

DATE: November 24, 2015

TO: Board of Trustees

FROM: Darrel Robertson, Superintendent of Schools

SUBJECT: Proposed Distribution of the 2014-2015 District Surplus

ORIGINATOR: Jonah Lempogo, Treasurer & Managing Director, Financial Services

RESOURCE

STAFF: Todd Burnstad, Vanessa Crosswell-Klettke

REFERENCE: N/A

ISSUE

At August 31, 2015 the District had a total of \$83.7 million accumulated operating reserve funds including a \$3 million school generated fund (SGF) surplus, which is internally restricted, leaving a net balance of \$80.7 million. This represents 7.65% of the 2015-2016 Approved Budget, or approximately 19 days of operation.

In conjunction with the 2015-2016 Approved Budget, on June 23, 2015 the Board of Trustees (the Board) approved the distribution of \$23.6 million of surplus funds to be used during the 2015-2016 school year. Based on the actual ending surplus balances at schools and central decision units at the end of August 2015, schools and central decision units were allowed to carry forward surplus amounts of up to 3%. As such, the actual amount of surplus released in the 2015-2016 Fall Revised Budget was \$39.3 million.

With an aging infrastructure to address increasing deferred maintenance costs, the District needs to build up the capital reserve fund.

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

BACKGROUND

Financial Services and PricewaterhouseCoopers (PwC), our external auditors, have completed their audit of the 2014-2015 District financial statements. They have determined that the District ended the 2015 school year with an accumulated operating reserve of \$80.7 million (not including school generated fund surpluses).

RELATED FACTS

Given the uncertainty around the provincial funding for 2015-2016, schools and central departments were very conservative in their spending during the 2014-2015 school year.

- Schools ended August 2015 with a net operating surplus of \$21.7 million (after factoring in school deficit balances of \$785k).
- As a result of trying to reduce expenditures in 2014-2015, schools were directed to defer and or delay prior approved projects/expenditures. When the funding was restored in late May of 2015, it was too late to have the approved project completed by the end of the year. In these cases, additional surplus funds were released in excess of the 3% administrative guideline. The amount of these funds totaled \$1.5 million.
- Only \$785k of school deficits occurred in 2014-2015, these deficits were incurred by a total of 17 schools. Out of the deficit amounts, six schools had deficits under \$10k, and 10 schools had deficits under \$50k.
- Central decision units ended August 2015 with a net operating surplus of \$25.7 million. Out of this, \$2.9 million has been directed to a targeted reserve (Transportation and Property Management), \$7.8 million was already approved for access in 2015-2016, \$2.2 million was targeted for Transportation, leaving a remaining balance of \$12.8 million being returned to the District.
- On June 23, 2015 the Board approved use of \$23.6 million of accumulated operating surplus funds in the 2015-2016 budget. This schedule has now been updated to include revised estimates and additional access to central surplus funds, the total amount of surplus funds released in conjunction with the 2015-2016 fall revised budget is now \$39.3 million (Attachment I).

RECOMMENDATION

That the following recommendations be approved:

- 1. Access to surplus funds list totaling \$39.3 million released in conjunction with the 2015-2016 fall revised budget.**
- 2. The District establishes a reserve balance of \$20 million for the 2015-2016 school year, which represents 1.9% of the 2015-2016 approved budget and equals approximately five days of operations.**
- 3. Sustainability Funds be established to offset expenses beyond 2015-2016 by targeting resources in the following areas:**
 - a. Equity Fund**
 - b. Price Stabilization**
 - c. Transportation**
 - d. School Building Equity**
 - e. Growth Accommodation/Programming**
 - f. Energy Conservation**
 - g. Property Management Capital (i.e., for non-operating schools and central services' buildings)**
 - h. Enterprise Systems (i.e., purchase, installation, upgrade of key enterprise systems, e.g., Oracle Financials, PeopleSoft HR, PowerSchool, Archibus, Intranet, etc.)**

OPTIONS

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

1. Support the recommended distribution of the operating reserve as outlined in above

- recommendations 1 through 3.
2. Revise the recommended distribution of the operating reserve.

CONSIDERATIONS & ANALYSIS

If the recommendations 1 to 3 are approved, the distribution of the District's accumulated operating surplus would be as follows:

	Amount	Total Amount	% of 2015-2016 Approved Budget
2015-2016			
Accumulated Operating Surplus Balance at August 31, 2015		83,713,579	
Less: SGF Surpluses (Internally Restricted)		(2,959,090)	
Total Operating Reserve at September 1, 2015		80,754,489	7.65%
<i>Note: this represents approximately 19 days of operation</i>			
1 Surplus Funds Already Released (2015-2016 Budget):			
Detailed on Attachment I	39,279,316	(39,279,316)	
Forecasted Operating Reserve at September 1, 2016			
<i>Note: this represents approximately 10 days of operation</i>			
2 Carry Forward Minimum Reserve Target	20,000,000	(20,000,000)	1.89%
3 Targeted: Sustainability Funds/Reserves (For 2016 and beyond)			
a Equity Fund (seed money for 2016-2017)	4,175,173		
b Price Stabilization	2,000,000		
c Transportation (Restricted Reserve)	1,300,000		
d School Building Equity	2,000,000		
e Growth Accommodation/Programming	3,000,000		
f Energy Conservation Fund	2,000,000		
g Property Management Capital	4,500,000		
h Enterprise Systems	2,500,000		
	21,475,173	(21,475,173)	
		-	

Notes

1. Use of operating reserves in 2015-2016: If recommendation 1 is approved the total amount of operating reserves anticipated to be used in 2015-2016 will be adjusted to \$39.3 million.

2. Minimum reserve balance maintained: To be financially responsible and prudent, if recommendation 2 is approved, the District will establish a minimum operating surplus balance of \$20 million for 2015-2016.
3. Sustainability funds established for 2016 and beyond: A District Sustainability Fund would be created to stabilize funding and service during times of financial uncertainty, as well as provide resources to address high-priority planned and emergent district-wide issues and opportunities. It is proposed that the following resources be established within the Sustainability Fund:
 - a. School Equity Fund: These resources will be available for transfer into the annual School Equity Fund Allocation to support school catchment work and to address individual school emergent circumstances. These resources are comprised of school surpluses above 3% after school deficits have been repaid. These resources will grow each year if there are school surpluses above 3%.
 - b. Price Stabilization: These resources would combine the surplus funds from Insurance and Energy Management. These resources would mitigate fluctuations in price/volume. These resources would begin with a balance of \$2 million. The amount will be adjusted over time based on utilization.
 - c. Transportation: The transportation surplus is restricted and is to be used exclusively to stabilize transportation fees.
 - d. School Building Equity: These resources would be used for emergent needs in district schools that are not covered under maintenance funding or IMR. Examples include a rotational program to clean ducts and improve overall air quality in schools, and installation of security systems.
 - e. Growth Accommodation/Programming: These resources would be used to offset welcoming school costs, including specialized rooms, lifts, elevators, ramps, reconfiguration of class spaces, etc. In addition, it is anticipated multidisciplinary teams will be required to respond to the emerging situation of Syrian refugee arrivals in Edmonton, as well as supporting our already high immigrant and refugee populations.
 - f. Energy Conservation Fund: Energy efficiency improvement projects such as lighting, controls, etc. that will improve on overall efficiency, reduce negative impacts on the environment and promote longer term future cost savings (reduced utilities).
 - g. Property Management Capital: These resources will be used for lifecycle needs on our closed school buildings and central services (Distribution Centre, Print Services, etc.). This fund would cover major costs such as boilers and roof repairs that cannot be paid with IMR, and could also fund capital vehicle and equipment replacement at the Distribution Centre and Maintenance Services. An annual operating amount would be included in future years operating budgets and would be adjusted based on priority.
 - h. Enterprise Systems: These resources would be used for the purchase, installation, and upgrade of key enterprise systems, e.g., PeopleSoft HR, PowerSchool, Archibus, Intranet, etc. Although the E-Biz project went live in October 2015, to maximize the systems capabilities several other systems should be updated (e.g. PeopleSoft HR). In addition, the District has also identified the need to move towards an electronic recruiting application process.

NEXT STEPS

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

ATTACHMENTS & APPENDICES

ATTACHMENT I Detailed Breakdown for the Budgeted Utilization of Accumulated Surplus from Operations for the year ended August 31, 2015

TB:ja

**DETAILED BREAKDOWN FOR THE BUDGETED UTILIZATION OF ACCUMULATED SURPLUS FROM OPERATIONS (A.S.O)
for the Year Ending August 31, 2016**

		Expected Cost Approved 2015-2016 Budget	Actual Amount Included 2015-2016 Budget
1	Priority A: School Surplus to be returned to schools	11,600,000	16,187,429
2	Priority A: School Equity Fund - to address funding shortfalls at schools during the year	3,817,000	4,004,686
3	Priority A: By-election in Fall of 2015 to replace a vacant Trustee position	187,240	187,240
4	Priority A: Transportation Reserve to be used to maintain transportation fees at the same price	2,000,000	2,200,000
5	Priority A: Start-up costs for 4 schools to open December 1, 2016 - non funded expenses	2,400,000	-
6	Priority A: Career Pathways Initiative - support for students to develop strategies and ideas for future education	500,000	500,000
7	Priority A: Review and alignment of Administrative Regulations to ensure compliance with the new Education Act	126,000	126,000
8	Priority A: Evidence-based decision making in support of Results-Based Budgeting Phase I	250,000	250,000
9	Priority A: Psychology and Academic Assessment (reading)	200,000	200,000
10	Priority A: Early Years strategy - Support for students entering Grade 1 at risk for Literacy and Numeracy success	320,000	250,000
11	Priority A: District Wide Early Years Development Screening - Early identification screening for all children prior to enrolment in early years or kindergarten location	220,000	120,000
12	Priority A: Data Analyst - use District Data effectively to support data-drive decision making to support teaching and student success	150,000	150,000
13	Priority A: Planning/Facilities Integration	50,000	50,000
14	Priority A: Archibus Implementation with Financial System	120,000	250,000
15	Priority A: Infrastructure Efficiencies	150,000	150,000
16	Priority A: Numeracy Plan Implementation Transitioning	114,000	113,558
17	Priority A: Locally Developed Courses Revision Project	114,000	113,558
18	Priority A: Technology Enhancements/Implementations to Streamline Human Resources Processess	340,000	50,000
19	Priority A: Mathematics Intervention/Programming Instrument	168,000	-
20	Priority B: Electronic Reporting - Improve information collection and sharing for better outcomes for students who require specialized supports	150,000	150,000
21	Priority B: Lease rate review and real estate strategy	150,000	150,000
22	Priority B: Intranet Design: Phase I - Discovery/District Website Phase I - User Experience Audit/Upgrading Webcasting Equipment & Training	168,000	168,000
23	Priority B: Contractual Obligations for projects (may increase if projects are delayed)	150,000	150,000
24	Priority C: Ministerial Order on Student Learning and Cross Curricular Competencies Implementation Project	114,000	113,558
Use of A.S.O for Budget Year 2015/2016		23,558,240	25,634,029
Additional Surplus Funds released in the 2015/2016 Fall Budget:			
Note 1:	Central Surpluses (Prior Approved)		7,769,709
Note 2:	Central Project Funds (in lieu of 3% Central access to surplus \$6.5 million)		3,875,578
Note 3:	Central Initiative Fund		2,000,000
Total anticipated use of Surplus Funds in 2015/2016			39,279,316

**DETAILED BREAKDOWN FOR THE BUDGETED UTILIZATION OF ACCUMULATED SURPLUS FROM OPERATIONS
for the Year Ending August 31, 2016**

Notes

Note 1: Central Surpluses (Prior Approved): Several projects that commenced in 2014-2015 will be ongoing for 2015-2016. These include the E-Biz project (\$1.2M), Equity Fund carry forward (\$1.6M), adjustment to staff unit costs (\$3.6M), Distribution Centre roof repair (\$250k), Print Services commercial copier (\$170k), and District Dashboard, Library system, District Foundation, Focus on Reading, etc (\$950k). These committed funds have been included in the 2015-2016 Fall Revised Budget.

Note 2: Central Project Funds (in lieu of 3% Central access to surplus \$6.5M): For 2015-2016 schools were allowed access of up to 3% of their surplus. Instead of this approach, Central Leaders decided to pool their surplus funds and using a collaborative approach, prioritized initiatives that directly supported the District's Strategic Plan. These include Facilities Services (growth accommodation, duct cleaning, building improvements \$1.4M), Human Resources (business case for Peoplesoft, onboarding program, performance management system \$400k), Curriculum and Resource Support (focus on reading, locally developed courses, numeracy \$250k), Financial Services (enterprise system post go live support and system audit \$655k), Research and Innovation (assessment and research \$480k), Computer Centre Services (enterprise system support \$220k), Inclusive Learning (universal design for learning \$275k), District intranet, District programming, cell phone management (\$195k).

Note 3: Central Initiative Fund for 2015-2016: Similar to the School Equity Fund, a Central Initiative Fund was established to address circumstances not currently included in the 2015-2016 Fall Revised Budget, any funds remaining at the end of the school year will be rolled forward to 2016-2017. Initiatives currently being considered and prioritized include summer institutes, support for numeracy and mathematics, math and reading assessment instruments, bully prevention resources, student achievement data in-depth analysis and continued development for the building of a district data warehouse (dashboard).