



Three-Year Projection and Deficit Recovery Plan

To: Finance, Budget and Enrolment Committee

Date: 16 May, 2022

Report No.: 05-22-4327

Strategic Directions

- Provide Equity of Access to Learning Opportunities for All Students
- Allocate Human and Financial Resources Strategically to Support Student Needs

Recommendation

It is recommended that the three-year projection and deficit recovery plan report be received.

Context

At the 26 April 2022 Special Finance, Budget and Enrolment Committee (FBEC) meeting, staff presented a 2022-23 preliminary financial deficit of \$44.7M, or 1.5% of the Toronto District School Board's (TDSB) operating allocation. This was staff's best estimate based on the grant changes, before any adjustments arising from deficit reduction strategies or other budget changes.

This report provides an update to the projected financial deficit of \$52.2M, or 1.8% as of 11 May 2022 and the TDSB's proposed 3-year financial recovery plan to address the anticipated deficit in accordance with the Education Act. Should this proposed deficit recovery plan be approved, the operating deficit for 2022-23 will be reduced to \$40.4M or 1.4%.

For 2022-23, school boards are permitted to incur a deficit of up to the lesser of 1% of their operating allocation or their reserves, without Ministry approval. They must seek the Ministry's pre-approval before the Board's final approval of the budget if they anticipate an in-year deficit of greater than 1%, or \$29.3M based on TDSB's operating

allocation. Due to the projected deficit proposed based on the deficit recovery plan, staff will begin to have discussions with the Ministry to seek pre-approval on the greater than 1% deficit, prior to the Board meeting on 29 June 2022. An update will be provided to Trustees at the 8 June 2022 FBEC meeting.

2022-23 Revised Forecast

Below is a revised forecast based on current information:

| TORONTO DISTRICT SCHOOL BOARD | | |
|--|-------------------|-----------------|
| 2022-23 Projected Financial Position | | |
| (\$ million) | <u>\$M</u> | <u>%</u> |
| 22-23 Financial deficit as reported at the April 26, 2022, FBEC | (44.7) | -1.5% |
| Revenue changes | | |
| Increase in lease recoveries | 0.5 | |
| Increase in interest revenues | 0.5 | |
| Total Revenue Changes | 1.0 | |
| Compensation expense changes | | |
| Increase of 4 Vice Principals | (0.6) | |
| Increase of 8 School Based Safety Monitors | (0.5) | |
| Increase in central staffing costs from department requests | (1.0) | |
| Total Compensation Expense Changes | (2.1) | |
| Operational expense changes | | |
| Investments in Combatting Hate and Racism: Student Learning Strategy | (0.3) | |
| 1:1 Student device strategy costs | (3.1) | |
| IT licensing and maintenance fee increases | (2.0) | |
| Facilities cost increases | (1.0) | |
| Total Operating Expense Changes | (6.4) | |
| Changes to financial position | (7.5) | |
| Updated 2022-23 Financial Position – (Deficit) | (52.2) | -1.8% |

Explanation of Changes:

Increase in Lease Recoveries – There have been historical cost recovery opportunities identified by the Toronto Lands Corporation (TLC)’s review of the TDSB’s lease agreements in the past year. These recoveries relate to terms and conditions in the lease agreements that may not have been enforced, or eligible reimbursements that were not yet invoiced to tenants. The TDSB will be working with TLC on a detailed

review of all leases in 2022-23. It is anticipated that an additional \$0.5M in recoveries will be identified through this process.

The TDSB is also actively engaging in discussions with the City of Toronto regarding the Umbrella Lease Agreement lease rate. The current per square foot lease rate has not been amended since the establishment of this agreement, which is an evergreen agreement without an end date. Due to the significant increases in the TDSB's facilities costs, the Board incurs approximately \$6M in annual shortfall from this lease. With the recent announcement around additional federal funding for the province's childcare agreements, staff are hopeful that there may be changes to the province's childcare subsidies that could provide opportunities for a future rate adjustment. However, as discussions are still ongoing, this projection has not captured these potential future recoveries.

Increase in Interest Revenues – The TDSB's interest rate is calculated based on the bank's prime rate less 1.45%. The bank's prime rate has increased by 25 basis points in March 2022, and an additional 50 basis points in April 2022. Based on the TDSB's average cash flow balance of approximately \$500M, the interest revenues have been adjusted in this projection by \$0.5M, in addition to the \$2.5M increase as reported previously at the 26 April 2022 FBEC meeting. Staff will also be engaging in longer term investment strategies to maximize interest revenues.

Increase in staffing costs – There were requests for 8 additional Vice-Principal FTEs (full-time equivalent) and 25 School-Based Safety Monitor FTEs through Trustee motions at the March 2022 Board meeting. Based on the Board's projected financial position, it is recommended that a reduced allocation of 4 Vice-Principal FTEs and 8 School-Based Safety Monitor FTEs be considered on a premise of approximately 1 Vice-Principal and 2 School-Based Safety Monitors allocated to each of the four learning centres to ensure equitable distribution of staffing resources. The total cost of these additional positions is \$1.1M.

Through the zero-based budgeting process, departments were also consulted about changes to their staffing needs for the 2022-23 school year. Although some staffing reductions were identified in certain areas, an additional \$1.0M has been allocated to support various positions across academic and non-academic departments, such as Labour Relations, Disability Case Management, Human Rights, IT, Professional Support Services, and the Arts. These positions are considered necessary to ensure that the strategic goals of the organizations are met and to avoid any adverse impact to service delivery.

Investment in the Combatting Hate and Racism – Student learning strategy – An additional \$0.3M in budget resources have been allocated towards this initiative, which

was presented at the 2 March 2022 Planning and Priorities Committee meeting. The resources will be allocated to professional learning and educational tools to enhance student safety, engagement, and well-being. This funding will also be used towards culturally relevant resources, educational partnerships, and other initiatives to enhance student voice and student engagement.

Increase in Operating Expenses – The Board is allocating \$3.1M in additional resources to support its 1:1 student device strategy, in addition to \$4.7M that was previously allocated, for a total of \$7.8M in funding. This commitment aligns with the Board’s focus around modernization and accessibility. The TDSB must identify budget resources for this initiative as there is no Ministry funding earmarked for this program.

The TDSB will be implementing an equity-based approach to the distribution of devices to students in Grade 5 and Grade 9 and focusing resources on addressing the needs of students who do not have access to a personal device.

In addition to this initiative, the IT department also anticipates an increase in budget needs of \$2M, arising from licensing cost increases, cyber security, and other system maintenance needs.

Facilities Cost Increases – The Facilities department has identified increases in anticipated costs relating to equipment and vehicle repairs, maintenance and replacements. An additional \$1.0M has been allocated to support these anticipated cost increases.

Three-Year Deficit Recovery Plan

To address the \$52.2M 2022-23 deficit, staff have identified a list of deficit reduction strategies. This three-year deficit recovery plan is prepared based on staff’s assessment of system needs and after careful consideration of potential risks arising from the budget changes. Staff’s objective is to implement a feasible deficit recovery plan, while minimizing any adverse impact to students and services.

Note that the following factors could still have an impact on the deficit recovery plan:

Enrolment Changes – The deficit recovery plan below assumes a gradual increase in student enrolment in Year 2 and 3. Although the TDSB observed a slight increase in the March 2022 enrolment compared to original projections, the enrolment projection for the next two years is still uncertain. There may still be a risk of future enrolment decline despite the recent trend of enrolment increases.

Government Funding – The deficit recovery plan assumes a static funding model. Should the government reduce its funding to school boards in Year 2 and 3, additional deficit recovery strategies may need to be identified to achieve a balanced budget.

Transportation Cost Increases – The Ministry has not yet included the 2% Transportation grant benchmark increase in their Estimates report application system. This grant increase will be reflected in their system at Revised Estimates. The TDSB is projecting a 3.5% increase to 2022-23 transportation costs, which will be partially offset by this increase in funding. Staff will provide an update to the funding and cost impact on the TDSB’s financial position at Revised Estimates, after the Toronto Student Transportation Group has finalized their school bus routing and optimization in the Fall.

Status of the Pandemic – The deficit recovery plan assumes a full return to pre-pandemic operations. Should the COVID pandemic worsen, or should there be another health pandemic, there would be a significant impact to the Board’s financial position.

Staff are proposing the following multi-year budget reduction measures to address the \$52.2M projected deficit for 2022-23:

| (In \$million) | <u>Year 1</u> 2022-23 | <u>Year 2</u> 2023-24 | <u>Year 3</u> 2024-25 |
|--|--------------------------|--------------------------|--------------------------|
| Preliminary Deficit Position – Beginning of the year | (\$52.2) | (\$40.4) | (\$19.4) |
| Program realignment and staffing changes | 2.2 | 6.5 | 6.5 |
| Special education program – Reduction in resource teachers or changes to programs based on enrolment | | 5.0 | 5.0 |
| School budget reductions | 3.0 | | |
| Outdoor education – Savings to be identified | | 0.5 | 0.5 |
| Central department budget reductions & reallocations | 1.5 | | |
| Supply teacher budget reduction | 2.3 | | |
| Central department staff gapping savings | 2.5 | | |
| School Cash Online platform licensing fees – Charges to school budgets and/or fundraising | 0.3 | | |
| Anticipated savings from annual insurance premiums | | 1.5 | 0.2 |
| International students – Projected increase | | 4.5 | 4.5 |
| Regular student enrolment – Projected increase | | 3.0 | 3.0 |
| Total savings | 11.8 | 21.0 | 19.7 |
| Revised (Deficit)/Surplus Position: End of the year | (\$40.4) | (\$19.4) | \$0.3 |
| % (Deficit)/Surplus of Operating Allocation | (1.4%) | (0.7%) | 0.01% |

Explanation of Proposed Budget Reduction Strategies:

Program Realignment and Staffing Changes:

As part of the TDSB's Multi-Year Strategic Plan, Pandemic Recovery Plan and the Student Learning Strategy for Combatting Hate and Racism, staff are currently reviewing the support model for school staff and students. In part, this review will focus on the role of central teachers and the delivery of professional development and curriculum to schools. Consideration will be given to a gradual transition to a decentralized support model, where additional training is provided to school level staff directly, instead of through central teachers and coaches.

Due to the pandemic and changes resulting from the pivot to the remote work environment, and as a result of associated technology enhancements and improvements to service models, operational efficiencies have been identified. Staff will leverage these operational efficiencies to further reduce staffing costs in future years.

Based on the above, the TDSB projects approximately \$2.2M in Year 1 savings and \$6.5M in potential savings in each of Year 2 and 3, from program realignments and staffing changes. This represents approximately 18 FTE reductions in Year 1 and 50 to 70 FTE in staff reduction in each of the next two school years. Efforts will be made to reduce these positions through staff attrition or redeployment to other positions.

Special Education Program Reductions:

The Special Education grant provides additional funding to support students in Special Education programs. The majority of this funding is driven by total school board enrolment. Due to the TDSB's declining enrolment in recent years, the revenues in the Special Education envelope have decreased, while Special Education staffing costs have continued to increase. The TDSB has projected a \$75.6M shortfall in the Special Education envelope based on the 2021-22 revised estimates. As such, the TDSB is proposing a review of programs and related staffing needs for 2023-24 and 2024-25 to identify \$5M in potential savings in each of the school years.

School Budget Reductions:

The TDSB typically allocates approximately \$75M annually to elementary and secondary school budgets and grants across the system. Each school receives a base school allotment of \$5,000 for elementary and \$10,000 for secondary, and a per pupil allocation of \$95.50 per pupil for elementary and \$148.50 per pupil for secondary. There are also other added allocations for schools with less than 300 pupil FTEs and other program supplements. Schools that do not fully spend their annual budgets are

permitted to carry over the unspent balance to the following school year. Due to the pandemic and school closures in the last two years, there has been a significant increase to the school budget carryover amount. The 2020-21 unspent school budget carried over to 2021-22 was \$31.6M. To address the projected deficit, staff are recommending a \$3M reduction to the school budget allocation across schools in 2022-23. A detailed analysis will be conducted to determine an equitable school budget reduction methodology, and to ensure that there are no significant adverse impacts to schools resulting from this reduction.

Outdoor Education Savings:

The TDSB will be conducting a review of all outdoor education programs and sites to identify savings of \$0.5M for each of the 2023-24 and 2024-25 school years. The analysis will include potential consolidation or closure of outdoor education sites based on geographic location and timing of the site leases. In addition, staff will also review the outdoor learning program delivery model to ensure efficient utilization of resources.

Central Department Operating Budget Reductions and reallocations:

Through the zero-based budgeting process, all central departments were consulted around budget needs for the 2022-23 school year. Staff reviewed the requests and have allocated the Board's resources based on the budget drivers identified in previous FBEC meetings. Based on the review, approximately \$1.5M in net department budget reductions were identified for 2022-23.

Supply Teacher Budget Reduction:

The preliminary supply teacher budget for 2022-23 was based on the actual supply teacher costs in the first half of the 2021-22 school year. Considering there are fewer classes due to enrolment declines and taking into account the overall improvement of the pandemic situation anticipated for 2022-23, staff are projecting a \$2.3M decrease in supply teacher costs in 2022-23 as compared to the original budget.

Central Department Staff Reductions:

For Year 1, the TDSB will be engaging in additional measures to increase central staff gapping savings by \$2.5M. This will be achieved through a planned delay in the hiring of certain non-critical positions and a reduction of positions that are no longer needed due to operational efficiencies. It is anticipated that most of these reductions relating to operational efficiencies will be achieved through staff attrition. It is important to note that this represents less than 0.1% of the Board's operating budget.

School Cash Online Platform Licensing Fees – Charges to School Budgets and/or Fundraising:

In 2016, the TDSB began implementation of the School Cash Online platform to facilitate the online collection of funds. To date, more than half of TDSB families use the system for payments relating to school fees, nutrition programs, fundraising and other donations. The platform has also allowed schools to recover HST rebates from payments through their fundraising accounts, which were not available prior to the implementation of this platform. In early April 2022, KEV Group, the School Cash Online platform service provider, introduced a new transactional costing model to the TDSB, which allows a percentage of the fees collected by schools to be directed to offset annual service fees and credit card merchant fees. Since 2016, the TDSB has incurred \$0.4M in annual service fees relating to the use of the KEV School Cash Online platform. The TDSB has not charged any of these costs to schools or families. As part of the deficit recovery strategy, the TDSB plans to charge a portion of the annual service fees to school budgets. Schools can offset those costs through HST rebates generated from the system or from school fundraising proceeds. It is anticipated that this will result in TDSB budget savings of approximately \$0.3M in 2022-23.

Anticipated Savings from Annual Insurance Premiums:

The TDSB property insurance premiums have increased in prior years due to the two TDSB school fires that occurred in 2019. The property insurance premiums have since decreased due to improvements to market conditions. If the current claims experience and market conditions continue, it is anticipated that the TDSB will be provided with additional premium decreases at future renewals. The insurance premium reductions are currently estimated at \$1.5M in 2023-24 and \$0.2M for 2024-25.

International Students – Projected Increase:

At the 26 April 2022 FBEC meeting, staff presented a projected increase in international student enrolment of approximately 342 students in 2022-23 due to the lifting of restrictions on international travel, which translates to \$4.5M in additional revenues. Staff are projecting the same increase for each of the 2023-24 and 2024-25 school years, assuming international student enrolment will gradually return to pre-pandemic levels.

Regular Student Enrolment – Projected Increase:

Staff are projecting an increase of approximately 450 ADE annually in Year 2 and Year 3, based on recent increases in the number of newcomers and elementary students.

This translates to approximately \$3M in additional revenues in each of the 2023-24 and 2024-25 school years.

Action Plan and Associated Timeline

Staff will begin to have discussions with the Ministry to seek pre-approval on the projected 1.4% deficit as proposed in this report, prior to the Board meeting on 29 June 2022. Staff will provide an update to Trustees at the 8 June 2022 FBEC meeting.

Once the Board approves the 2022-23 operating budget and capital budget on 29 June 2022, staff will complete and submit the required budget documentation to the Ministry of Education on or before 30 June 2022.

Resource Implications

Section 231 of the Education Act requires school boards to pass a balanced operating budget each year. Budgets are intended to align both human and financial resources to system priorities. School boards are required to submit their annual balanced operating budget to the Ministry of Education by June 30 of each year.

The TDSB will be using its reserves to balance the operating budget for the 2021-22 school year. Based on the latest 2021-22 financial projection as reported on 7 April 2022, the estimated reserve balance as of 31 August 2022 is as follows:

| Reserves (in \$ millions) | Actual Reserves as of August 31, 2021 | 2021-22 Projected use of reserves | Estimated Reserves, as of August 31, 2022 |
|--|--|--|--|
| Working Funds Reserve | \$22.7M | (\$22.7M) | - |
| Benefit Funds Reserve | 109.8M | (\$37.1M) | 72.7M |
| School Support & Other | 51.7M | | 51.7M |
| Environmental Legacy Fund | 2.7M | | 2.7M |
| Artificial Turf Fund | 0.5M | | 0.5M |
| Sinking Fund Interest (restricted) | 14.3M | | 14.3M |
| Total working funds and internally restricted funds | \$201.7M | (\$59.8M) | \$141.9M |

Communications Considerations

This revised report will be posted on the TDSB budget webpage. This information will be shared at the TDSB Budget Town Halls on 19 May 2022 at 1:00 p.m. and 7:00 p.m.

Board Policy and Procedure Reference(s)

Not applicable.

Appendices

Not applicable.

From

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