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**Meeting Date:**  
March 27, 2012

## BOARD REPORT

**Public**  **In-Camera**   
**PRESENTED FOR:** Information  Approval   
**PRESENTED BY:** Senior Administration  
**SUBMITTED BY:** Paul A. Picard, Director of Education  
 Mario Iatonna, Executive Superintendent of Business  
**SUBJECT:** **2012-13 BUDGET PRESSURES AND CHALLENGES**

### RECOMMENDATION:

**That the Board receive the report on 2012-13 Budget Challenges and Pressures as information.**

### SYNOPSIS:

In order to enhance communication and consultation with the community with respect to the Board's progress in budget development and in order to bring budget parameters to the attention of the Board early in the budget process, this report identifies the Provincial and local contexts in which the 2012-13 budget is being developed and outlines the pressures and challenges that must be considered in bringing a balanced budget to the Board.

### BACKGROUND COMMENTS:

The Board's strategic plan is key to its sustainability. Just as important to the Board's long-term sustainability is its budget. In fact, the development of the Board's annual budget is one of the most strategic, but also the most time consuming and labour intensive functions undertaken by Administration.

The budget is the Board's fiscal plan that supports the delivery of educational programs and services and is the Trustee's strategic plan for the upcoming academic year. It also provides the authority for Administration to spend funds on a variety of programs and services. It is important that the budget be developed in a thoughtful manner and that decisions respecting the expenditure of funds carefully weigh the impacts and benefit to stakeholders across the near and long-term horizons. Further, when developing the budget, both the provincial and local context must be considered.

Provincial Context:

The Provincial context must be considered by WECD SB as it proceeds through budget development. Some of the key considerations are as follows:

- Provincial Deficit - \$16.7B in 2010-11.
- Drummond Commission – Recommendations have been made, but it is unknown which of these recommendations will be considered in the 2012-13 Provincial budget.
- The Ministry of Education’s grant announcement is typically made in late March. It is unknown what specific increases or reductions will be announced.
- Special Education Funding Reform – The Ministry of Education has been considering a comprehensive review of special education funding for quite some time. Also, with the expansion of Full-Day Kindergarten in 2012-13, there will be additional budget pressures on Special Education to accommodate students with special needs.
- Administration and Governance Grant Workgroup – The Ministry of Education has developed a workgroup to undertake a comprehensive review of administrative funding and spending. The results may affect the 2012-13 allocation. The Ministry has reduced this funding by 2% in each of the last two years.
- Provincial Discussion Table (PDT) Agreements expire August 31, 2012.
- The Capital Funding model continues to remain somewhat ad hoc creating uncertainty regarding the basis for distribution of competing capital funds by the Province.

Local Context:

A preliminary budget outlook has been developed for 2012-13. The table below summarizes the projected fiscal challenges for the upcoming academic year:

Preliminary Forecast	2012-13 (\$Millions)
Shortfall from prior (2010-11) and current (2011-12) years	2.8
Structural deficit	3.5
Grant changes due to declining enrolment	4.2
Vacation Accrual phase-in	0.7
<b>TOTAL REDUCTIONS REQUIRED</b>	<b>11.2</b>

It should be noted that this forecast does not include other spending pressures historically faced by the Board (such as Special Education, School Operations and Maintenance, etc.) which will be discussed later in this report.

Shortfall from Prior (2010-11) and Current (2011-12) Years:

In 2010-11 the Board reported a total accumulated deficit of \$2.4M. Further, at its meeting of February 28, 2012, Administration advised that this accumulated deficit is projected to grow to \$2.8M at 2011-12 year-end. To be compliant with the provisions of the Education Act, the Board is not allowed to have an in-year deficit (within 1%) unless a plan to balance the budget is submitted to the Minister of Education. Administration is in discussion with the

Ministry of Education in this regard. However, the general plan is that the \$2.8M projected deficit will have to be largely addressed in the 2012-13 budget.

#### Structural Deficit:

In 2010-11, the Board incurred an in-year deficit of \$3.5M. This value does not consider previous years' surpluses or deficits, but looks only at the 2010-11 fiscal year and the excess of expenses incurred over the revenues received in that year. When analyzing an in-year deficit, the Board needs to consider which components of that deficit are non-permanent, and which are permanent or structural.

When reviewing the events of 2010-11, there were no significant "one-time" activities or situations that contributed to the \$3.5M deficit, such as an unforeseen major repair to a school which would not be expected to recur in the future. Therefore, the entire \$3.5M should be considered permanent or structural in nature and representative of the underlying fiscal situation facing the Board, which, in absence of any action, will have an effect on the Board's budget in the next school year.

#### Grant Changes Due to Declining Enrolment:

The Human Resources Department is responsible for establishing the following year's enrolment projections based on historical data, updated for current developments. The projections are conservative in nature, and have been reviewed and approved by Executive Council for use in 2012-13 budget development. The projected full-time equivalent (FTE) enrolment for 2012-13 is as follows:

<b>2012-13 Estimates (Full-Time Equivalent)</b>	
Elementary Day School (ADE)	13,095.50
FDK Pilot Schools (ADE)	516.00
Other Pupils (Visa)	7.00
<b>TOTAL ELEMENTARY PUPILS</b>	<b>13,618.50</b>
Secondary Day School (ADE) < 21 yrs	7,965.00
Secondary Day School (ADE) > 21 yrs	250.00
Other Pupils (Visa)	16.00
<b>TOTAL SECONDARY PUPILS</b>	<b>8,231.00</b>
<b>TOTAL ENROLMENT</b>	<b>21,849.50</b>

For the purposes of the 2012-13 budget estimates, a decline of 608 pupils from the Board's 2011-12 Revised Estimates (or 2.8%) is being projected for overall WECDSB enrolment, bringing total FTE enrolment down to 21,850 pupils from 22,458. It is emphasized that the enrolment decline would have been larger if not for the impact of full day kindergarten classes being added in 2012-13, thereby increasing the overall FTE numbers.

Based on the enrolment identified above, Finance has prepared a preliminary funding forecast. As the final Grant for Student Needs (GSN) announcement is not made until late March, the funding forecast is based on applying the projected enrolment to the current year's (i.e. 2011-12) funding formulas. A comparison of the funding forecast to the 2011-12 budget has been conducted to inform the anticipated budget challenges for the Board during the upcoming academic year. When the final GSN announcement is made in late

March, Finance will revise the funding forecast and budget allocations and communicate any changes to impacted departments and ultimately to the Board.

The Board's funding is mostly contingent on the GSN, which is in turn mostly based on enrolment levels. The projected decline of 608 FTE pupils is estimated to result in approximately \$4.2M of reduced grant revenues (based on 2011-12 funding formulas).

The declining enrolment trend is expected to continue to place significant pressure on the Board's budget in future years. Looking at very preliminary nominal (i.e. head count) enrolment projections gives an indication of the magnitude of the dilemma facing the Board.

Grade	2012-13 Projected Nominal Enrolment (i.e. Head Count)
Junior Kindergarten	1,000
Senior Kindergarten	1,141
1	1,294
2	1,377
3	1,403
4	1,453
5	1,539
6	1,621
7	1,637
8	1,701
9	1,821
10	1,850
11	1,928
12	2,231
<b>NOMINAL ENROLMENT</b>	<b>21,996</b>

Note: Table does not include Secondary Day School > 21 yrs of age.

The Board is projected to graduate 1,231 more students at the end of 2012-13 than the number of students projected to be enrolled in JK during the year. It is evident from the data that the downward trend in enrolment is projected to continue year-over-year. If the projected Junior Kindergarten enrolment for 2012-13 stays fixed for each year into the future and no other factors change, the Board would decline to a nominal enrolment of 14,000 in 2025-26, a drop of 7,996 or 36%.

However, the local economy is still at the earliest stages of a potential recovery. The tenuous nature of world, Ontario and local economies make forecasting the strength and timing of a full recovery very difficult to predict. The Ministry of Education had previously projected that the downward trend in junior kindergarten enrolments would bottom out in approximately 2014-15. The noted economic factors may push this date further into the future, with more significant negative consequences for the Board's enrolment than noted above.

#### Vacation Accrual Phase-In:

Vacation accruals represent the cost of unpaid vacation for all employees. The accrual amount represents the dollar amount that would be paid to all staff with unused vacation if everyone left the employment of the Board at the same time. In the past, the difference

between the accrual and the actual cash paid was excluded when determining whether a Board was in compliance with the balanced budget provisions of the Education Act.

Starting in 2011-12, vacation accruals are no longer excluded from compliance. The Ministry of Education's position is that these accruals are determined by the Board's vacation policy and, in 2011-12, 50% of the opening accumulated deficit related to the unfunded vacation accrual was considered in determining compliance. WECDsB's opening accumulated deficit for unfunded vacation was \$1.4M, and therefore 50% or \$700K was included when calculating compliance. In 2012-13, the remaining 50% must be addressed.

#### Pressures:

Earlier in this report, it was noted that the preliminary budget outlook did not consider other spending pressures faced by the Board. Below are some of those pressures:

- **Capital Deficit:** Under prior administrations, the Board undertook the construction of school facilities not fully supported by New Pupil Place revenues. As a result, there is unsupported debt, meaning capital debt that is not supported with grant revenues from the Province to meet principal and interest payments. This debt affects the Board each year in the form of unsupported amortization expense, which is projected to be approximately \$722K per year. The Ministry of Education has previously recommended that the majority of this debt, which relates to pupil places, be funded from the School Renewal Grant, which would commit approximately 24% of this grant annually for an estimated 22 years. While Administration is aggressively working to reduce this debt, it continues to crowd out spending that could be used for other priorities.
- **Facilities:** As of the 2011-12 Revised Budget Estimates, the Board had 3,727 surplus pupil spaces or 15% excess capacity in all of its schools. This represents an approximate equivalent of 9 average-sized elementary schools that would have to close for the Board to address this excess capacity. By Ministry standards, 46% of the schools are underutilized, using less than 85% of the available space. Schools which are below the 85% utilization threshold do not generate full School Operations and Renewal grant funding. Therefore, WECDsB is not maximizing the benefit it could be receiving from the allocation, which is causing a budget pressure. Also, as previously noted, a large portion of school renewal is being used for the Board's existing capital deficit, which creates a further budget pressure.
- **Special Education:** WECDsB's inclusive model of Special Education service delivery expresses its commitment to educate each child to the maximum extent appropriate in the classroom he or she attends. It involves bringing the support services to the child rather than moving the child to the services. This model however causes budget pressures as the number of students with special needs continues to increase each year. WECDsB's total annual special education expenditures since 2002-03 have increased by \$11.4M or 60% while the annual grant allocation has only increased by \$6.7M or 30%. While the Province has been considering a comprehensive review of special education funding for quite some time, no significant changes are expected for 2012-13. With 95% of the expenses relating to staffing (salaries and benefits), any reduction in this area would require a reduction in staffing.
- **Full-Day Kindergarten:** This program is being funded by the Province outside of the GSN through an EPO grant (Education Program – Other). In 2011-12, WECDsB

is being funded for 20 full day kindergarten classes, while the Board actually has 27 classes, resulting in a budget pressure in the current year. This pressure is projected to continue into 2012-13, with 48 full day kindergarten classes funded, while operating 54. Notwithstanding the original indication from the Ministry of Education that this program would be fully funded by 2014-15, there exists the possibility that implementation may be delayed by the Province as a cost savings measure.

- **Faith Formation:** WECDSB's strategic priorities consist of Faith Formation and Student Achievement. Integrating faith into the curriculum and promoting faith formation of students and staff are critical to fulfilling the mission of Catholic Education and preserving the Catholic identity. This is an area however for which there is no direct funding source to support the costs, and it remains unlikely that the Board will receive direct funding to support this pressure. The Board must carve out funding from other grants or find savings elsewhere to fund this priority.
- **School Budgets:** The primary basis of allocating funds to school budgets is enrolment. With enrolment continuing to decline and the overall Board deficit increasing, there have been less funds available to provide to the schools in recent years. In addition, the Ministry released the "Fees for Learning Materials and Activities Guidelines" which reduced the ability of schools to charge fees for certain activities. Also, the Ministry of Education's Policy/Program Memorandum No. 150, "School Food and Beverage Policy", restricts the types of foods that can be sold in secondary school cafeterias, which has resulted in a reduction in overall cafeteria sales and associated commissions received by the schools.
- **Other:** There have been limited budget increases (if any) over the past few years and each year discretionary expenses have been reviewed to identify decreases where necessary. While Administration continues to review these expenses for further savings, each year it becomes more and more difficult to identify the deeper reductions that are needed to maintain last year's level of educational programs and services. There is constant pressure to maintain the Board's successes with student achievement while staffing, resources and Ministry funding are all being reduced. Each year presents less and less room to absorb pressures. Additionally, the Board has no working reserves. Furthermore, approximately 82% of the total Board budget (or 88% of the Board's operating budget) consists of salaries & benefits, with a significant portion of the remaining expenses either being mandatory (e.g. amortization, debenture interest, contractual fees, etc.) or revenue neutral (e.g. EPO's with corresponding funding sources, etc).

Summary:

All of the above is being provided for the information of the Board at this time. Administration will continue to develop the 2012-13 budget with due consideration to the factors that have been identified.

**FINANCIAL IMPACT:**

Discussed throughout the report.

**TIMELINES:**

The detailed 2012-13 budget process, including timelines, has previously been submitted to the Board. A further update report is anticipated to be provided to the Board in late April. The final budget is due for submission to the Ministry of Education by June 30, 2012.

**APPENDICES:**

N/A.

**REPORT REVIEWED BY:**

<input checked="" type="checkbox"/>	EXECUTIVE COUNCIL:	Review Date:	March 19, 2012
<input checked="" type="checkbox"/>	EXECUTIVE SUPERINTENDENT:	Approval Date:	March 21, 2012
<input checked="" type="checkbox"/>	DIRECTOR OF EDUCATION:	Approval Date:	March 21, 2012