

Grand River Conservation Authority

Report number: GM-11-21-85

Date: November 26, 2021

To: Members of the Grand River Conservation Authority

Subject: Reserves 2021

Recommendation:

THAT the *Property and Liability Insurance* Reserve be maintained at an amount equal to opening balance, less significant uninsured losses, and no interest to be allocated to this reserve for 2021;

AND THAT the *Building and Mechanical Equipment* Reserve be maintained at an amount equal to opening balance, less expenses or any unspent budgeted building maintenance and equipment amounts be transferred to this reserve for future expenditures, and no interest to be allocated to this reserve for 2021;

AND THAT the *Small Office Equipment* Reserve be maintained at an amount equal to opening balance, plus interest;

AND THAT the *Personnel* Reserve be maintained at an amount equal to opening balance, less expenditures or accruals for sick leave, vacation, staff restructuring and/or termination of employees, and no interest be allocated to this reserve for 2021;

AND THAT the *Transition* Reserve be maintained at an amount equal to opening balance, plus \$350,000 budgeted transfer to reserve, plus interest;

AND THAT the *Nature Centre* Reserves be maintained at amounts equal to opening balance, less expenses related to major maintenance of the Nature Centre buildings, plus interest;

AND THAT the *Information Systems and Technology* (formerly Computer Replacement) Reserve be maintained at a level where interest income and charge-out rates equal total operating and capital costs over the long run;

AND THAT the *Cottage Lot Program* Reserve be maintained at an amount equal to the opening balance, plus unspent 2021 budgeted cottage lot expenses, less unbudgeted expenses related to EAB infestation not eligible for land sale proceeds reserve usage, plus interest;

AND THAT the *Water Management Plan* Reserve be maintained at an amount equal to opening balance, less expenses related to updating the water management plan, plus interest;

AND THAT the *Planning Enforcement* Reserve be maintained at an amount equal to opening balance, plus any savings related to budgeted and unspent legal fees, less any expenses in excess of budget related to enforcement of planning regulations, plus interest;

AND THAT the *Property Rental* Reserve be maintained at an amount equal to opening balance, less unbudgeted maintenance expenses related to rental properties, plus any unspent budgeted property repairs and maintenance expenses including demolition costs, plus interest;

AND THAT the *Forestry Management* Reserve be maintained at an amount equal to opening balance plus transfers to reserve of timber revenues, less expenses related to forest management expenses as budgeted (or forecast), plus interest;

AND THAT the *Master Plans* Reserve established in 2019 be comprised of an initial \$120,000 amount placed in to the reserve plus interest;

AND THAT the *Cambridge Desiltation Pond* Reserve be maintained at an amount that reflects the funds advanced to the Authority by the City of Cambridge, less actual cost to maintain the pond, plus interest;

AND THAT the *Completion of Capital Projects* Reserve be maintained at an amount that reflects obligations under outstanding capital contracts, less payments;

AND THAT the *Gravel* Reserve be maintained at an amount that includes all gravel income to date, less eligible expenditures, consistent with the original or subsequent agreements with the Ministry of Natural Resources and Forestry, plus interest;

AND THAT the *Land Sale* Reserves be maintained at amounts that include the proceeds of land sales, less costs (including interest charges) incurred to prepare lands for sale, less net expenditures and/or borrowing authorized by the Ministry of Natural Resources and Forestry (MNRF) and as per policy statement dated June 13, 1997 (including floodplain mapping expenses), less spending on hazard tree management as approved by correspondence from MNRF dated April 25th, 2018, plus interest;

AND THAT the *General Capital* Reserve be maintained at an amount which reflects the surplus transferred in from the former Dunnville Lock reserve, less expenditures for any Water Management Capital projects approved by the General Membership, plus any repayment of the Conestogo Turbine Repairs loan, plus interest;

AND THAT the *Conservation Areas Capital/Stabilization* Reserve, increased/decreased by any surplus/deficit generated by the Conservation Areas in 2021, plus interest;

AND THAT the *Gauge* Reserve be maintained at an amount equal to opening balance less expenses related to gauge equipment as identified in the budget (or forecast) as applicable, plus interest;

AND THAT the *Watershed Restoration* Reserve be maintained at an amount equal to opening balance, plus special project funding surpluses, less expenditures for wetland acquisitions or enhancements in the watershed, less expenditures for natural heritage restoration projects and conservation services watershed restoration projects as outlined in the budget (or forecast), plus interest;

AND THAT the *Water Control Structures* Reserve be maintained at an amount equal to the opening balance, less any funding required for spending in excess of budget, plus any unspent major maintenance budget amount, plus any unspent operating budget amount that was to be funded from general levy, plus interest;

AND THAT the *Motor Pool Equipment Replacement* Reserve be maintained at a target level of approximately 25% to 30% of replacement cost of the Motor Pool fleet, plus interest;

AND THAT the *Motor Pool Insurance* Reserve be maintained at an amount equal to the opening balance, plus interest, less significant uninsured losses.

Summary:

The Grand River Conservation Authority's reserves are established by resolutions of the General Membership and are presented in the audited financial statement as a part of the "Accumulated Surplus", in accordance with Generally Accepted Accounting Principles (GAAP). Details of reserve amounts are also provided in the notes to the audited financial statements. This report outlines the nature of movements to and from reserves and provides estimates of reserve balances for 2021.

By year-end 2021, reserves are forecast to be \$27.6 million which represents an increase of \$1.3 million. Significant increases to reserves include: \$1.3 million conservation area operating surplus, \$370,000 interest income, \$350,000 transition cost savings, \$155,000 set aside as a

result of deferred spending on cottage lot roads maintenance, \$55,000 hydro generation revenue, and \$90,000 timber sales revenue. These increases are offset by decreases of \$300,000 for Emerald Ash Borer (EAB) hazard tree management, \$230,000 for Information Systems expenses, \$167,000 gauge expenses, \$190,000 for floodplain mapping projects, and \$190,000 for demolition expenses related to residential properties. These amounts may be adjusted by year end if some project work is carried forward to 2022.

Report:

Reserves are established and confirmed annually by resolution of the Board. Some Reserves are required by provincial policies (Gravel and Land Sales) or agreements with other agencies (Nature Centre Capital) and some are discretionary and used to avoid constantly changing or special levies (Computer Replacement, Motor Pool Replacement, General Capital Reserve). Conservation Authorities are not allowed to directly debenture for expenditures, so it is important to anticipate needs and set aside funds for future projects in reserves. Interest is accrued to reserves where required by provincial policies and/or board direction.

A description of reserve activity during year 2021 is presented in the following two formats:

1. Breakdown by Operating, Capital, Motor Pool
2. Breakdown by "GRCA-controlled" reserves and reserves with "Outside Control"

Reserves are forecast to be \$27.6 million representing an increase of \$1.3 million.

Significant forecast reserve movements (approximate amounts) include:

Increases to Reserves:

• Conservation Areas Operating Surplus	\$1,300,000
• Interest Income Earned	\$ 370,000
• Budgeted Transition Cost Savings	\$ 350,000
• Hydro Generation Revenue	\$ 55,000
• Cottage Lot Program (deferred road maintenance expenses	\$ 155,000
• Timber Revenue	\$ 90,000

Decreases to Reserves:

• Emerald Ash Borer Expenses	\$ 302,000
• Demolition of Residential Properties Expenses	\$ 190,000
• Gauge Expenses	\$ 170,000
• Information Systems Expenses	\$ 230,000
• Floodplain Mapping Project	\$ 190,000

Land Sale Proceeds Reserves

These reserves have a provincial interest and may be used for the following types of expenditures:

1. Acquisition of environmentally sensitive lands and ecologically significant lands.
2. Major maintenance of flood control structures.
3. Hazard land mapping in support of plan input or regulation programs.
4. Flood and erosion capital projects and related studies.
5. Watershed/Subwatershed management plans, which are inter-municipal in scope.
6. Other Capital Projects of provincial interest, with prior approval.

Following the 2018 June provincial election, the Lieutenant Governor in Council assigned ministerial power for conservation authorities from the Ministry of Natural Resources and Forestry (MNRF) to the Ministry of Environment, Conservation and Parks (MECP). Thus, the MECP (as per policy statement 6.3 dated June 13, 1997) retains the right to either deny use of reserves that have a provincial interest or to otherwise direct the use of such reserves.

Special Permission to Use Reserves

Over and above the uses outlined above, in April 2018, the GRCA received permission from MNRF to utilize \$1.8 million of the Land Sale Proceeds reserve for hazard tree management during the period 2018 to 2021. The GRCA also obtained permission to use the Land Sale Proceeds Reserve for septic and well expenses.

The Land Sale Proceeds reserve is forecast to be approximately \$6.9 million by yearend 2021.

Transition Reserve

At the January 22, 2021 general meeting (report GM-21-01-05 'Budget 2021-draft #2') the board passed a motion to create the Transition reserve at an amount equal to any undesignated surplus realized from the 2020 year-end operating results, plus any 2021 budgeted compensation cost savings. The purpose of 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. At the end of 2020, \$500,000 was transferred to this reserve. The 2021 budget included a \$350,000 transfer to this reserve, which represented 2021 compensation savings due to positions being kept vacant pending a staffing plan that incorporates the impact of the new regulations.

Status of Loan from General Capital Reserve for Conestogo Turbine Repairs

Funds totalling \$421,617 were borrowed from the general capital reserve in 2006 for repairs to the Conestogo turbine. At the time of the loan it was suggested (no formal board motion) that the general capital reserve be repaid but there was no specific mention of interest. The 'Reserves 2006' board report to the Administration, Finance and Personnel committee dated November 14, 2006 stated that replenishment of the reserve would be addressed via future budgets. The Conestogo turbine loan plus accrued interest is \$546,404 as at December 31, 2019. In 2020 \$365,000 surplus hydro revenue was allocated to the general capital as repayment. Staff recommend that any 2021 surplus hydro revenue be allocated to the general capital reserve as repayment towards the amount taken from the reserve. A decision regarding replenishing the reserve for foregone interest can be determined via future budget/forecast exercises.

Conservation Area Reserve

This reserve was budgeted to be decreased by \$1.5 million, namely, all 2021 capital spending was going to be funded with reserves. Instead, the reserve is forecast to increase by \$1.2 million. The reason being that forecast revenue is expected to exceed budgeted revenue by \$2.3 million (budget \$7.2 million versus forecast \$9.5 million) offset by \$400,000 increase in operating expenses. Also, a few large capital projects were delayed in starting, so forecast capital spending reduced by \$900,000 (from \$1.5 million to \$600,000).

Attached Schedules:

Schedule 1	Summary Reserve Report – Forecast 2021 (by GRCA controlled and Outside Control)
Schedule 2	Reserve Activity Detail – Forecast 2021 (by Operating, Capital, Motor Pool)
Schedule 3	Graph of Reserves – 2012 to 2021
Schedule 4	Purpose of Reserve and Guidelines for calculating Amounts

Financial Implications:

In 2021 it is forecast that reserves will increase by \$1.3 million to \$27.6 million. Reserves were budgeted to decrease \$1.8 million in 2021, driven mainly by the strong overall surplus in Conservation Areas as outlined above.

Significant differences between budget and forecast are:

	Impact on Reserves Positive/(Negative)
• Conservation Area Capital Projects(deferred projects/use revenue)	\$1,500,000
• Conservation Area Surplus	\$1,300,000
• Cottage Lot Program(deferred road maintenance expenses)	\$155,000
• Emerald Ash Borer (underspent)	\$100,000
• Motor Pool (higher MP charges/lower MP operating expenses)	\$290,000
• Timber Revenue	\$90,000
• Demolitions & Septic/Well (deferred expenses)	(\$90,000)
• Hydro Generation Revenue (less transferred to reserve than budgeted)	(\$65,000)
• Interest Income decreased	(\$55,000)
Floodplain Mapping (added projects)	(\$145,000)

Other Department Considerations:

None.

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