Building Brighter Futures Together at the Ottawa-Carleton District School Board

COMMITTEE OF THE WHOLE (BUDGET) **26 May 2020**
Report No. 20-052

2019-2020 Updated Forecast (April)

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PURPOSE:

1. To explain changes reflected in the District's 2019-2020 Updated Forecast as compared to the District's 2019-2020 Budget.

CONTEXT:

2. Financial forecasts are prepared periodically during the year to show the District's anticipated year-end position.

   The 2019-2020 Revised Estimates that were submitted to the Ministry of Education in December 2019 served as the first forecast of the year. They reflected the impact of net enrolment changes which resulted in reduced revenue, the effect of increased attrition from classroom-based teaching positions, updates resulting from the remaining service life (RSL) review of physical assets, adjustments resulting from grants announced after the approval of the District's budget and changes identified as part of ongoing monitoring of operations.

   The updated forecast is based on year-to-date experience up to 30 April 2020. Most significantly, the changes expected as a result of the District's response to the COVID-19 pandemic as well as the impact of labour sanctions in support of the collective bargaining process are now shown. The financial impacts of recently negotiated collective agreements are not included. Explanations provided in the revised estimates are repeated and additional commentary explaining further changes has been included.

KEY CONSIDERATIONS:

3. In June 2019, the Board approved the 2019-2020 Budget authorizing expenses totaling $980.2 million. Funding of the expenses was provided through grants and other revenues totaling $971.8 million. This resulted in a planned deficit of $8.4 million.

   The District's 2019-2020 Updated Forecast provides for expenses of $949.6 million, revenues of $939.9 million and a planned deficit of $9.7 million.

Table 1 compares the anticipated deficit reflected in the updated forecast with the amount originally budgeted.

Table 1 – Comparison of Updated Forecast and Budget

	Updated Forecast	Budget	Change	Change
	$	$	$	%
Revenues	939,975,500	971,802,500	(31,827,000)	(3.3)
Expenses	949,629,800	980,246,000	(30,616,200)	(3.1)
Deficit	(9,654,300)	(8,443,500)	(1,210,800)	

Changes to revenues and expenses since the approval of the 2019-2020 Budget are expanded upon in Appendix A - Analysis of Changes in Revenues and Expenses. Costs by program area for the current and prior year are presented in Appendix B - Comparative Summary of Expenses. Additional detail regarding grants is provided in Appendix C - Grants for Student Needs and a list of special purpose grants is provided in Appendix D – Priorities and Partnership Fund and Other Deferred Revenues.

4. **Enrolment Estimates and Grants (updated)**

The 2019-2020 Budget was developed using enrolment estimates established in early 2019. Average daily enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 50,246 for elementary and 23,373 for secondary (excluding high credit and adult day school enrolment).

The revised elementary ADE for 2019-2020 is 50,484 students which is an increase of 238 students (0.5%) over the approved budget. Secondary day school enrolment ADE is projected to be 23,060 students which is a decrease of 313 students (1.3%) from the approved budget.

As previously mentioned, enrolment has a direct impact on various grants and in particular the Pupil Foundation Grant (PFG). This grant applies to students of the District under 21 years of age and excludes high credit and adult day school ADE. Table 2 shows that the District's PFG is $196,200 less than budgeted. The amount reflects increased elementary enrolment and reduced secondary enrolment.

Table 2 – Effect of Decreased Average Daily Enrolment on Pupil Foundation Grant

	Enrolment (Pupils of the Board)			Pupil Foundation Grant		
	Updated Forecast	Approved Budget	Change	Updated Forecast	Approved Budget	Change
				$	$	$
Elementary	50,484	50,246	238	272,847,600	271,519,300	1,328,300
Secondary	23,060	23,373	(313)	112,577,700	114,102,200	(1524,500)
Total	73,544	73,619	(75)	385,425,300	385,621,500	(196,200)

Other allocations that comprise the Grants for Student Needs (GSNs) are affected by changes in enrolment and student demographics. One grant that shows relatively significant growth is the Indigenous Education grant. The District's grant is comprised of a base amount to support the Board's action plan on indigenous education, a per pupil amount reflective of the enrolment of Indigenous students and an Indigenous studies amount which provides funding based on student enrolment in qualifying secondary panel courses. The $427,200 increase relates to Indigenous studies where 1,663 pupil credits are anticipated as compared to the 1,330 pupil credits assumed during budget development. The increase is attributable to enrolment in compulsory English credit courses which qualify for the supplemental funding.

Special mention must be made regarding the Cost Adjustment and Teacher Qualifications and Experience grant. The grant is used to provide funding for teacher compensation relative to the provincial benchmark that is used in the PFG. It also provides funding to cover the Ministry's contributions to employee life and health benefit trusts and, commencing 2019-2020, to provide attrition protection funding as part of the government's plan to achieve financial savings through changes to average class sizes for certain grades. The grant shows a significant reduction of $3.7 million relative to the budget. The reduction is comprised of two amounts:

- A $2.0 million reduction in the teacher qualifications and experience allocation. The 2019-2020 Budget assumed that the qualifications and experience of teachers would result in higher average compensation costs for the District. The updated forecast reflects the actual placement of teachers on the salary grid as at 31 October 2019. The change reflects a modest reduction in average costs; and
- A $1.7 million reduction attributable to teacher job protection funding. The 2019-2020 Budget anticipated that 230 secondary teacher FTEs would be protected; however, actual attrition up to 31 August 2019 increased beyond projections and, when combined with the reduced enrolment at the secondary level, resulted in only 217 FTEs being protected.

A number of other grants also changed: the School Operations grant decreased by $294,900, the Adult Education grant decreased by $552,900 and the Transportation grant decreased by $831,200.

Two significant changes in funding provided by the GSNs have been identified in the updated forecast. First, funding provided by the Special Equipment Allocation is expected to decrease by $502,800. The funding is used to assist with the costs of equipment essential to support students with special education needs. The funding is directly tied to expenses and the reduction reflects costs that are expected to be less than originally estimated.

Second, a grant reduction of $14.9 million is expected. The reduced funding reflects net operating savings as a result of the labour sanctions and work withdrawals initiated by the Elementary Teachers' Federation of Ontario (ETFO) and the Ontario Secondary School Teachers' Federation (OSSTF) during the collective bargaining process. The reduced funding is offset by reduced compensation costs.

Appendix C - Grants for Student Needs compares the GSNs with the approved budget and reflects the effect of revenue deferrals. The additional revenue relating to minor tangible capital assets (MTCA) is discussed in Section 13.

5. **Compensation-Related Instruction Costs (updated)**

Compensation-related instruction costs are those incurred in meeting the needs of students in the classroom. Examples of staff whose costs are reported in the Instruction category include classroom teachers, school-based administrators, learning consultants and professional and support staff such as psychologists, educational assistants (EAs) and early childhood educators (ECEs).

The forecast of compensation-related instruction costs shows that savings of $11.4 million are likely in comparison to the 2019-2020 Budget. The main contributors to the savings are:

- Close to $13.0 million in savings is the result of the labour sanctions and work withdrawals initiated by ETFO and OSSTF during the collective bargaining process. The strike savings are offset by reduced Ministry funding;
- Approximately $1.1 million in increased costs are expected as a result of higher than anticipated needs to support principals and vice-principals for reasons including absences and increased workload; and
- The remaining $457,600 in increased costs are attributable to general variations in compensation costs and includes the additional EA staffing approved by the Board during the year.

6. **Teacher Absences (updated)**

Occasional teachers (OTs) provide coverage when teachers are absent due to illness or to attend medical appointments. In addition, OTs provide coverage when teachers are attending certain professional development and student support activities on a school day.

For the updated forecast, the District has assumed supply teaching costs of $18.5 million, which is $1.4 million more than budgeted. The increased cost reflects current experience and reporting. It is important to note that OTs are also used to staff vacant contract teaching positions, but that such costs are reported in the Instruction category. The limited requirement for occasional teaching staff since the start of the COVID-19 pandemic has lessened the overspending in this area.

Although the use of OTs has a financial impact, the effect on student learning is also a primary consideration. Accordingly, OT use will continue to be monitored as will the continued promotion of a healthy workplace that fosters employee well-being.

7. **International Students (unchanged)**

The Ottawa-Carleton Education Network (OCENET) is a not-for-profit organization that offers international students the opportunity to learn alongside the District's students. OCENET helps prospective students to submit their applications and fees and also supports their transition into the school and community. Fees collected cover OCENET's administrative costs and approximately 60% of the fee is remitted to the District. The percentage is an estimate of the amount of tuition fees necessary to support instruction-related costs.

The District's 2019-2020 Budget reflected revenue of over $11.4 million based on 846 students. The updated forecast reflects anticipated revenue of just over $11.0 million based on 818 students. Reduced enrolment of 28 students accounts for the $387,000 revenue decrease.

Administrative fees paid to OCENET by the District are reported as a fee in the Instruction category. These costs have decreased by $144,600 to $4.3 million.

8. **Other Instruction-Related Costs (updated)**

Other instruction-related costs are those that are not specifically identified elsewhere in the report, but form part of the overall spending classified as Instruction. These costs represent an overall decrease relative to the budget of $7.9 million.

Substantial savings are being experienced by both schools and central departments as a result of the COVID-19 closure. For instance, schools have not been able to use their budgets for learning materials and office supplies. In addition, contracts for services administered by both schools and central departments have been delayed. Staff continues to analyze the composition of the savings. For the purpose of this analysis, this category includes anticipated reduced spending of the Priorities and Partnership Fund totalling close to $2.4 million.

It is important to highlight that the purchase of learning technology is expected to be fully supported by existing budgets established for the purchase of MTCA.

9. **Student Transportation (updated)**

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2019-2020 Budget were based on information received from OSTA. The estimates have been updated and costs are expected to be $4.2 million less than budgeted. Approximately $3.0 million of the savings are attributable to reduced student transportation costs that have resulted from COVID-19 service reductions. The balance of $1.2 million relates to overall transportation contract savings realized for the year.

Although costs are projected to be relatively stable, funding provided through the Transportation grant shows a decrease of $831,200 relative to the budget. The grant calculation incorporates the previous year's actual funding and related costs. The use of these amounts in the funding formula resulted in the reduction.

Transportation expenses of $41.9 million are shown in the updated forecast. These costs are supported by the $43.1 million Transportation grant.

10. **Facility Operations (updated)**
Spending on school facilities represents the largest operating cost category outside of the Instruction envelope. Projected compensation costs have remained relatively stable and show a small decrease of $164,700. Non-compensation costs have increased by over $3.4 million. The significant contributors to the latter amount include:

- $1.1 million for additional costs to relocate portables during the year;
- $1.7 million for additional costs for snow clearing, property maintenance and for natural gas and electricity; and
- $606,400 for additional school renewal maintenance needs such as roof and floor repairs, masonry work and supporting consulting services.

11. **Other Non-Instruction Costs (updated)**
Other non-instruction costs relate to the activities of the Continuing Education department and central departments.

Continuing Education programs are supported by specific funding, including funding from the federal government and various government ministries. Compensation costs shown in the updated forecast are $246,700 less than budgeted while supplies and services costs are $139,200 lower.

Central departments show decreased compensation costs of $2.2 million while supplies and services costs have been reduced by $896,000. Much of the expected reduction in compensation costs is the result of strike-related savings, but some of the amount would be the result of delays in staffing budgeted positions. Contracts for supplies and services administered by central departments have been delayed and account for much of the savings.

12. **Deferred Capital Contributions and Amortization Expenses (unchanged)**
Funding received for the purpose of acquiring or developing a depreciable tangible capital asset is termed a deferred capital contribution (DCC). Such contributions are recognized as revenue at the same rate as the related tangible capital asset is amortized into expense. Straight-line amortization is based on the RSL of the asset.

In addition to the contributions discussed above, certain capital projects are supported internally through the use of the District's accumulated surplus. Internally supported tangible capital assets are amortized into expense in the same manner as those supported by contributions from others, but there is no related revenue.

Various capital projects will be completed and a variety of capital assets will be acquired during the year. In addition, adjustments to incorporate prior year actual results are reflected. These items increase the net value of the tangible capital assets managed by the District. In accordance with accounting requirements, the amortization of an asset's value commences immediately upon completion of the capital project. This has a direct impact on both revenues and expenses.

During 2018-2019, the Ministry directed all school boards to review the RSL of major capital assets using a prescribed methodology. As previously noted, the RSL is used in determining the revenues and expenses reported in a year based on straight-line amortization rules. The objective of the review was to update the RSL to reflect the significant infrastructure investments that had been made since 2013-2014. The review resulted in increased RSLs for various investments (e.g., the 2014-2015 addition at Longfields-Davidson Heights Secondary School). The effect of the change is being accounted for prospectively and it has resulted in a significant decrease in both expenses and related revenues.

The approved budget projected amortization expenses and related revenues of $61.8 million. The updated forecast shows $57.2 million in expenses which is supported by $56.9 million in revenues. Expenses and revenues decreased by $4.6 million and $4.9 million, respectively.

13. **Minor Tangible Capital Assets (unchanged)**

A portion of the annual GSN is budgeted for the acquisition of MTCA such as furniture, equipment and computers. If the funds are not required for capital purposes, they are reported as operating revenue and support overall operating costs. In total, $7.2 million previously identified as being set aside for MTCA needs will now be used to support operating costs.

The updated forecast also reflects the anticipated use of $6.2 million of the accumulated surplus to support capital investments in new classroom portables and for upgrades to the 440 Albert Street and the Confederation Education Centres. The use of accumulated surplus for these investments is compliant with Ministry requirements, but does not directly affect the amounts reported in the operating analysis. Requests to proceed with the projects and the use of accumulated surplus will be submitted for approval according to Board policy.

14. **Extended Day Program (updated)**

The Extended Day Program (EDP) commenced operations in 2010. Significant growth in the program ensued and it now operates District-run programs in 65 schools and serves approximately 5,500 children. The program is closely tied to the operations of the District's kindergarten programs. In fact, ECEs who staff the EDP, before and after school, also partner with teachers during the core day to provide the kindergarten program.

Participation in the program continues to be strong; however, the updated forecast shows a significant $8.3 million reduction in user fee revenue. The decrease is a direct result of the COVID-19 closure and lost revenue resulting from the labour disruption experienced during the year. The anticipated suspension of summer programs is reflected in the forecast.

Costs of the program have also changed. A net decrease in compensation costs totaling $3.3 million is anticipated. The savings result from temporarily vacant positions that occur during the year, lower than anticipated needs for special education supports and overall rates of compensation that are less than budgeted. The amount also includes lower costs as a result of the assumed suspension of the summer day care program and lower needs for replacement staff, both of which are the direct result of the COVID-19 closure. Savings from the labour disruption are also included.

The cost of supplies and services are expected to be $28,500 less than budgeted.

Table 3 shows the original budget and updated forecast by category. The program is expected to have a large deficit for the year.

Table 3 – Extended Day Program Comparative Amounts

	Updated Forecast	Budget	Change
	$	$	$
Revenues	9,638,400	17,950,600	(8,312,200)
Expenses			
Compensation	12,416,500	15,712,300	(3,295,800)
Administrative Transfers (Comp)	588,100	588,100	-
Supplies and Services	991,300	1,026,500	(35,200)
Facility Transfers (Supplies)	340,300	333,600	6,700
	14,336,200	17,660,500	(3,324,300)
(Deficit) Surplus	(4,697,800)	290,100	(4,987,900)

15. **Child Care Program (updated)**

In September 2013 the District assumed the operations of four child care centres that had previously been run by the Ottawa School Day Nursery. The Infant, Toddler and Preschool (ITP) program operates at two sites and provides 96 licensed child care spaces.

The ITP program is eligible for general operating (GO) funding. GO funding is the grant provided to licensed not-for-profit child care programs by the City of Ottawa and covers direct operating, pay equity, and wage enhancement grants. The program also derives revenue from user fees and child care subsidies.

Table 4 shows the original budget and updated forecast by category. Similar to the EDP, the suspension of child care services in response to the COVID-19 pandemic will have a significant impact on revenues. The impact is somewhat offset by lower than expected operating costs.

Table 4 – Child Care Program Comparative Amounts

	Updated Forecast	Budget	Change
	$	$	$
Revenues	1,117,100	1,791,000	(673,900)
Expenses			
Compensation	1,604,300	1,858,700	(254,400)
Supplies and Services	48,100	135,000	(86,900)
	1,652,400	1,993,700	(341,300)
Deficit	(535,300)	(202,700)	(332,600)

16. **Benefit Plan Surplus, Property Rentals and Other Net Revenue Adjustments (updated)**

The revised estimates reflected a provision of $1.5 million relating to the return of funds held by the District's former employee benefits plan administrator. The funds were being held to cover benefit claims during the windup of the former benefit plan. Although the administrator has returned the surplus funds to the District, collective agreement provisions require that the distribution of the surplus be agreed to by the federations. The District will be discussing the matter with the federations, but believes agreement on how funds are distributed will not be finalized until next year. Accordingly, the anticipated revenue has been eliminated in the updated forecast.

Lower revenue from property leases is expected. A revenue shortfall of $691,600 is anticipated as a result of the Ministry's direction to suspend charging licenced child care centre operators that lease school premises. The directive is applicable for the duration of the closure period. It is assumed that the directive will cover the months of April through August. At this time, there has been no Ministry commitment to provide funding to offset the revenue shortfall.

Other net revenue adjustments result in a revenue decrease of $936,200. This amount includes reduced revenues from program and learning, continuing education and miscellaneous sources such as cafeteria commissions and insurance rebates.

17. **Accumulated Surplus (updated)**

An accumulated surplus is the excess of revenues over expenses that has resulted over time.

The *Education Act* allows the Board to use its accumulated surplus to balance its operating budget, but it also restricts the use in any school year to 1% of the operating grants provided by the Ministry. This amount is $8.5 million for 2019-2020. Approval to use accumulated surplus in excess of this amount must be obtained from the Ministry. The Ministry has been advised of the circumstances underlying the possible increased reliance on the accumulated surplus.

Table 5 presents the components of accumulated surplus and shows the anticipated use and alignment of the projected 2019-2020 net operating deficit of $9.7 million. The District is slightly over the 1% compliance threshold.

Table 5 – Accumulated Surplus Available for Compliance

	Projected as at 31 Aug 2020	Actual as at 31 Aug 2019	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	8,604,200	2,742,400	5,861,800
Internally appropriated			
Extended Day Program	(3,159,600)	2,073,400	(5,233,000)
Budgets carried forward	1,656,100	1,656,100	-
Business Systems	2,000,000	2,000,000	-
Contingencies	17,200,000	17,200,000	-
Unappropriated	6,426,800	16,709,900	(10,283,100)
	32,727,500	42,381,800	(9,654,300)

18. **In-Year Deficit Elimination Plan (updated)**
The Ministry now requires that a board approve a plan when a district is projecting an adjusted in-year deficit. The Plan must identify how the adjusted deficit will be eliminated within two fiscal years. The District's adjusted in-year deficit is projected to be just over $8.2 million, which is $169,600 less than the compliance- based deficit of close to $8.4 million. The adjustment relates to the amortization of Board-approved committed capital projects incurred between 1 September 2010 and 31 August 2019.

The District's deficit elimination plan will be reviewed as part of the finalization of the 2020-2021 Staff-Recommended Budget.

19. **Summary**
The District's 2019-2020 Updated Forecast includes the impact of net enrolment changes which resulted in reduced revenue, the effect of increased attrition from classroom-based teaching positions, updates resulting from the RSL review of physical assets, and strike-related changes to both revenues and costs. The response to the COVID-19 pandemic also figured prominently in the forecasted results.

The updated forecast provides for expenses of $949.6 million, revenues of $939.9 million and a planned deficit of $9.7 million.

RESOURCE IMPLICATIONS:

20. The District's 2019-2020 Budget showed a planned deficit of $8.4 million. The District's 2019-2020 Updated Forecast shows an anticipated deficit of $9.7 million.

COMMUNICATION/CONSULTATION ISSUES:

21. The 2019-2020 Updated Forecast was prepared by Finance staff in consultation with other departments.

STRATEGIC LINKS:

22. Aligned with the 2019-2023 Strategic Plan's pillar of developing a culture of social responsibility, an effectively functioning approach to risk management is a key component of the focus on sustainably allocating resources, in particular by enhancing operational practices to effectively and responsibly manage human and financial resources in support of students. Monitoring actual performance in relation to the Board's approved budget allows staff to identify opportunities to reallocate resources to address emerging needs and to respond to changes in revenue streams and expense patterns.

GUIDING QUESTIONS:

23. The following questions are provided to support the discussion of this item by the Committee:
    - Does the analysis explain the significant changes in revenues and expenses?
    - Is staff taking steps to mitigate any adverse financial impacts and to leverage opportunities that were identified during the preparation of the analysis?

Mike Carson Chief Financial Officer	Camille Williams-Taylor Director of Education and Secretary of the Board

Appendices:

Appendix A – Analysis of Changes in Revenues and Expenses
Appendix B – Comparative Summary of Expenses
Appendix C – Grants for Student Needs
Appendix D – Priorities and Partnerships Fund and Other Deferred Revenues