

Grand River Conservation Authority

Report number: GM-11-24-101

Date: November 22, 2024

To: Members of the Grand River Conservation Authority

Subject: Reserves 2024

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 2024;

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 2024;

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, plus repayment by Canada Revenue Agency of any CEWS interest charges, and no interest be allocated to this reserve for 2024;

AND THAT the *Transition* Reserve be maintained at an amount equal to opening balance, less net 2024 deficit generated by the Outdoor Environmental Education program, budgeted (or 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, less unbudgeted expenses related to Cottage Lot program, plus unspent 2024 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 Category 3 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 as budgeted (or forecast), 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, 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 (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 to hydro turbine repairs, plus hydro generation revenue in excess of budgeted (or forecast) surplus, plus interest;

AND THAT the *Conservation Areas Capital/Stabilization Reserve*, increased/decreased by any surplus/deficit generated by the 'fee for use' Conservation Areas (excluding Luther) in 2024, 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 municipal apportionment, plus interest;

AND THAT the *Motor Pool Equipment Replacement Reserve* be maintained at a target level of approximately 15% to 25% 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;

AND THAT the *Category 1 and General Operating Expense (mandatory) Stabilization Reserve* be maintained at an amount equal to opening balance, plus net residual surplus related to Category 1 programs and General Operating Expense financial statement, plus interest;

AND THAT the *Category 2 Stabilization Reserve* be maintained at an amount equal to opening balance, plus net residual surplus related to Category 2 programs, plus interest;

AND THAT the *Category 3 Stabilization Reserve* be maintained at an amount equal to opening balance, plus net residual surplus related to Category 3 programs, plus interest

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 2024.

By year-end 2024, reserves are forecast to be \$54.5 million which represents an increase of \$1.8 million. Significant increases to reserves include: \$1.75 million proceeds from a land disposition, \$800,000 in conservation area operating surplus, \$2.2 million in interest income, and \$145,000 from timber revenue. These increases are offset by decreases of \$1.0 million for flood control structure major maintenance, \$600,000 towards the construction of Guelph Lake Nature Centre, \$300,000 for motor pool capital purchases, \$400,000 for Information Systems expenses, \$300,000 to fund the Outdoor Environmental Education program, \$145,000 for development of an Asset Management Plan for Water Control Structures, and \$150,000 for staffing costs.

Report:

Reserves are established and confirmed annually by resolution of the Board. Some Reserves are required by provincial policies (e.g. Gravel and Land Sales) and some are discretionary and used to avoid fluctuations in municipal funding requests (e.g. 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 2024 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 \$54.5 million representing an increase of \$1.8 million.

New Stabilization Reserves

The year 2024 represents the first year of financial reporting in accordance with the new regulations using the defined reporting categories. These Categories are defined under *O.Reg.687/21 Transition Plans and Agreements for Programs and Services*. In addition, under *Section 21.2.2 of the Act*, the GRCA developed an Inventory of Programs and Services based on the categories identified in the Regulation. The categories include: (1) Mandatory, (2) Municipally requested, (3) Other (Authority determines are advisable), and General Operating Expenses.

As such, staff recommend that any net residual surplus generated by the various reporting categories in 2024 be allocated to the following newly created reserves as applicable:

- Category 1 and General Operating Expense (mandatory) Stabilization Reserve
- Category 2 Stabilization Reserve
- Category 3 Stabilization Reserve

The net residual surplus represents any annual operating surplus remaining following allocations to/for reserves in accordance with reserve guidelines and board motions and following any 2024 surplus allocated to the 2025 budget. These stabilization reserves serve to facilitate the use of surplus generated by each category being used for expenses related to their designated category.

Significant forecast reserve movements (approximate amounts) include:

Increases to Reserves:

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| • Land Sale Proceeds | \$1,750,000 |
| • Conservation Areas Operating Surplus | \$780,000 |
| • Interest Income Earned | \$2,200,000 |
| • Hydro Revenue | \$80,000 |
| • Timber Revenue | \$145,000 |

Decreases to Reserves:

• Water Control Structures Major Maintenance costs	\$1,000,000
• Construction of Guelph Lake Nature Centre	\$600,000
• Motor Pool Capital Expenses	\$465,000
• Information Systems Expenses	\$400,000
• Asset Management Plan development costs	\$145,000
• Use of Transition Reserve to fund the Environmental Education deficit	\$300,000
• Use of Transition Reserve to fund staffing (1.0 FTE)	\$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 (MNR). MNR (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 Authorities 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 \$24.6 million by yearend 2024.

Transition Reserve

At the January 22, 2021 General Membership 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 of December 31, 2023, the reserve balance is \$2.6 million. For 2024, \$417,000 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 (\$100,000) and to fund the Outdoor Environmental Education program deficit (\$312,000).

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. As of December 31, 2023 the Conestogo turbine loan balance (principal plus interest less repayments) is NIL. Surplus hydro revenue between 2019 and 2023 was allocated to the general capital reserve as repayments. Interest repaid to reserve totalled \$215,000. For 2024, any surplus in excess of the budgeted surplus will be transferred to the general capital reserve to replenish the reserve for future hydro repairs and maintenance expenses.

General Capital Reserve funding for Construction of Guelph Lake Nature Centre

The board approved utilizing the general capital reserve to fund the Guelph Lake Nature Centre up to a maximum of \$1.1 million with the understanding that the Grand River Conservation Authority endeavour to continue to raise funds that would be used to repay the general capital reserve. This

forecast estimates that the funding required will be \$600,000 which assumes the construction will be completed by end of 2024 within the amount budgeted. Actual spending by year-end will determine the reserve funding required.

Conservation Area Reserve

This reserve was budgeted to decrease by \$500,000, to facilitate funding \$2.0 million in the 2024 capital spending budget. Instead, the reserve is currently forecasted to increase by \$800,000. This is the result of forecast revenue exceeding budgeted revenue by \$1.5 million (budget \$10.7 million versus forecast \$12.2 million), receipt of \$100,000 federal funding for accessibility expenses at Shades Mills Conservation Area offset by a forecast increase in operating expenses of \$300,000 for a net positive impact of \$1.3 million on the reserve compared to budgeted reserve movement.

Attached Schedules:

- Schedule 1 - Summary Reserve Report – Forecast 2024
- Schedule 2 - Reserve Activity Detail – Forecast 2024 (by Operating, Capital, Motor Pool)
- Schedule 3 - Purpose of Reserve and Guidelines for calculating amounts

Financial Implications:

In 2024, reserves are forecasted to increase by \$1.8 million to \$54.5 million. Reserves were budgeted to decrease \$200,000 in 2024. The forecast increase is primarily driven by \$1.75 million in land sale proceeds, Conservation Areas reserve increasing by \$800,000 instead of decreasing by \$500,000 offset by \$1.6 million forecast use of reserves to help fund the construction of the Guelph Lake Nature Centre (\$600,000-contingent on timing of completion and final actual costs), and to fund water control structures major maintenance costs (\$1.0 million-contingent of timing of project work).

Significant differences between budget and forecast are:

Positive Impacts on Reserves

• Land Sale Proceeds	\$1,750,000
• Conservation Area Surplus	\$1,300,000
• Floodplain Mapping Expenses reduce (deferred)	\$250,000
• Interest Income increased	\$100,000
• Timber Revenue to reserves	\$150,000
• Motor Pool Chargebacks increased	\$100,000
• Demolitions Expenses reduced (deferred)	\$100,000
• Gauge Expenses reduced (deferred)	\$100,000

Negative Impacts on Reserves

• Water Control Structures Expenses increased	\$1,000,000
• Guelph Lake Nature Centre Construction costs	\$600,000
• Asset Management Plan development costs	\$145,000
• Cottage Lot Program Expenses increased (hazard tree management)	\$80,000
• Nature Centre repair costs	\$40,000
• Hydro Turbine repair costs	\$40,000

Other Department Considerations:

None.

Prepared by:

Sonja Radoja
Manager of Corporate Services

Approved by:

Karen Armstrong
Deputy CAO/Secretary-Treasurer