Report to the Board of Trustees

Transfer to Accumulated Surplus (Deficit)

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Public:	☒
Confidential:	☐
Budget Implications:	☐

Core Priority:

Student Achievement and Well-Being	☒
Effective Stewardship of Board Resources	☒
Appropriate and Effective Faith-Based Programming	☒
Organizational and Capacity Building	☐

Meeting Date:	February 27, 2017
Report Number:	**E.3.(o).17.**
Action:	☒
Information:	☐
Follow Up Item:	☐
Prev. Report #:	*Prev Num*

Recommendation(s):

1. That the internally appropriated balance for School Renewal ($2,351,440) and Property Insurance Claims ($152,207) be transferred to the unappropriated surplus for August 31, 2017;

2. That the budget for 2017/2018 will be prepared based on the following parameters:
   - The budget shows an in year surplus of $1 million which will establish the required contingency balance or contribute to the reduction of the accumulated deficit;
   - Reflect staffing required due to elementary enrolment increases; and
   - Address the need for additional resources in Special Education and ICTS.

Background and Purpose:

The budget committee met on Tuesday February 21st and is making attached recommendations as an outcome of that meeting.

Appendices:

Phase 1 Developing a Common Understanding – February 2017

2017/2018 OPERATING BUDGET PREPARATION

Discussion for February 21st Committee Meeting

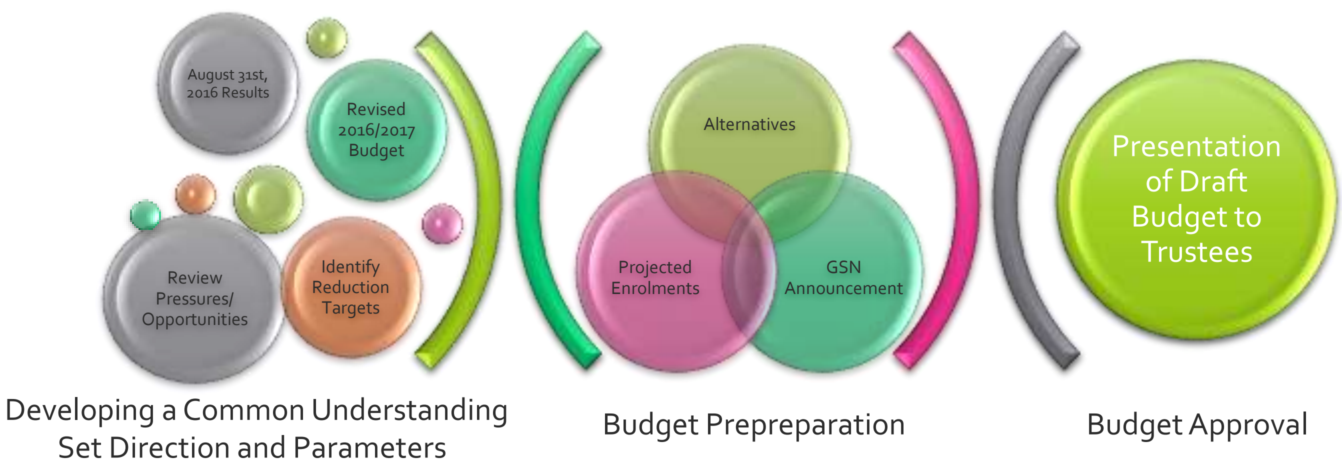
2017/2018 BUDGET PROCESS AND TIMELINES

The operating budget is an important tool to ensure that resources are allocated to support the functions of the system and the priorities of the board. The approved budget governs the actions of administration in achieving the multi-year strategic plan.

The preliminary 2017/2018 operating budget approved in June 2017 will meet three objectives:

1. Present an in-year surplus of $1 million;
2. Adjust expenditures in-line with forecasted changes in enrolment;
3. Consult with stakeholders, including staff, parents and community, throughout the process.

OVERVIEW OF BUDGET PROCESS



PHASE 1: DEVELOPING A COMMON UNDERSTANDING

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UNDERSTANDING OF CURRENT FINANCIAL SITUATION

Over the past three years, the board has moved from an in-year deficit of $4.7 million in 2013/2014 to a forecasted surplus of $334,000 in 2016/2017. This has been achieved by a combination of expenditure reductions and enrolment growth. The table below reflects the financial results over the past four years.

	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Revised
Opening Accumulated Deficit / Surplus available for compliance	**13.109**	**8.448**	**3.863**	**1.204**
In-Year Surplus/(Deficit)	**(4.661)**	**(4.585)**	**(2.659)**	**0.334**
Ending Accumulated Surplus/(Deficit) available for compliance	**8.448**	**3.863**	**1.204**	**1.538**
Ending Unapproriated (Deficit) surplus	3.993	(0.059)	(2.674)	(2.330)

(2013/2014 actual and 2014/2015 actual have been adjusted to reflect actual retroactive payment of CUPE pay equity. For more information see the 2014/2015 audited financial statements.)

STRATEGY MOVING FORWARD

The Ministry of Education outlined their expectations in a letter from ADM Gabriel Sékaly dated March 12, 2015 an excerpt which is shown below.

> We commend the board for initiating this past summer a review of the boards operations including consultations with communities in order to determine the necessary measures to address the financial situation. The financial recovery plan should reflect cost saving strategies that are both attainable in the short term and sustainable in the long term. The board is required to eliminate its structural in-year deficit by **2016-17** and should also aim at attaining an unappropriated accumulated surplus balance of 1% of operating revenues, but no less than 0.3% for contingency purposes.

The in-year deficit was eliminated by 2016/2017 with a forecast surplus of $0.334 and the board has an accumulated surplus available for compliance. The board is still showing an unappropriated deficit of $2.330 million.

ACCUMULATED SURPLUS (DEFICIT)

The accumulated surplus (deficit) is made up of three distinct parts.

1. **Unappropriated (deficit) Surplus**. These are the funds resulting from in-year income that are available for use by the board in subsequent years and are contingency funds.
2. **Internally Appropriated Surplus**. These are funds that have been previously set aside by the Board of Trustees for specific purposes. These balances were formerly known as reserves.
3. **Accumulated Surplus unavailable for compliance**. The largest components of this amount are the land owned by the board, and school generated funds. These balances are not accessible to the board.

The sum of (1) and (2) reflect the surplus available for compliance.

The forecasted accumulated surplus balance for August 31, 2017 for each component are as follows:

	Aug-17
Unappropriated (Deficit)	(2,330,428)
Internally Appropriated Surplus	3,869,019
Available for Compliance	$ 1,538,591
Unavailable for Compliance	24,300,625
Total Accumulated Surplus	$ 25,839,216

The multi-year recovery plan requires that the board have an unappropriated accumulated surplus of no less than 0.3% of operating revenues. This amount would be approximately $700,000. There is a $3 million gap between the projected unappropriated (deficit) and the required surplus.

OPTIONS TO ADDRESS THE ACCUMULATED DEFICIT

There are two options to address the accumulated deficit.

Option One

This option would be to create an in-year surplus and reduce the deficit over a period of time. A $1 million annual surplus would repay the accumulated deficit by August 2019 and build the required contingency balance by August 2020. A more aggressive timeline would require a larger in annual surplus and impose additional expenditure cuts.

Option Two

The second option would be to collapse some of the "reserves" previously set up by Trustees. This would effectively move funds from the Internally Appropriated Surplus to the Unappropriated (deficit).

The Internally Appropriated Surplus is made up of the following balances:

Internally Appropriated Surplus	
WSIB	1,218,611
School Renewal	2,351,440
Property Insurance Claims	152,207
Sinking Fund interest earned	146,761
Total	3,869,019

The WISB balance is a contingency for future costs related to claims. The Board is a schedule 2 employer which mean we fund the cost of claims rather than premiums.

The School Renewal funds were set aside prior to 2010 from pupil accommodation grant. Administration believes there are no restrictions on the use of these funds.

The Property Insurance Claims relates to a reserve set up in the past to fund the deductible on insurance claims.

The Sinking Fund interest relates to long term debt payments and will be required to be paid out in the future.

Under this option, the Property Insurance Claims balance and the School Renewal balance would be collapsed and $2,503,647 would be transferred to the Unappropriated balance.

	Aug-17
Unappropriated (Deficit)	(2,330,428)
Transfer from School Renewal	2,351,440
Transfer from Property Insurance Claims	152,207
Revised Balance Unappropriate Surplus	173,219

The resulting Unappropriated Surplus would be approximately $500,000 short of the 0.3% contingency.

RECOMMENDATION

Administration is recommending that the School Renewal and Property Insurance Claims balances be transferred to the Unappropriated Surplus for August 31, 2017.

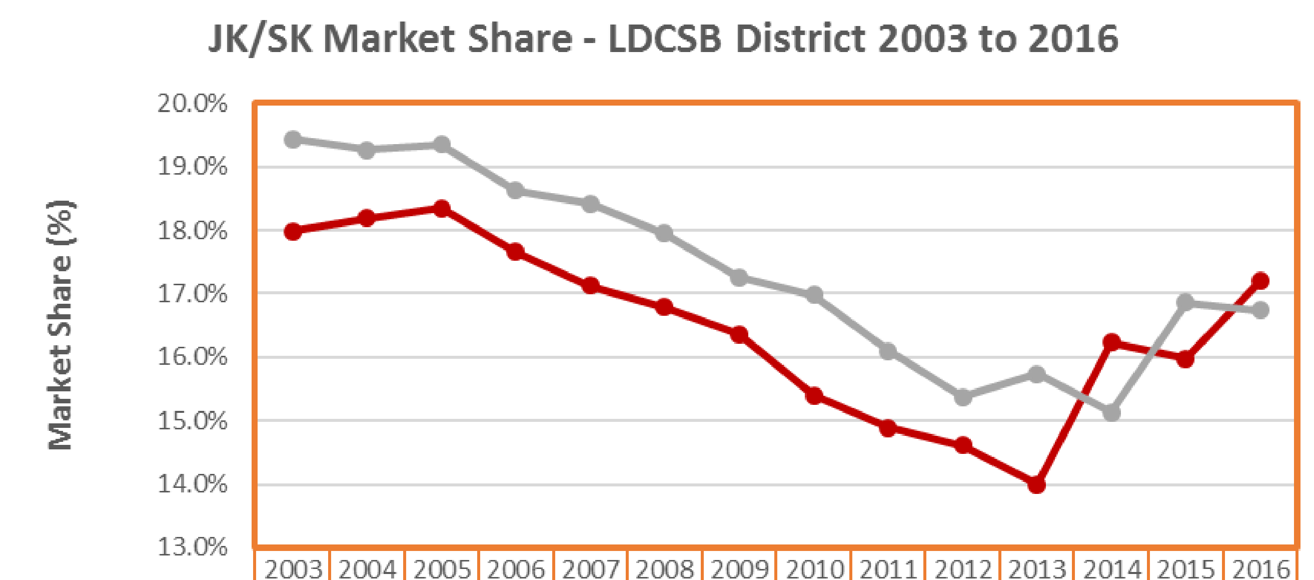
UNDERSTANDING TRENDS IN ENROLMENT

Enrolments are the key factor in determining the resources available to the board. Over the past several years there has been a demographic decline in the number of school aged children due to the echo effect of the baby boom, and the decline in the number of babies born per family. The demographic decline is beginning to turn around and increases are seen in elementary enrolment.

In addition to the demographic decline in the number of students, there has been a decline in the number of families choosing Catholic education.

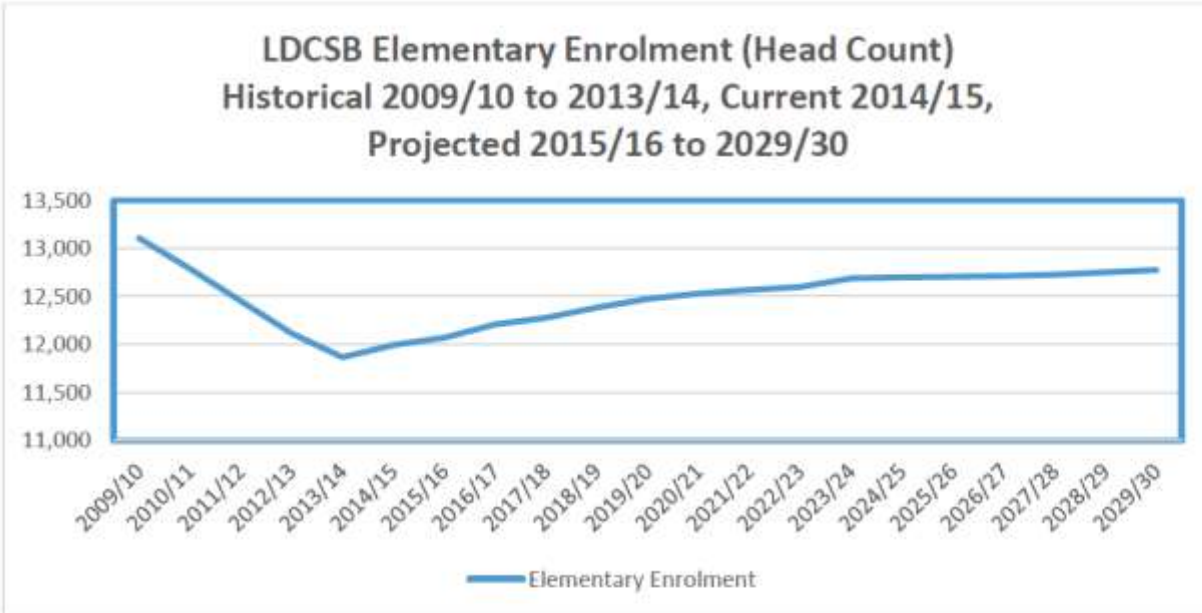
ELEMENTARY ENROLMENTS

The chart below outlines the percentage of 4 and 5 year old children who were enrolled in the LDCSB, and shows a decline from 19.4% in 2003 to a low of 15.7% in 2013. The bounce back began in September 2014 as is attributed to the full implementation of Full Day Kindergarten. The 2017 enrolment is anticipated to hold this trend.



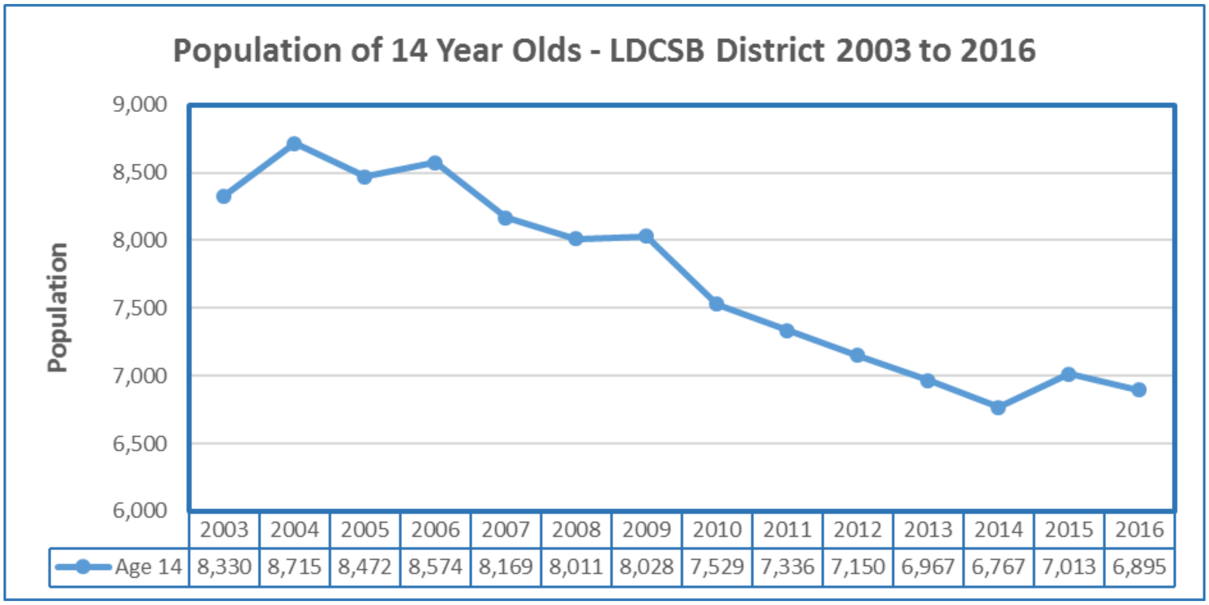
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
JK (Age 4)	18.0%	18.2%	18.3%	17.7%	17.1%	16.8%	16.4%	15.4%	14.9%	14.6%	14.0%	16.2%	16.0%	17.2%
SK (Age 5)	19.4%	19.3%	19.3%	18.6%	18.4%	17.9%	17.3%	17.0%	16.1%	15.4%	15.7%	15.1%	16.9%	16.7%

Based on demographic data and three year market trends, the elementary enrolments are projected to increase steadily over the next 15 years but will not return to the level of 2009. If market trends improve, enrolment projections could be more positive.

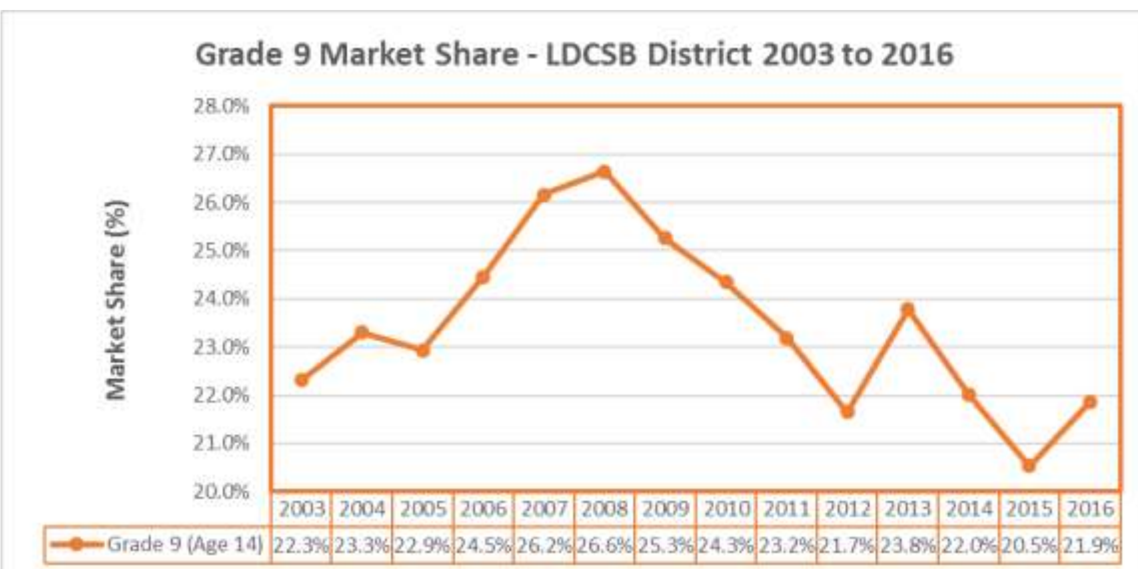

LDCSB Elementary Enrolment (Head Count)
Historical 2009/10 to 2013/14, Current 2014/15,
Projected 2015/16 to 2029/30
13,500
13,000
12,500
12,000
11,500
11,000
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
Elementary Enrolment

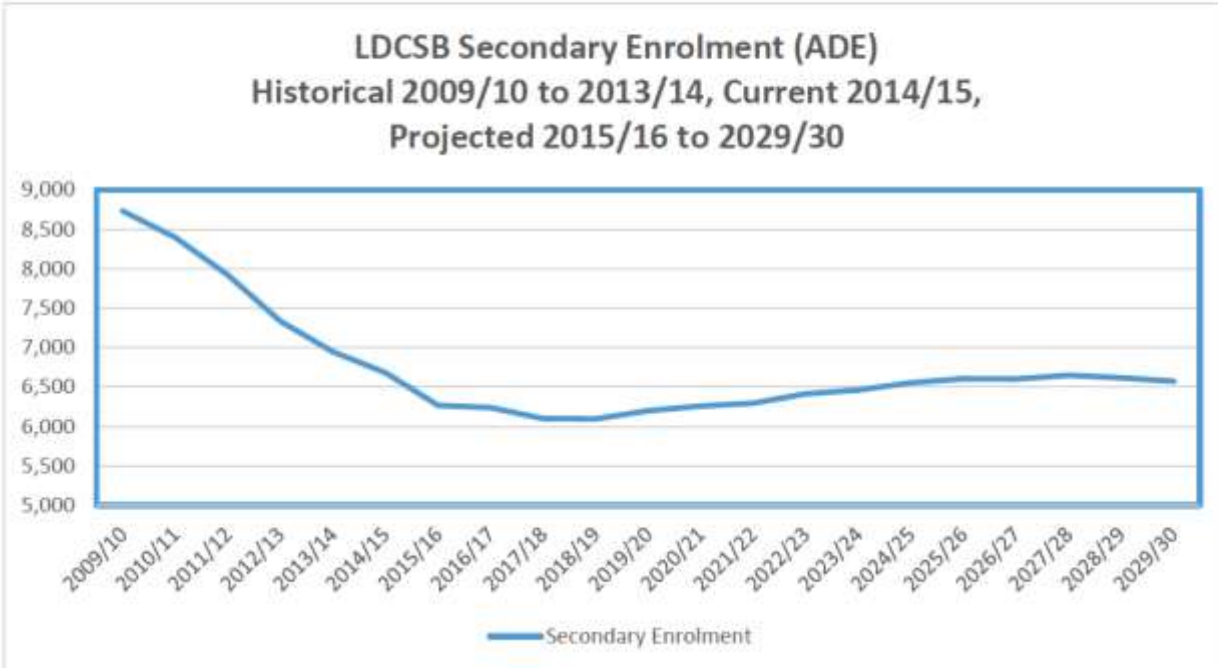
SECONDARY ENROLMENTS

While the elementary enrolment has begun to stabilize, the population of 14 year olds in London has declined. Although there was an increase in 2015, the overall trend of decline is expected to continue for the next few years.



The percentage of 14 year old students who are choosing Catholic education has fluctuated significantly in the past few years from a high of 26% of the market to a low of 20.5% because Catholic secondary schools are open to non Catholic families there is significant opportunity to influence this choice. There was a slight increase in market share in 2016.





Overall secondary enrolment is expected to be flat for 2017/2018 and is highly dependent on retention rates.

STRATEGY MOVING FORWARD

Elementary enrolments are anticipated to increase by 278 FTE for 2017/2018. While it is too early to estimate secondary enrolments as registrations are ongoing, planning numbers show the ADE for 2017/2018 to be flat.

The increase in elementary enrolment is estimated to result in increased grant revenue of approximately $2 million. Of this amount $1.3 million relates to classroom costs associated with the increased number of students, and $0.7million will be available for other expenditures.

PRESSURE POINTS FOR 2017/2018 BUDGET

Administration has identified the following areas to be specifically addressed in the 2017/2018 operating budget.

Classroom Teachers

Costs associated with classroom teachers exceed funding by approximately $1.5 million. The largest portion of this cost relates to the premiums for Long Term Disability which are paid by the board and not the employee as is the case in most other boards. In addition, provisions in the collective agreement cap the FDK classroom size at 28 which is lower than the provincial average.

Supply Teachers

Costs associated with supply teachers exceed funding by approximately $0.4 million. This cost is directly related to the number of paid absent days taken by employees. Focus on this cost in ongoing.

Board Administration

Board Administration costs relate to the central provision of services and expenses at the Catholic Education Center and include Trustee and association expenses. Costs are $153 thousand greater than the funding provided. While future reductions are required in order to be compliant, there is increased staff fatigue in this area, and the desire is to reduce non-staff expenses.

School Operations

The amount spent on school facilities is currently $1.2 million greater than the funding provided. This is primarily due to the significant amount of unfunded space in schools. While the accommodation review in East London is presently underway. Any savings that should result from this review would not be recognized until the 2018/2019 budget year.

In 2016/2017 the board implemented a strategy for the reduction of energy consumption. Investment over three years will reduce energy costs by an estimated $500,000 each year. The investment will be to retrofit schools with LED lighting and improve control systems. This investment is possible through allocation of school renewal funding.

Special Education

The 2016/2017 revised budget included expenditures for Special Education greater than the funding received. While demand for services in this area continue to increase, the funding deficit is $670,000.

Special Education funding is based on the total enrolment and is not based on the number of students receiving supports in the schools.

Additional educational assistants and specialized teachers are anticipated to be added to Special Education in 2017/2018 through the provincial extension agreements.

Innovative and Collaborative Technology Services

The board has invested significantly in computer technology which is not fully funded and places pressure on the overall budget.

In particular, there is a current need for infrastructure replacement and renewal. Reductions in ICTS personnel has also led to decreased service levels for maintenance.

SUMMARY

The budget for 2017/2018 will be prepared based on the following parameters:

- The budget shows an in-year surplus of $1 million which will establish the required contingency balance or contribute to the reduction of the accumulated deficit;
- Reflect staffing required due to elementary enrolment increases; and
- Address the need for additional resources in Special Education and Innovative and Collaborative Technology Services.