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Meeting Date:
March 25, 2014

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 Corporate Services
SUBJECT: **2014-15 BUDGET PRESSURES AND CHALLENGES**

RECOMMENDATION:

That the Board receive the report on 2014-15 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 2014-15 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 reflects 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 WECDSB as it proceeds through budget development. Some of the key considerations are as follows:

- The challenging Provincial fiscal outlook that impacted the development of prior year budgets will continue into the 2014-15 budget development process, as the Province remains on track to eliminate the provincial deficit by 2017-18.
- The two year labour framework will come to an end on August 31, 2014 and the 2014-15 budget may be impacted by a new labour framework, such as the proposed Bill 122 (*School Boards Collective Bargaining Act, 2013*), which introduces a new central bargaining structure. The model put forward features central bargaining for key issues with province-wide impacts such as pay and benefits, combined with a local bargaining table that is more in line with traditional collective bargaining.
- The Province has three core priorities for education in Ontario identified below:
 1. High levels of student achievement
 2. Reduced gaps in student achievement
 3. Increased public confidence in publicly funded education

Further, the Ministry is building on the next phase in Ontario's education strategy, which plans to move the system from *Great* to *Excellent*. The focus in this phase is to:

1. Sustain the priorities and the commitment to continuing improvement with respect to the three core goals listed above.
2. Examine the skills, knowledge and characteristics students need to succeed.
3. Discover ways to use technology more effectively in teaching and learning.
4. Examine how the education system needs to evolve as a result of changes to child care and the implementation of Full Day Kindergarten, and
5. Explore various opportunities for partnership to enhance the student experience.

The three core priorities, combined with the *Great* to *Excellent* strategy, need to be considered by WECDSB when developing its budget.

- The Ministry of Education's grant announcement is expected on or about March 27th. While each Grant for Student Needs (GSN) release in the past decade has seen a significant increase in funding (even as enrolment has declined), the Ministry has reminded Boards that it is a time of transition for the GSN, and the challenge now is to plan for a potential change in this trend.

- Full-Day Kindergarten (FDK) - The 2014-15 GSN will reflect full implementation of FDK, and the additional 0.5 day will no longer be funded through an Education Program Other (EPO) grant.
- School Condition Improvement Funding – In 2011-12 the Ministry provided Boards with \$150M in funding for school renewal needs in each of the next three years through a grant known as the School Condition Improvement Allocation. 2013-14 was the last year of the three year allocation, and it remains to be seen whether this or similar capital funding will be provided in 2014-15 and beyond.
- Special Education Funding Reform – While there has been much discussion about a possible new funding mechanism over the years and the funding has been revised slightly from time to time, the issue of adequate funding for students with special needs has yet to be resolved. A working group has prepared a proposal to amend the calculation of the High Needs Amount (HNA) in the Special Education Grant, and the recommendations of the working group are expected to be included in the 2014-15 GSN.
- Board Administration Advisory Group – This group, which was established in 2010 to review the Board Administration grant, has completed its work and has made recommendations to the Deputy Minister. It is expected that the recommendations will be included in the 2014-15 GSN.
- School Board Efficiency and Modernization Initiative – As Ontario continues to deal with the challenges of the global economic downturn and slower-than-expected recovery, the government is looking for new ways to deliver key priorities within current fiscal realities. To that end, the 2013 budget announced that the Ministry of Education would be consulting education stakeholders on an efficiencies and modernization savings strategy for the 2014-15 school year. The Ministry is looking for opportunities to transform the way funding is allocated and used at the board and school level, modernizing school board funding to have more efficient operations on the ground.

Consultations with stakeholders occurred during the months of October and November of 2013 and were focused on the following areas:

- Underutilized and small schools
- Declining enrolment supports
- Improving accountability
- Sharing efficiency savings
- E-books and e-learning
- New technologies
- Getting the balance right

The Ministry expects to release a report on the results of the consultation soon, and plans to use the feedback received to inform the development of the 2014-15 GSN.

LOCAL CONTEXT:Enrolment

A preliminary enrolment forecast has been developed for 2014-15. Enrolment projections were established based on historical data, updated for current circumstances. The projections are conservative in nature, and have been reviewed and approved by Executive Council for use in 2014-15 budget development. The projected full-time equivalent (FTE) enrolment for 2014-15, with a comparison to 2013-14, is as follows:

	2013-14 Revised Estimates (FTE)	Projected 2014-15 Estimates (FTE)	Change in Enrolment
Elementary (ADE)	13,516.50	13,043.00	(473.50)
Secondary (ADE) < 21 yrs	7,535.12	7,109.65	(425.47)
TOTAL DAY SCHOOL ENROLMENT	21,051.62	20,152.65	(898.97)
Total High Credit	23.38	29.81	6.43
Adult Pupils (ADE) > 21 yrs	228.75	220.00	(8.75)
Total Visa Pupils	40.50	41.00	0.50

Note: ADE= Average Daily Enrolment
FTE = Full Time Equivalent

For the purposes of the 2014-15 budget estimates, a decline of 899 pupils from the Board's 2013-14 Revised Estimates (or 4.3%) is being projected for WECD SB, bringing the total enrolment down to 20,153 pupils from 21,052. Total High Credit, adult and VISA pupils are projected to remain relatively stable from the prior year, collectively declining by only 1.82 FTE.

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. 2013-14) funding formulas, adjusted for any 2014-15 grant changes known at this time. When the final GSN announcement is made, Finance will revise the funding forecast and communicate any changes to impacted departments and ultimately to the Board.

About two-thirds of education funding is based on enrolment. The projected decline of 899 FTE pupils is estimated to result in approximately \$6.3M of reduced grant revenues (based on 2013-14 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 in the chart on the following page gives an indication of the magnitude of the dilemma facing the Board.

Grade	2014-15 Projected Nominal Enrolment (i.e. Head Count)
Junior Kindergarten	900
Senior Kindergarten	1,082
1	1,162
2	1,206
3	1,327
4	1,392
5	1,399
6	1,470
7	1,523
8	1,582
9	1,463
10	1,861
11	1,910
12	1,997
NOMINAL ENROLMENT	20,274

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

The Board is projected to graduate 1,097 more students at the end of 2014-15 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 2014-15 stays fixed for each year into the future and no other factors change, the Board would decline to a nominal enrolment of 12,600 in 2027-28, a drop of 7,674 pupils or 38%.

The WECDSB Enrolment Projections and Demographic Trends report of December 9, 2013 by Watson & Associates provides two separate projections for future enrolment. In the hypothetical case of no new housing/growth, Watson projects 2027-28 nominal enrolment to fall to 15,654 pupils, a decline of 4,503 or 22%. With the projections made by Watson to account for additional pupils from future new housing/growth, the 2027-28 nominal enrolment is projected to rise slightly to 20,854, a projected increase of 3.5%.

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 significant negative consequences for the Board's enrolment in the coming years.

Budget Outlook

A preliminary budget outlook has been developed for 2014-15. The table below summarizes the projected fiscal challenges for the upcoming academic year:

Preliminary Forecast	2014-15 (\$Millions)
Reduced GSN grant due to decline in enrolment	(6.3)
By-law reserve (0.5% of operating allocation)	(1.1)
Rental revenue decrease	(0.1)
Structural Surplus from 2013-14 Revised Estimates	5.2
Additional ECE funding	0.5
TOTAL REDUCTIONS REQUIRED	(1.8)

Notwithstanding the positive financial results the Board has achieved in the past fiscal year, the decline in enrolment, the capital deficit and other spending pressures facing the Board such as Special Education and School Operations and Maintenance (not included in the forecast above) continue to present challenges as the Board balances the 2014-15 budget. Necessary restraint measures combined with new and creative approaches to the way the Board delivers education and the way funds are used will need to continue to be the focus for WECDsB.

Pressures

- Technology:** Technologies have become tools of learning and necessities to function effectively and efficiently for both the administrative and academic operations of the Board. For three years, funding provided through the Classroom Computers per-pupil allocation had 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. In addition, core network infrastructure challenges that require upgrades to servers and network switches will place further strain on the budget, as the GSN has not previously recognized the need for funding the upgrade of I.T. infrastructure.
- Capital Deficit:** Under prior administrations, the Board undertook the construction of school facilities not fully supported by New Pupil Place Grant 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 23% of this grant annually for an estimated 20 years. While Administration is aggressively working to reduce this debt, it continues to crowd out spending that could be used for other priorities.

- **Facilities:**

Key Facts:

✓	WECDSB has 38 elementary schools of which 1 is less than half full.
✓	WECDSB has 10 secondary schools of which 2 are less than half full.
✓	63% of WECDSB's elementary schools are using less than 85% of the available space.
✓	50% of WECDSB's secondary schools are using less than 85% of the available space.
✓	There is currently excess capacity of 4,364 spaces or 18% across WECDSB's entire system.

* All statistics from 2013-14 Revised Estimates, per Ministry standards

* Board calculated excess capacity with EPO funded FDK pupils is 3,501 spaces or 14%

As noted above, the Board has over 4,300 surplus pupil spaces in all of its schools. This represents an approximate equivalent of 10 average-sized elementary schools that would have to close for the Board to address this excess capacity.

Schools with excess capacity are still subject to the same fixed costs of school operations, such as utilities and maintenance. Because space is underutilized however, the schools do not receive enough per-pupil funding through basic foundation grants to cover these fixed costs. To address this problem, the Ministry provides boards with top-up funding in the School Facility Operations and Renewal Grants. The top-up increases the Board's revenue for up to 15% of the excess capacity. For example, a school with a utilization rate of 60% would be treated as if it were operating at 75%; a school with a utilization rate of 80% would be treated as if it were operating at 95%; and schools over 85% utilization are fully topped up (i.e. treated as if they are operating at 100%).

By Ministry standards, 60% of WECDSB's 48 schools are underutilized, using less than 85% of the available space. As noted above, funding for schools with utilization rates that are at or above 85% will be topped up to the amount that would be generated if the schools were operating at 100% capacity. Since 60% of WECDSB's schools are below the 85% utilization threshold, they are still not generating full School Operations and Renewal grant funding after the 15% top-up funding is applied. Therefore, WECDSB is not maximizing the benefit it could be receiving from the allocation, which is causing a budget pressure.

In the 2013-14 Revised Budget Estimates, 11% (almost \$2.5M) of WECDSB's total school operations and school renewal funding is dedicated to funding empty spaces. Across the province, this figure is 13% or \$300M, an amount which, if fewer empty pupil places existed, could be freed up by the Ministry for improved student achievement.

- **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 \$8.6M or 50% while the annual grant allocation has only increased by \$3.9M or 20%. The Province has been considering a comprehensive review of special education funding for quite some time. Recently, a working group has prepared recommendations to amend the calculation of the High Needs Amount in the Special Education Grant, the impact of which is expected to be reflected in the 2014-15 GSN.
- **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:** Over the past three years total school budgets have remained relatively stable, with only a 1% change in funding allocated to schools from 2011-12 to 2013-14. With approximately two-thirds of education funding based on enrolment, the historical decline in WECDSB's total enrolment has resulted in reduced grant revenues overall for the Board. With a shrinking pool of available funds, it remains increasingly difficult to continue to maintain the stable level of school budget support.
- **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 gains in 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 only recently has begun to accumulate working reserves to offset the capital deficit. The ability to generate reserves depends in large part on the Board's commitment to offset the current capital deficit of approximately \$15.6M with ongoing operating budget surpluses. The Board realized an accumulated operating surplus of \$5.4M at the end of 2012-13. With the operating surplus for this current budget year projected at \$5.2M, the Board is projected to have an accumulated operating surplus of \$10.6M at the end of 2013-14. Continued fiscal prudence is necessary in the development of the 2014-15 budget in order to continue to increase the accumulated surplus to fully offset the capital deficit.

Furthermore, approximately 79% of the total Board budget (or 87% 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 expenses 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 2014-15 budget with due consideration to the factors that have been identified.

FINANCIAL IMPACT:

Discussed throughout the report.

TIMELINES:

The detailed 2014-15 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, 2014.

APPENDICES:

N/A.

REPORT REVIEWED BY:

<input checked="" type="checkbox"/>	EXECUTIVE COUNCIL:	Review Date:	March 18, 2014
<input checked="" type="checkbox"/>	EXECUTIVE SUPERINTENDENT:	Approval Date:	March 18, 2014
<input checked="" type="checkbox"/>	DIRECTOR OF EDUCATION:	Approval Date:	March 18, 2014