



1325 California Avenue
Windsor, ON N9B 3Y6
CHAIRPERSON: Barbara Holland
DIRECTOR OF EDUCATION: Paul A. Picard

**Supervised
Meeting Date:
March 26, 2013**

HANDOUT 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: **2013-14 BUDGET PRESSURES AND CHALLENGES**

RECOMMENDATION:

That the report on 2013-14 Budget Challenges and Pressures be received 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 2013-14 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 Board’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:

- The challenging Provincial fiscal outlook that impacted the development of the 2012-13 budget will continue into the 2013-14 budget development process.
- While the focus of the 2012-13 budget discussions centered on the Drummond Commission recommendations, the focus of the 2013-14 budget discussions will centre around the impacts of the on-going implementation of Bill 115 - The Putting Students First Act.
- The Province has three core priorities for Education in Ontario, which need to be considered by WECD SB when developing its budget. These priorities are as follows:
 - High levels of student achievement
 - Reduced gaps in student achievement
 - Increased public confidence in publicly funded education
- Historically, the Ministry of Education's grant announcement has been made in late March following the release of the provincial budget. This year it is expected that the provincial budget will be presented in mid to late April. It is not certain how (if at all) this will impact budget development timelines. In addition, while it is unknown what specific increases or reductions will be announced in 2013-14, it is expected that funding from the Province will not increase significantly in 2013-14.
- Special Education Funding Reform – While the Ministry of Education has been considering a comprehensive review of special education funding for quite some time, the funding model has been revised only slightly in the past.
- Administration and Governance Grant Advisory Group – The Ministry of Education developed a workgroup in the fall of 2010 to undertake a comprehensive review of administrative funding and spending. The goal of the group was to develop a replacement funding model that better reflects key administrative cost drivers and structures. The Ministry was considering introducing a new funding model for school board administration in 2013-14. The Ministry has reduced this funding by 2% in each of the last three years.
- Capital projects are funded through an application and approvals process. Therefore it is uncertain when approval will be received for specific projects.

LOCAL CONTEXT:Declining Enrolment

A preliminary enrolment forecast has been developed for 2013-14. Enrolment projections were established 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 2013-14 budget development. The projected full-time equivalent (FTE) enrolment for 2013-14, with a comparison to 2012-13 is as follows:

	2012-13 Revised Estimates (FTE)	2013-14 Estimates (FTE)	Decline in Enrolment
Elementary Day School (ADE) - funded from GSN	13,123.50	12,469.00	(654.50)
FDK Pilot Schools (ADE) – funded from EPO grant	630.50	755.50	125.00
TOTAL ELEMENTARY PUPILS	13,754.00	13,224.50	(529.50)
Secondary Day School (ADE) < 21 yrs	7903.43	7,450.00	(453.43)
Secondary Day School (ADE) > 21 yrs	254.46	210.00	(44.46)
TOTAL SECONDARY PUPILS	8,157.89	7,660.00	(497.89)
TOTAL ENROLMENT (Pupils of the Board)	21,911.89	20,884.50	(1,027.39)
Other Elementary Pupils (Visa)	7.00	6.00	(1.00)
Other Secondary Pupils (Visa)	21.00	18.00	(3.00)
TOTAL OTHER PUPILS	28.00	24.00	(4.00)

(Note: ADE – Average Daily Enrolment
EPO – Educational Program, Other

GSN – Grants for Student Needs
FDK – Full Day Kindergarten)

For the purposes of the 2013-14 budget estimates, a decline of 1,027 pupils from the Board's 2012-13 Revised Estimates (or 4.7%) is being projected for overall WECDSB enrolment, bringing total FTE enrolment down to 20,885 pupils from 21,912. It is emphasized that the enrolment decline would have been larger if not for the impact of full day kindergarten (FDK) classes being added in 2013-14, 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 traditionally made until late March, the funding forecast is based on applying the projected enrolment to the current year's (i.e. 2012-13) funding formulas, adjusted for any 2013-14 grant changes known at this time. When the final GSN announcement is made following the release of the provincial budget, Finance will revise the funding forecast 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 largely based on enrolment levels. The projected decline of 1,027 FTE pupils is estimated to result in approximately \$7.6M of reduced grant revenues (based on 2012-13 funding formulas). This funding decrease is comprised of a \$9.3M projected decline in GSN funding offset by an anticipated \$1.7M increase in the FDK EPO (Education Program – Other) grant which funds the additional 0.5 day of full day kindergarten. The FDK EPO grant is increasing with the addition of 10 schools that will begin to offer the full day kindergarten program in 2013-14.

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 in the chart on the following page gives an indication of the magnitude of the dilemma facing the Board.

Grade	2013-14 Projected Nominal Enrolment (i.e. Head Count)
Junior Kindergarten	841
Senior Kindergarten	1,137
1	1,171
2	1,309
3	1,391
4	1,387
5	1,456
6	1,528
7	1,601
8	1,637
9	1,582
10	1,850
11	1,910
12	2,351
NOMINAL ENROLMENT	21,151

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

The Board is projected to graduate 1,510 more students at the end of 2013-14 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 2013-14 stays fixed for each year into the future and no other factors change, the Board would decline to a nominal enrolment of 11,774 in 2026-27, a drop of 9,377 or 44%.

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.

Shortfall from Prior (2010-11) Year:

In 2010-11 the Board reported a total accumulated deficit of \$2.48M. In 2011-12, the Board achieved an in-year surplus of \$190K, reducing the accumulated deficit to \$2.29M. With the decline in enrolment and other pressures facing the Board (described further below) it is expected that balancing the 2013-14 budget will present a challenge which will require necessary restraint measures and a solid financial recovery plan to put the Board on a strong financial footing for the future. Further updates will be provided as new information becomes available.

Pressures:

- **Technology:** Technologies have become tools of learning and necessities to function effectively and efficiently on both the administrative and academic operations of the Board. For the past three years, funding provided through the Classroom Computers per-pupil allocation has been reduced by \$25M, and starting in 2012-13, this constraint was made permanent. Reductions in Ministry funding to support technology continue to add pressure to the Board's operating budget as computer hardware and software quickly become obsolete and must be refreshed to operate properly and maintain overall effectiveness. The end of support for Windows XP in April 2014 necessitates the need for a hardware refresh of academic desktops. In addition, core network infrastructure challenges that require upgrades to servers and switches will place further strain on the budget. Many of these information technology infrastructure costs are fixed in nature and are increasingly difficult to manage in a declining enrolment environment where the majority of funding is generated on a per-pupil basis.
- **34 Credit Cap:** Last spring the Ministry announced funding changes beginning in the 2013-14 school year for pupils who have crossed the 34 credit threshold. Effective September 2013, when students exceed a limit of 34 successfully earned secondary school credits, those additional credits will no longer be funded at the Day School rate, but rather at the lower, Continuing Education rate. The intent is to encourage students and schools to plan courses appropriately and more effectively use education resources while still allowing students to seek additional or upgraded credits. In 2012-13 the secondary per-pupil funding was \$5,747, while the funding for continuing education students was \$3,344 per pupil. While the full financial impact will not be determined until student enrolment, course selections and credit accumulation are verified in October 2013, preliminary estimates indicate an overall reduction in Ministry funding could be in the range of \$350,000 to \$500,000.
- **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 21.5% 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 2012-13 Revised Budget Estimates, the Board had 3,818 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, 47% 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, notwithstanding that overall student enrolment is decreasing significantly. WECDsB's total annual special education expenditures since 2002-03 have increased by \$11.1M or 60% while the annual grant allocation has only increased by \$5.1M or 20%. While the Province has been considering a comprehensive review of special education funding for quite some time, no significant changes are expected for 2013-14. With 97% 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. For the additional 0.5 day funded through the EPO grant, the Ministry caps the program per pupil funding at a certain level. In 2012-13 this level was 1,196 pupils. With a count of 1,261 actual pupils on October 31, 2012, WECDsB has a total of 65 pupils above the Ministry funding cap, resulting in a funding shortfall of approximately \$353,000. There is a possibility that a similar funding shortfall could occur in 2013-14.
- **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.
- **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 80% of the total Board budget (or 86% 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 2013-14 budget with due consideration to the factors that have been identified.

FINANCIAL IMPACT:

Discussed throughout the report.

TIMELINES:

The detailed 2013-14 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, 2013.

APPENDICES:

N/A.

REPORT REVIEWED BY:

<input checked="" type="checkbox"/>	EXECUTIVE COUNCIL:	Review Date:	March 26, 2013
<input checked="" type="checkbox"/>	EXECUTIVE SUPERINTENDENT:	Approval Date:	March 26, 2013
<input checked="" type="checkbox"/>	DIRECTOR OF EDUCATION:	Approval Date:	March 26, 2013