

**DATE:** November 26, 2019

**TO:** Board of Trustees

**FROM:** Darrel Robertson, Superintendent of Schools

**SUBJECT:** Proposed Distribution of the 2018-2019 District Surplus

**ORIGINATOR:** Todd Burnstad, Chief Financial Officer

**RESOURCE STAFF:** Jeremy Higginbotham, Madonna Proulx, Amanda Wong

**REFERENCE:** N/A

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## ISSUE

Based on the audited financial statements for the year ended August 31, 2019, the Division's total accumulated operating surplus is \$51.4 million. Included in this balance are internally restricted school generated funds of \$1.4 million, leaving a net balance of \$50 million. This amount represents approximately four per cent of our total annual operating budget (\$1.2 billion).

In addition to the accumulated operating reserve the Division also has an accumulated capital reserve of \$42.2 million.

### Accumulated Operating Surplus Plan:

In conjunction with the 2019-2020 spring approved budget, the Board of Trustees approved the distribution of \$4.9 million of surplus funds to be used during the 2019-2020 school year. Based on the August 31, 2019, actual ending surplus balance, an additional \$17.2 million of surplus was released as part of the 2019-2020 fall revised budget (Attachment I).

On October 24, 2019, the provincial government tabled a budget that resulted in a funding shortfall to Edmonton Public Schools of \$34.4 million. To minimize the impact of the funding shortfall on our students, the decision was made to use our operating surplus to bridge the funding gap instead of re-opening school and central budgets.

Additional cost saving measures are being put into place and minimum targets are being established in order to end the 2019-2020 year with a positive accumulated operating surplus balance. The goal is to build up the surplus balance in order to reduce the anticipated impact of the upcoming 2020-2021 provincial budget. Based on this plan, the Division's accumulated operating surplus is projected to be approximately \$2.5 million at the end of the 2019-2020 school year.

### Capital Reserve Plan

The majority of the capital reserve funds have already been targeted for future projects which include the balance of work required for the energy retrofit initiative, the relocation of modulars, and the Division's committed cost sharing portion of the Westlawn cluster replacement school (Attachment II).

New for 2019-2020, is an additional request to access \$14 million required for growth accommodation and program establishments. This will result in a projected uncommitted capital reserve balance of just over \$9 million at the end of the 2019-2020 school year.

## RELATED FACTS

Administration believes that having reserve funds is a sound financial practice which helps to shield students and schools from unpredictable provincial funding and/or unforeseen events that could otherwise financially impact the Division in any given year.

## RECOMMENDATION

**That the proposed distribution of the 2018-2019 surplus be approved as follows:**

1. **That the 2019-2020 planned use of surplus funds totaling \$56.5 million, released in conjunction with the 2019-2020 fall revised budget, be approved.**
2. **That the additional planned use of capital reserve funds of \$14 million for 2019-2020 be approved.**

## OPTIONS

Based on the information provided in this report, the following options are considered most appropriate:

1. Support the recommended distribution of the operating and capital reserves as outlined in the above recommendations.
2. Revise recommendations.

## NEXT STEPS

Administration will proceed with the proposed distribution of accumulated operating surplus and capital reserve funds.

## ATTACHMENTS and APPENDICES

- ATTACHMENT I     2019-2020 Accumulated Operating Surplus Plan  
ATTACHMENT II    2019-2020 Capital Reserve Plan

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**Edmonton Public Schools  
Accumulated Operating Surplus Plan  
2019-2020**

ATTACHMENT I

	Amount	Total Amount
Accumulated operating surplus as at September 1, 2019		\$ 51,420,404
Less: School Generated Funds (SGF)		(1,427,323)
<b>Accumulated operating surplus at September 1, 2019 (excluding SGF)</b>		<b>\$ 49,993,081</b>
<b>2019-2020 Planned Use of Surplus Funds:</b>		
<u>Surplus funds released in the 2019-2020 Spring proposed budget:</u>		
A Interim Base Funding for Central Decision Units	\$ 2,500,000	
B Student Transportation	2,433,662	
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Surplus funds released through the 2019-2020 Spring Proposed Budget	\$ 4,933,662	(4,933,662)
<u>Targeted for release in the fall of 2019:</u>		
C School surpluses (up to three per cent)	\$ 8,519,961	
D Third Party Leases	2,000,000	
E Establishment Grant - New schools opening Sept 2020 (Start up costs)	1,500,000	
F Central Access to Surplus - carry forward from work started in 2018-2019	2,640,183	
G Equity Fund - top up in addition to base (base \$7.8M)	1,500,000	
H Inclusive Learning - external assessments	1,000,000	
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Surplus funds released through the 2019-2020 Fall Revised Budget	\$ 17,160,144	(17,160,144)
<u>Provincial Budget Funding Shortfall (fall of 2019):</u>		
I Compensating for Loss of School Fee Reduction Grant	\$ 2,660,800	
I Compensating for Loss of Transportation Fee Reduction Grant	5,334,200	
I Compensating for Loss of Small Class Size (K-3 & HS)	46,514,700	
I Plus Transition Grant (One-Time)	(20,147,800)	
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	\$ 34,361,900	(34,361,900)
<u>Subtotal access to surplus (2019-2020 Budget):</u>		
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		(56,455,706)
J Add back Estimated School Surpluses (Aug 2020)	\$ 5,000,000	
J Add back Equity Fund (minimum target)	1,500,000	
J Add back Inclusive Learning (minimum target)	1,000,000	
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J Total cost savings from 2019-2020 (minimum target)	\$ 7,500,000	7,500,000
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Net impact of capital items (reclassification entry required at year end)		1,500,000
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<b>Estimated accumulated operating surplus balance as at August 31, 2020 (excluding SGF)</b>		<b>\$ 2,537,375</b>
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**Edmonton Public Schools  
Accumulated Operating Surplus Plan  
2019-2020**

**Notes:**

**Surplus funds released as part of the 2019-2020 Spring Proposed Budget**

- A The \$2.5M allocated in the spring 2019-2020 budget represents the amount of funds required to cover the new interim central base allocations.
- B The Board of Trustees approved a decision to increase transportation fees by five per cent annually each September in 2018, 2019 and 2020. However, the fee increase combined with other transportation funding is still not enough; therefore, an additional \$2.4M from surplus funds has been allocated to offset funding gaps.

**Surplus funds to be released in conjunction with the 2019-2020 Fall Revised Budget**

- C Schools are allowed to carry forward a surplus balance of up to the three per cent of their prior year fall budget. Surplus amounts that exceeded the three per cent carry forward threshold were used to offset deficits incurred by other division schools.
- D These funds are being held to offset potential lease rate increases, relocation and/or leasehold improvement costs where the school Division is a tenant under a third party lease agreement, including the previously announced relocation of Centre High in 2019-2020.
- E Start up funds of \$750K are provided for each new school anticipated to open in September 2020; these include Thelma Chalifoux and Soraya Hafez schools.
- F Central cost centres requested the ability to carry forward surplus funds for work that commenced in 2018-2019 but was not completed prior to year end. These include:
  - >Communications (\$48K) District dashboard
  - >Human Resources Service Centre (\$592K) Peoplesoft Roadmap project
  - >Infrastructure Investment Framework (\$1.75M):
    - opening new programs at schools
    - ensuring seclusion rooms meet infrastructure standards
    - decommissioning seclusions rooms as approved by Assistant Superintendents
    - completion of modifications
  - >Infrastructure (\$250K) continuation of the Archibus upgrade
- G This brings the total Equity Fund to \$9.3M for 2019-2020 (\$11.4 M for 2018-2019). In 2018-2019, \$1.2M was targeted for external assessments; however, for 2019-2020, \$1M was allocated directly to the Inclusive Learning cost centre (see Note H).
- H The Division requested external professionals to help complete specialized assessments as the demand from schools exceeds the capacity of Inclusive Learning staff. Schools prioritize these referrals so that those students with the most urgent needs are seen earlier in the school year. This was previously funded through Equity Fund dollars.

**Provincial Budget Funding Shortfall (fall of 2019)**

- I The funding shortfall of \$34.4M, comes as a result of the province's elimination of three crucial grants to our Division. While a one-time transitional grant was provided, it is only about one-third of the funding lost through the three grants.
- J To minimize the impact of the provincial budget funding shortfall on our students, the decision was made to use our operating surplus to bridge the funding gap as opposed to re-opening school and central budgets. Additional cost saving measures are being put into place and minimum targets are being established to end the 2019-2020 year with a positive accumulated operating surplus balance.

**Edmonton Public Schools  
Capital Reserve Plan  
2019-2020**

ATTACHMENT II

	Amount	Total Amount
<b>Total capital reserve balance at September 1, 2019</b>		<b>\$ 42,246,852</b>
<b>Previously approved use of capital reserves:</b>		
1 Balance remaining on approved projects from prior years	\$ 353,581	
2 Energy retrofit - (Final Year)	1,429,834	
3 Westlawn Cluster replacement school - in partnership with Alberta Education	15,000,000	
4 Purchase of Portables - balance remaining (from \$7M)	2,334,020	(19,117,435)
<b>Proposed use of capital reserves in 2019-2020:</b>		
5 Growth Accommodation (K-HS)	\$ 10,000,000	
6 Special Needs District Centre Program Establishments	4,000,000	(14,000,000)
<b>Forecasted accumulated capital reserve balance (uncommitted) at September 1, 2020</b>		<b>\$ 9,129,417</b>

**Notes:**

- 1 Balance remaining on approved projects from prior years - Infrastructure investment framework for the Centre for Education (CFE) is \$287K and modular acquisitions for Rideau Park and Sifton School are \$67K.
- 2 Energy retrofit (Final Year) - In 2016-2017 initial funds were used to establish an energy efficiency (retrofit) contract. Starting in 2017-2018, a two-to-three-year contractual commitment was required to replace old mechanical and electrical systems in selected schools. The upfront costs associated with this initiative are more than offset by future utility cost savings.
- 3 Westlawn Cluster replacement school - Edmonton Public School Boards committed portion of a partnership with Alberta Education for a replacement school in a mature community.
- 4 Purchase of Portables - Following the approval of capital reserve funds to cover unfunded portable requirements for last year, installation of Division portables was carried out over the summer months. Site work and invoicing timelines resulted in a need to carry forward approved funds into the current year to cover the balance owing.
- 5 Growth Accommodation - While some relief in K-9 schools will be provided through portables, work will still likely be required in schools to accommodate growth. Work in high school spaces will also be required to accommodate growth in advance of September 2020.
- 6 Special Needs District Centre Program Establishments - Each year, Programs and Student Accommodation supports the establishment of Special Needs District Centre programs in response to demonstrated demand across the Division. A committee of central leaders reviews the data and communicates with schools in order to determine the need for programs. Infrastructure supports any facility modifications required for program establishments; this can include programs such as Behaviour and Learning Assistance, Opportunity, Aspen, Community Living Skills, Individual Support, Interactions and Mental Health Classrooms. Required facility modifications to support programming vary at each location and may include items such as washroom modifications, removal or installation of cabinetry, installation of sinks, painting and flooring. Infrastructure, schools and Inclusive Learning work together to define the needs of the space specific to the programming and students.