

**FURTHER TO BUSINESS EXCELLENCE ADVISORY BOARD #7/03  
To be held Friday, November 14, 2003**

**Pages**

**SECTION I - ITEMS FOR AUTHORITY ACTION**

**LISTED ON AGENDA AS REPORT TO FOLLOW**

**7.1 FUTURE RESERVES POLICY 8-12**

**NEW ITEM - ITEM 7.2**

**7.2 PROTOCOL FOR THE NAMING OF TRCA ASSETS 13-14**

**TO:** Chair and Members of the Business Excellence Advisory Board  
Meeting #7/03, November 14, 2003

**FROM:** James W. Dillane, Director, Finance and Business Development

**RE: FUTURE RESERVES POLICY**

---

**KEY ISSUE**

Establishment of a policy to develop and manage reserves and year-end reporting on the status of reserves.

**RECOMMENDATION**

**THE BOARD RECOMMENDS TO THE AUTHORITY THAT staff be authorized to establish operational reserves, on a business unit basis, within the guidelines outlined in the staff report dated November 12, 2003;**

**AND FURTHER THAT staff report on the status of reserves as part of the 2003 year end financial reporting process.**

**BACKGROUND**

At the September 5, 2003 meeting of the Business Excellence Advisory Board (BEAB), staff presented the financial progress report wherein substantial losses in revenue were noted for 2003. Concern was expressed regarding the Toronto and Region Conservation Authority's (TRCA) ability to respond to future losses of revenue, whether caused by natural disaster, economic downturn, weather or other external factors. At Authority Meeting #8/03, held on October 31, 2003, the following resolution in regards to the status of the reserves as of December 31, 2002 was approved:

*THAT the staff report dated September 25, 2003 on reserves be received.*

*AND FURTHER THAT staff be directed to report back on a policy to develop and manage reserves.*

In review, on December 31, 2002 the TRCA's nine reserves totalled \$2,210,949, as described in the table below. Except for the "Provincial Revenue Sharing Policy" reserve, the use of these reserves is completely under the control of the TRCA. It is not anticipated that the 2003 year-end reserve balances will be significantly different:

## YEAR END RESERVES 2002

Vehicle & Equipment	446,792
Food Service Equipment	23,784
Major Office Equipment	31,061
Recreation Development and Restoration	306,075
Major Maintenance	225,910
Lakefill Quality Control	284,837
Tree Donation Program	38,148
Special Projects	804,342
Funds held under Provincial Revenue Sharing Policy	50,000
<b>TOTAL</b>	<b>\$2,210,949</b>

### RATIONALE

The events of 2003 clearly demonstrated that TRCA is vulnerable to sustaining significant revenue losses by forces which it can't control. Reliance on municipal partners may not be practical, given that the events which might prevent TRCA from reaching revenue targets would also likely effect its partners and their ability to lend support. The remaining options appear to include deep expenditure reductions with the resultant long term implications or reliance on reserves. Depending on the nature of the program, there is a certain level of associated expenditures that can be curtailed in the event of significant program revenue losses. The use of reserves could be an effective measure when all other avenues of funding net expenditure reductions, which do not have long term implications, have been exhausted.

There are also a number of other important issues to consider in formulating a reserves policy:

- 1) In addition to the use of reserves to protect the TRCA from severe revenue losses, staff have noted, most recently within the latest strategic and business plan updates, the desire to use reserves as a source of "seed" money that could fund innovative projects and programs. Although the potential cash flows may be positive, when budgets are tight, staff may be hesitant to assume the associated risk.
- 2) Reserves could also be used to help finance larger expenditures such as for major maintenance, for which it could take several budget cycles to accumulate the funds.
- 3.) Finally, the use of reserves, if assigned by business unit, may encourage long term planning within the unit.

For all of the above reasons, staff are recommending that a new set of reserves be established, known as "Operating Reserves", and be allocated by business unit or groups of related business units, as defined in the latest business plan, under the following guidelines:

1. Business unit reserve targets will be set at a minimum of 15% of operating revenues. (This minimum target should be sufficient to handle most situations and takes into account the consideration that not all of our operations and programs are likely to suffer at the same time. For example, lack of snow for an entire season may cancel the ski program but would likely not impact any other program.);
2. The reserve for Corporate Services be set at a minimum of 15% of the gross operating expenditures budget;
3. Reserves will be drawn down by annual operating deficits from each business unit, but increased by at least 50% of any annual operating surpluses;
4. Amounts not earmarked for any particular business unit will annually be directed to the Corporate Services reserve and used for corporate endeavors, as outlined in annual budget submissions.

A review of the 2004 preliminary estimates indicates that, based on the above guideline of 15% minimum, approximately \$2.5 million is required to accommodate the initial needs of the business units. Although amounts in excess of this target could be achieved over time depending on how much surplus individual units could generate, it would also be true that while some units would be growing their reserves, others would be drawing them down. On balance, it is not expected that operating reserves would significantly exceed the minimum target levels of \$2.5 million, based on 2004 revenue targets. Expenditures from reserves would be subject to the normal budget process and approvals.

Now that the purpose and size of the reserves has been established, it is important to focus on how the reserve targets will be reached. Initially, some of the existing reserves could be reassigned for this purpose, but not all. The Vehicle & Equipment reserve has operated effectively for many years and there would be no reason to change that now. Funds would be available to any business unit for the purchase of a new or replacement item, subject to the standard "charge back" rules. The Tree Donation reserve should be allowed to exist on its own, as proof to donors that our obligation for the perpetual care of the trees is being met. The Provincial Policy reserve is required under provincial rules and cannot be used for any purpose not approved by the province, without the forfeiture of the provincial share of the proceeds, usually 50%. The 2004 preliminary budget allows for the use of the Special Projects reserve to partially finance the proposed nursery work shop and office, and unless other funds were found to replace this source, it would not be available to be used for building up operating reserves.

A reassignment of the reserves as of Dec. 31, 2002, based on the above analysis would create the following set of reserves:

### PROPOSED RESERVES

Vehicle & Equipment	\$446,792
Operating Reserves (new)	871,667
Funds held under Provincial Revenue Sharing Policy	50,000
Tree Donation Program	38,148
Special Projects	804,342
<b>TOTAL</b>	<b>\$2,210,949</b>

As demonstrated in the table above, only about \$872,000 from existing reserves would be available as start up funds for the new operating reserves, significantly below the \$2.5 million target. If, however, alternative sources of funds could be found for the new nursery workshop and office, then the operating reserves could be increased to almost \$1.7 million. Staff will give consideration to this possibility when finalizing the 2004 capital budget.

Staff will also explore the following possibilities as sources of new funds which can be applied towards the operating reserve targets:

1. In addition to existing reserves, the TRCA has in hand significant unspent funds associated with specific projects, mainly in the form of capital levy and from other sources such as local municipalities, senior governments, project sponsors, etc.. Although, these amounts are earmarked, there may be a few limited opportunities to redirect these funds to operating reserves, with the contributor's approval, where necessary.
2. Another opportunity for funds which can be used to augment reserves may rest with the Conservation Foundation, which at the end of 2002 held in excess of \$1.1 million for projects of the TRCA. For example, the foundation has in hand approximately \$130,000 in a support fund for the Kortright Centre, from which the interest earned is directed to the Kortright operating budget annually. At this time, it may be appropriate to ask the foundation to transfer these funds over to the TRCA to help build up the Kortright component of operating reserves. A complete review of foundation holding accounts will determine whether there may be other funds which could be transferred.
3. A further measure that could help achieve the reserve targets could involve the application of interest to end of year reserve balances. Although this would impact the operating budget, which in 2003 had a provision for \$300,000 in general interest revenue, it could be an effective tool for ensuring that reserve balances grow and maintain minimum targets. Staff will give consideration to the allocation of interest when finalizing the 2004 budget, perhaps phasing in a full-yield allocation over several years to minimize the impact on the budget. Based on average returns in 2003 and a full target of \$2.5 million, approximately \$90,000 (of the \$300,000) in interest earnings would be required to augment reserves.

In addition to this minimum target for operating reserves, the business plan identifies the need for consolidated head office space. As a preliminary estimate, an amount of at least \$5.0 million will have to be raised over the next five years to make the new office space a reality. Staff are proposing that a new Office Needs reserve be established and that the member municipalities be asked to consider as part of the 2005 budget discussions levy contributions of approximately \$500,000 per annum based on the TRCA CVA cost \ benefit sharing formula. In the interim, staff will pursue other sources of funds and partners to secure the balance of funds required.

#### Accumulated Deficit

Before the discussion on reserves can be completed, it must be noted that the TRCA has an accumulated deficit of just over \$750,000, of which \$390,000 is the unfunded balance of land purchases from several years ago. The rest, \$360,000 can be attributed to the Living Machine project at Kortright, which was completed in 2000. At its peak, the accumulated deficit reached almost \$1.3 million, but was reduced to the current level by surpluses in the last several years. At current pace, it may take a few years to completely erase these unfunded expenditures. Given the financial hardships of 2003, a planned reduction in the deficit will likely be postponed.

Staff have reported on these circumstances annually through the budget process and the presentation of the annual audited financial statements. Staff have indicated a preference not to use reserves to offset the deficit, and a willingness to continue to seek possible sources of funds to pay for these unfunded expenditures, particularly for land. It is recommended that once the target for operating reserves is met, at minimum, that any surplus reserve funds be used to offset the deficit.

In summary, staff will continue to explore all opportunities to achieve the targets. As part of the 2003 year end reporting on the audited financial statements, staff will bring back an update on the status of reserves and the results of the various efforts noted above to find funds that could be used to augment reserves.

**Report prepared by: Rocco Sgambelluri, extension 5232**  
**For Information contact: Rocco Sgambelluri, extension 5232**  
**Date: November 12, 2003**

**TO:** Chair and Members of the Business Excellence Advisory Board  
Meeting #7/03, November 14, 2003

**FROM:** Brian Denney, Chief Administrative Officer

**RE: PROTOCOL FOR THE NAMING OF TRCA ASSETS**

---

**KEY ISSUE**

Establishment of a protocol for the naming of assets of the Toronto and Region Conservation Authority (TRCA).

**RECOMMENDATION**

**THE BOARD RECOMMENDS TO THE AUTHORITY THAT WHEREAS the Toronto and Region Conservation Authority has the legal authority to name its assets;**

**AND WHEREAS TRCA is a privately and publically funded organization with many stakeholders;**

**THEREFORE BE IT RESOLVED THAT the Protocol for the Naming of TRCA Assets shall be a consultative process where required, subject to the criteria outlined in the staff report, dated November 11, 2003.**

**BACKGROUND**

In striving towards The Living City, TRCA has many donors who contribute directly and indirectly to many of our environmental programs and to whom we provide some level of recognition. One of the common potential types of donor recognition is the naming of physical assets for a pre-determined period of time in celebration of the donor's contribution. The naming of TRCA assets has always been an ad hoc process and in order to utilize this as a method of donor recognition, TRCA needs to develop a consistent process. The naming of an asset is usually dependent on the size of the donation and the appropriateness of the name itself. TRCA recognizes that certain physical features such as unnamed watercourses are named in consultation with the Ministry of Natural Resources, in accordance with a Provincial protocol.

TRCA recognizes that our buildings, parks, lands, forests, special structures like bridges, and other physical features are part of the neighbourhood landscape of the communities that we serve. To ensure that naming and potential name changes of our assets fits with the character of the area, and given many of TRCA's assets are purchased in partnership with other stakeholders, it is proposed that TRCA follow a consultative process, subject to the approval of the Authority.

## **RATIONALE**

TRCA will follow a consistent process to name or rename TRCA assets including lands, structures and other physical attributes. This process would include:

Researching the current and suggested names, particularly their historical relevance.

- Engaging in a consultative process with interested stakeholders, including Members of The Conservation Foundation of Greater Toronto, donors, TRCA employees, Authority Members, members of the public, municipal and other non-profit organizations.

All name changes shall be subject to approval of the Authority. Municipalities and other stakeholders will receive information on the naming process including the rationale, the timing of the name change and any research on the history of the name to allow for comment.

The naming of TRCA assets may contain any or all of the following:

- The name of a major individual or corporate/public sector organization, possibly a donor.
- The name of an individual prominent in the environmental or conservation community.
- A relevant historical name associated with the geographic area or community.
- The name of a strategic initiative, a citizen's group or other partnership of TRCA.
- Other names that may have significance for a specific site and area.

This approach would not be used for naming of events or programs, where a sponsor has donated to a specific activity(s) and no permanent physical assets are being created.

**Report prepared by: Catherine MacEwen, extension 5219**

**For Information contact: Catherine MacEwen, extension 5219**

**Date: November 11, 2003**