

Grand River Conservation Authority

Report number: GM-11-23-86

Date: November 24, 2023

To: Members of the Grand River Conservation Authority

Subject: Reserves 2023

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 2023;

AND THAT the *Building and Mechanical Equipment* Reserve be maintained at an amount equal to opening balance, plus amount transferred from the small office equipment reserve, 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 2023;

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, less CEWS claims interest charges, and no interest be allocated to this reserve for 2023;

AND THAT the *Transition* Reserve be maintained at an amount equal to opening balance, less forecast transfers from 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* 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 2023 budgeted cottage lot expenses related to service fee expenses, plus interest;

AND THAT the *Grand River Water Management Plan* Reserve be maintained at an amount equal to opening balance, less expenses related to updating the water management plan as budgeted (or forecast), 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 *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 *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* be maintained at amount equal to opening balance, less expenditures for Master Plans as budgeted (or forecast), plus interest;

AND THAT the *Water Management Operating Reserve* be maintained at amount equal to opening balance, less expenditures for engineering staffing, 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 (MNR) and as per policy statement dated June 13, 1997 (including floodplain mapping expenses), 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, less unbudgeted expenditures related hydro turbine repairs plus any repayment of the loan related to the Conestogo turbine repairs, plus interest;

AND THAT the *Conservation Areas Capital/Stabilization Reserve*, increased/decreased by any surplus/deficit generated by the Conservation Areas in 2023, 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 *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 2023.

By year-end 2023, reserves are forecast to be \$50.5 million which represents an increase of \$1.8 million. Significant increases to reserves include: \$600,000 conservation area operating surplus, \$1.6 million interest income, \$115,000 hydro revenue, and \$170,000 timber sales

revenue. These increases are offset by decreases of \$465,000 for motor pool capital purchases, \$100,000 for Information Systems expenses, \$100,000 for transition staffing costs, and \$175,000 for engineering staffing expenses.

Report:

Reserves are established and confirmed annually by resolution of the Board. Some Reserves are required by provincial policies (Gravel and Land Sales) and some are discretionary and used to avoid fluctuations in municipal funding requests (Information Systems and Technology 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 2023 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/Interest"

Reserves are forecast to be \$50.5 million representing an increase of \$1.8 million.

Significant forecast reserve movements (approximate amounts) include:

Increases to Reserves:

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|------------------------------------------------------------|-------------|
| • Conservation Areas Operating Surplus | \$600,000 |
| • Interest Income Earned | \$1,640,000 |
| • Cottage Lot Program (deferred road maintenance expenses) | \$100,000 |
| • Hydro Revenue | \$115,000 |
| • Timber Revenue | \$170,000 |
| • Conservation Services-Special Project Revenue | \$35,000 |

Decreases to Reserves:

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|----------------------------------------------------------|-----------|
| • Motor Pool Capital Expenses | \$465,000 |
| • Information Systems Expenses | \$100,000 |
| • Floodplain Mapping Project | \$30,000 |
| • Use of Water Management Operating Reserve for staffing | \$175,000 |
| • Use of Transition Reserve for staffing | \$100,000 |

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.

During 2022, the Lieutenant Governor in Council assigned ministerial power for conservation authorities from the Ministry of Environment, Conservation and Parks (MECP) to the Ministry of Natural Resources and Forestry (MNRF). MNRF (as per policy statement 6.3 dated June 13, 1997) retains the right to either deny the use of reserves that have a provincial interest or to otherwise direct the use of such reserves. In addition, effective January 1st, 2023 the

Conservation Authority Act contains Section 21(7) which outlines a provision that allows the government to direct a share of land sales proceeds to Category 1 programs in certain circumstances and within 90 days of notice of the disposition.

The Land Sale Proceeds reserve is forecast to be approximately \$22.9 million by yearend 2023.

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. 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. As at December 31, 2022, the reserve balance is \$2.0 million. For 2023, \$100,000 is forecast to be taken from this reserve to fund staffing costs related to meeting the requirements of the new regulations to generate a land inventory.

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 balance (principal plus interest less repayments) is \$119,854 as at December 31, 2022. Surplus hydro revenue allocated to the general capital reserve as repayments have been \$67,000, 365,000, \$60,000 and \$20,000 in 2019, 2020, 2021 and 2022 respectively. Interest calculated on the loan to end of 2022 is \$210,237. If by year-end hydro production generates a surplus in excess of the budgeted surplus that surplus will be allocated to the general capital reserve as repayment of the balance owing. At present, a surplus of \$116,500 has been forecast which would leave a loan balance of \$7,549 at year end 2023. A decision regarding replenishing the reserve for future hydro repairs and maintenance can be determined via future budget/forecast exercises.

Conservation Area Reserve

This reserve was budgeted to decrease by \$500,000, to facilitate funding \$2.0 million in the 2023 capital spending budget. Instead, the reserve is currently forecast to increase by \$600,000. This is the result of forecast revenue exceeding budgeted revenue by \$1.6 million (budget \$10.0 million versus forecast \$11.6 million) offset by a forecast increase in operating expenses of \$500,000 for a net positive impact of \$1.1 million on the reserve compared to budgeted reserve movement.

Attached Schedules:

- Schedule 1 - Summary Reserve Report – Forecast 2023
- Schedule 2 - Reserve Activity Detail – Forecast 2023 (by Operating, Capital, Motor Pool)
- Schedule 3 - Graph of Reserves – 2014 to 2023
- Schedule 4 - Purpose of Reserve and Guidelines for calculating amounts

Financial Implications:

In 2023, it is forecast that reserves will increase by \$1.8 million to \$50.5 million. Reserves were budgeted to decrease \$500,000 in 2023. The forecast increase is primarily driven by the Conservation Areas reserve increasing by \$600,000 instead of decreasing by \$500,000 and interest income to exceed budget by \$400,000.

Significant differences between budget and forecast are:

Positive Impacts on Reserves

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|-----------------------------------------------------------|-------------|
| • Conservation Area Surplus | \$1,100,000 |
| • Interest Income increased | \$400,000 |
| • Information Systems Expenses reduced | \$200,000 |
| • Cottage Lot Program Expenses reduced (road maintenance) | \$100,000 |
| • Timber Revenue to reserves | \$170,000 |
| • Demolitions Expenses reduced (deferred) | \$100,000 |
| • Water Control Structures and Gauge Expenses (deferred) | \$150,000 |
| • Personnel Expenses reduced (vacancy savings) | \$ 70,000 |

Other Department Considerations:

None.

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