes a 4% increase for compensation and benefits which allows for a general wage increase, grid steps within wage scales, and benefit cost increases. In addition, three positions are being added to the budget. A permanent engineering position (\$175,000) is being added (due to restructuring of the engineering division) and this position will be funded with the newly created Water Management Operating Reserve. A temporary land management analyst position (\$100,000) is being added (to undertake projects related to the new regulations) and this position is being funded with the transition reserve. To the extent that staff vacancy savings may be realized during 2023 due to the challenging labour market, the need to access the reserves may be lessened. An IT administrator position (\$100,000) is being added resulting in an increase in administrative expenses related

- to increased computer charge-out rates across all programs. This increase to the budget is being offset by decreases to administrative expenses related to travel and communication expense savings.
  - Non-union salary adjustments are required to be approved by the General Membership which is typically presented in November or December for the subsequent year. The Collective Agreement expired December 31, 2021 and a new agreement has not been negotiated to date.
- (g) COVID Costs
- No incremental COVID-19 costs are being budgeted for 2023.
- (h) Residential Rental Program
- The Residential Rental Program is in the process of winding down. The budgeted 2023 revenue of \$110,000 assumes no decrease in occupancy during 2023.
  - The budgeted net result for this program is a \$25,000 deficit.
- (i) Environmental Education
- Negotiations with school boards for 2022/23 contracts have been completed. The first draft of the budget assumes that 2022/23 school contracts will be extended for the 2023/24 school year. This draft does not include any community or day camp program delivery. Decisions regarding the future format and scope of the Environmental Education program will be incorporated into future budget drafts as applicable.
- (j) Conservation Areas
- Conservation Area 2023 budgeted revenue of \$10,000,000 is approximately \$1,000,000 less than projected revenue of \$11,000,000 for 2022. This draft of the 2023 budget assumes limited canoe/kayak rentals and no concession sales.
  - Operating expenses are being increased to correspond with the increase in revenue.
  - The program is budgeted to break even excluding any allocation for corporate overhead expenses. The revenue and cost assumptions will be revisited once actuals for the full 2022 season are available and the scope of activities/services delivered is reviewed.
- (k) Hydro Generation Revenue
- Hydro revenue increased \$50,000 to reflect average annual historical revenue. This increase helped to contain the required municipal general levy increase and achieve overall breakeven results.

## **B. CAPITAL & MAJOR MAINTENANCE BUDGET**

- (a) Major Maintenance Spending Water Control Structures
- The budget is set at \$1,500,000. Any demands that arise in excess of that amount can be funded with the Water Control Structures reserve and/or the Land Sale Proceeds reserve. Staff continue to seek funding to repair and update the water control infrastructure from provincial and federal government. Current government funding opportunities includes the Disaster Mitigation and Adaptation Fund (DMAF), the National Damage Mitigation Program (NDMP), and the Provincial Water and Erosion Control Infrastructure (WECI) Program.
- (b) Capital Spending Conservation Areas
- The budget is set at \$2,000,000. This spending is budgeted to be funded with \$1,500,000 of fee revenue and \$500,000 from the conservation area reserve. Future budget drafts will be revised as capital projects are prioritized.

(c) Water Monitoring Equipment and Flood Forecasting and Warning Expenses

- The budget is being held constant at \$300,000. The gauge reserve will be used to fund \$100,000 of total costs and the remaining costs will be funded with Municipal General Levy.

**C. SPECIAL PROJECTS**

(a) Special projects do not rely on Municipal General Levy for funding.

(b) This draft of the budget only includes items that are known or highly likely to be undertaken and a cost can be estimated. At present, the budget includes \$1,480,000 in spending. By the time the 2023 budget is finalized, special project spending, along with matching revenue, is expected to increase substantially as projects are approved and carryover amounts are confirmed.

(c) The \$1,480,000 in special projects included in this draft budget are:

- \$800,000 Rural Water Quality Capital Grants
- \$640,000 Source Protection Program
- \$40,000 Species at Risk Program

(d) Source Protection Program

The province has identified that this program is considered a mandatory program that is required to be delivered by Conservation Authorities. Funding to March 2024 was secured. The province has not guaranteed funding for future years, nor has it announced an end to program funding.

**D. RESERVES**

For 2023, reserves are budgeted to decrease by \$904,500. Significant budgeted drawdowns to reserves include \$500,000 for Conservation Area capital projects, \$275,000 for two staff positions and \$290,000 for Information Systems. See attached table for details of reserve movements budgeted for 2023. The use of reserves is integral to GRCA operations. GRCA sets aside certain funds to reserves (i.e. Land Sale Proceeds, Hydro Revenue, Interest Earned on Reserves) in order to be able to draw upon these reserves at a later date in accordance with either legislative mandates and/or board approved use

Reserves can be viewed as:

- Planned savings set aside for future capital projects (facilitates smoothing of funding requests)
- Surpluses set aside for future operating or capital needs (i.e. Park Revenue in excess of budget)
- Contingency funds for unplanned expenditures
- Legislated amounts to be used in accordance with regulations (i.e. land sale proceeds)
- For 2023, this budget draft includes using \$50,000 from the personnel reserve to fund operating expenses, achieve breakeven results and limit the municipal levy increase to 3.5%. Other funding opportunities may become available before the budget is finalized that can be applied instead of using reserves (i.e. 2022 surplus).

A detailed report on reserves will be presented at the November 25, 2022 general meeting.

## **E. GENERAL MUNICIPAL LEVY ALLOCATION**

The General Municipal Levy is allocated (apportioned) to participating municipalities based on Modified Current Value Assessment (CVA), which the Ministry of Environment Conservation and Parks (MECP) provides to Conservation Authorities. The methodology for calculating the Modified CVA and distributing the levy is outlined in Ontario Regulation 670/00. The distribution of the 2023 levy (budget draft #1) is outlined in October 28, 2022 board report entitled 'Budget 2023 - Draft #1 - General Municipal Levy Apportionment'.

## **F. OTHER MAJOR ASSUMPTIONS**

- (a) MECP Operating Grants to remain at \$449,688 - the same amount as 2022.
- (b) Permit Fees, Planning Fees and Solicitor Inquiries increased by \$100,000 to reflect 2021 and 2022 activity.
- (c) Property Rental income set to be equal to 2022 budgeted income along with a 2.5% increase to the Cottage Lot Rental Program.
- (d) Watershed studies funded 50% by GRCA and 50% via special levy are budgeted for \$100,000 annually.
- (e) Total Insurance expense increased by \$190,000 to reflect 2022 rate increases and projected 2023 rate increases.
- (f) Total Property Tax expense held constant for draft #1 and will be adjusted in future drafts as necessary.
- (g) Admin Operating expense decreased to offset computer charges increase.
- (h) Other Operating expenses held constant.
- (i) Motor Pool charge-out rates held constant.
- (j) Computer charge out rates increased 10% (or approximately \$125,000)

## **G. SIGNIFICANT OUTSTANDING BUDGET ITEMS**

- (a) Year 2022 Carry forward Adjustments  
2022 Surplus carry forward - this draft of the 2023 Budget assumes a \$100,000 surplus carryover from year 2022. The actual "2022 Net Surplus" will be incorporated into the 2023 budget.
- (b) 2022 Special Projects carry forward  
Any projects commenced in year 2022 and not completed by December 31, 2022 will be carried forward and added to Budget 2023 (i.e. both the funding and the expense will be added to Budget 2023 and therefore these adjustments will have no impact on the breakeven net result).
- (c) Water Control Structures Major Maintenance Expenditures  
A final determination of the amount of spending to be added to the Budget 2023 (i.e. unspent amounts from 2022, new projects) will be made, including use of reserves for 2023 projects. Any decisions to increase spending should not impact the general municipal levy request, but would be funded with reserves, WECA funding, and/or new funding sources, as applicable.
- (d) Conservation Area Revenue and Expenses  
Final revenue, operating and capital expense figures to be determined following year-end actuals review.
- (e) Environmental Education

Final revenue and operating expense figures to be determined following further information on school contracts and program delivery developments (in-class vs virtual classes).

The following statements and schedules are attached:

Budget 2023 Timetable  
Summary Reserve Report – Budget 2023  
Preliminary Budget 2023

### **Financial Implications:**

Budgeted spending for 2023 is \$33,279,188 including transfers to reserves. This first draft of the budget includes a municipal general levy increase of \$438,000 (or 3.5%).

The main budgetary challenges faced by the GRCA are:

- Cost pressures created by the current inflationary economic environment and supply chain issues.
- Increasing insurance costs
- Conservation Area operating revenue is impacted by fluctuations in consumer demand and weather conditions which are difficult to predict.
- An aging infrastructure in the Conservation Areas and Nature Centres.
- Managing the costs of severe weather events

### **Other Department Considerations:**

None

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