

Date: May 13, 2020
To: Finance Committee
From: J. David Green, Secretary-Treasurer
Re: Draft Operating Fund Budget Report for 2020-2021

ITEM 2.3

REFERENCE TO STRATEGIC PLAN:

Goal 3: Create a culture of care and shared social responsibility:

- Encourage and enhance practices that support cultural, emotional, physical and mental well-being

Goal 4: Provide effective leadership, governance and stewardship

Objectives:

- Effectively utilize school district resources and facilities
- Develop and implement a long-term financial planning model

INTRODUCTION:

The normal budget development process used by the Vancouver School Board is meant to lay the foundation for looking at resource allocation from a District perspective, providing equity for schools and creating a cost consciousness, all of which will serve to enhance learning opportunities for Vancouver students. The process is meant to be transparent and provide accountability; in that way it contains beliefs, values and guiding principles which address the educational focus of the District and includes extensive engagement with all stakeholders. While the overall approach is to attempt to maintain these perspectives, the COVID-19 pandemic has created a very different environment in which to do so. The state of emergency announced in March and the orders and guidelines from the Public Health Officer in response to the pandemic are indicative of a new reality where it is not possible to add new spending to the draft budget. Rather, the draft operating fund budget is being balanced using surplus from prior years.

BACKGROUND:

As outlined in the Budget Development Process issued in January 2020, the strategy to develop the budget for 2020-2021 was based on the following guiding principles:

- Maintain a focus on student achievement, recognizing the personalized learning needs of students.
- Reflect on responsible stewardship in implementing the objectives of the District's educational, financial and facilities-related plans.
- Respect the District's decision-making culture, encouraging creativity and innovation in meeting the learning needs of specific communities.
- Be sustainable over the longer term while providing the flexibility to address changing short-term needs.
- Focus on equity for all schools and for all students of the District.

- Reflect the specific needs of vulnerable students; and,
- Include engagement with the District’s educational leaders and stakeholder groups, as well as the opportunities for broader community input.

With the advent of COVID-19 the following strategically important guiding principle is of paramount importance:

- Ensure that students and staff are safe from the impact of COVID-19 as in-classroom instruction resumes.

In addition, the pandemic has caused staff to consider other aspects of the District’s Strategic Plan in the development of the budget, specifically Goal 3 of the Plan as referenced above. A focus on the physical and mental well-being of staff and students must be a high priority as in-classroom instruction resumes. The draft budget contains a special COVID-19 allocation of \$1.0 million to address that priority.

ANALYSIS:

In developing the budget for 2020-2021, the original goal was to provide the same level of programs and services as provided in 2019-2020. However, the uncertainties related to the COVID-19 pandemic, particularly around enrolment in the International Student Program and the impacts of lower revenues and pandemic related costs have placed a significant challenge on attaining that goal. In addition, the impact of declining enrolment still needed to be recognized. However, the process used in the past to develop the budget has remained in place. District staff have created a preliminary draft operating fund budget for next year using the 2019-2020 amended budget as a base adjusted for enrolment decline, adjusted for lower revenues due to the pandemic, removed costs no longer required and added new cost pressures, including those related to the pandemic and added to address future needs in dealing with it. The status quo budget position because of this process is a net expense of \$8.41 million and with \$1.34 million in accumulated surplus being used to support some capital purchases the projected deficit was \$7.07 million, as illustrated below:

	2019-2020	2020-2021	
	Amended	Draft	Increase
	Budget	Budget	(Decrease)
	(In millions of Dollars)		
Revenue	517.94	514.71	(3.23)
Expenses			
Salaries	370.85	378.66	7.82
Employee Benefits	96.85	98.48	1.63
Total Salaries & Benefits	467.69	477.14	9.45
Services & Supplies	46.02	41.08	(4.94)
Purchases of Capital	6.62	4.90	(1.72)
Total Expenses & Capital	520.33	523.12	2.79
Net revenue (expense)	(2.39)	(8.41)	(6.02)
Appropriated Surplus	2.39	1.34	(1.05)
Budgeted Surplus (Deficit)	(0)	(7.07)	(7.07)

In addition to the \$1.34 million in accumulated surplus already allocated to support certain budgeted capital purchases another \$7.07 million is required to balance the budget.

DEVELOPMENT OF DRAFT OPERATING FUND BUDGET:

Initial Status Quo Position

Prior to the pandemic and prior to the Ministry funding announcement in mid-March, District staff had developed a status quo operating fund budget in early March following the process described above. As illustrated in the Public Meeting on April 27, 2020 the net expense in the budget at that time was \$7.45 million and with \$0.786 million in accumulated surplus being used to support certain budgeted capital purchases the projected deficit was \$6.67 million, as illustrated below:

	Draft Budget (millions)
Revenue	515.80
Expenses	
Salaries	376.69
Employee Benefits	99.91
Total Salaries & Benefits	476.59
Services & Supplies	41.53
Purchases of Capital	5.13
Total Expenses & Capital	523.25
Net revenue (expense)	(7.45)
Appropriated Surplus	0.79
Budgeted Surplus (Deficit)	(6.67)

Ministry Funding Announcement

In developing this status quo position District staff made certain assumptions about what the Ministry funding announcement would contain. The following table compares what staff projected the Ministry grant would contain to what was announced:

	MoE	VSB Budget	Variance
Basic Allocation	92.00	92.89	(0.89)
Special Needs			
Level 1	600.00	500.00	100.00
Level 2	200.00	250.00	(50.00)
Level 3	50.00	125.00	(75.00)
ELL/French	25.00	20.00	5.00
Indigenous	50.00	-	50.00
Non-Grad Adults	50.00	70.00	(20.00)

While the \$92.89 per FTE increase in the basic allocation closely aligned with the Ministry announced increase of \$92.00 per FTE, the Ministry figure included the expected refund for the Employer Health Tax (EHT) and the Service Improvement Allocation (SIA) related to the 2019 CUPE Provincial Framework agreement, both of which had been previously funded separately. In addition, the refund that districts receive annually for the Carbon Tax paid was rolled into the Unique Geographic Factor component of the Ministry funding formula. This refund had always been supplied separately in the past. Working from the final Ministry grant for 2019-2020 and taking into account all the elements of the funding formula projected by staff, including the wage lifts for CUPE and the impact of declining enrolment, staff was expecting the District to receive approximately \$464.73 million in the Ministry announcement. The actual grant was \$462.10, leaving a shortfall of \$2.64 million as illustrated below:

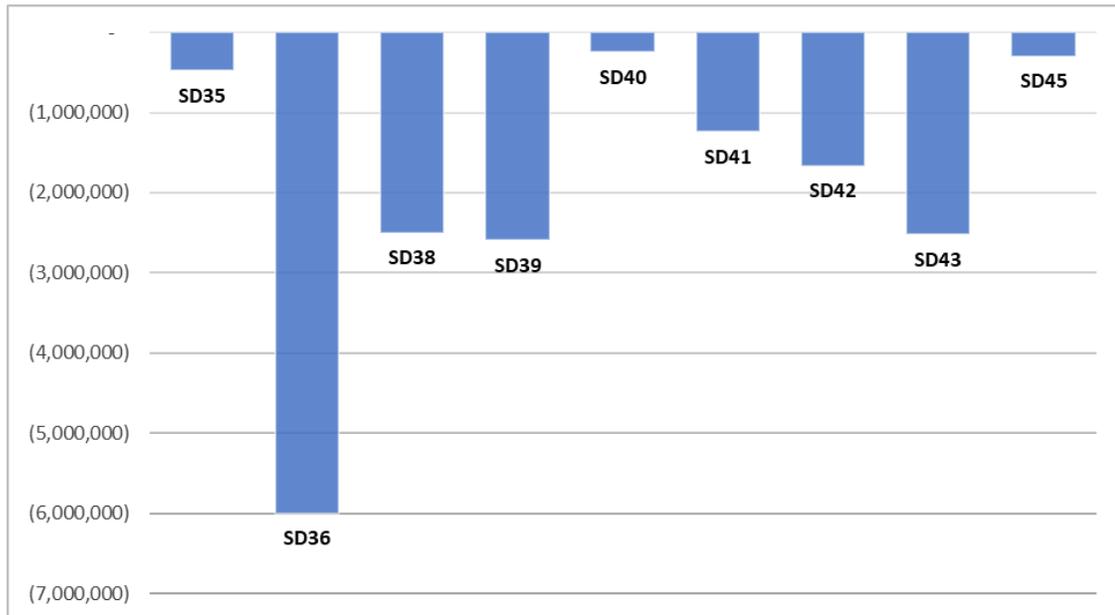
**Vancouver School District
2020/21 Grant Funding Analysis**

2019/20 Operating Grant	456,996,745
Enrolment Changes	(957,545)
Carbon Tax	452,355
Employer Health Tax	3,093,313
CUPE Service Improvement Allocation	667,766
2019/20 Labour Settlement	2,217,970
2020/21 Labour Settlement	<u>2,262,330</u>
Estimated 2020/21 Operating Grant	464,732,934
Announced 2020/21 Operating Grant	462,097,681
Net Operating Funding Surplus / (Deficit)	<u>(2,635,253)</u>

This shortfall increased the projected net expense and deficit, with other minor adjustments, by similar amounts as illustrated below:

	11-Mar-20	14-Mar-20	Increase
	(millions)	(millions)	(Decrease)
	(millions)	(millions)	(millions)
Revenue	515.80	512.96	(2.84)
Expenses			
Salaries	376.69	376.24	(0.44)
Employee Benefits	99.91	99.79	(0.11)
Total Salaries & Benefits	<u>476.59</u>	<u>476.04</u>	(0.56)
Services & Supplies	41.53	41.94	0.41
Purchases of Capital	5.13	5.13	-
Total Expenses & Capital	<u>523.25</u>	<u>523.11</u>	(0.15)
Net revenue (expense)	(7.45)	(10.15)	(2.69)
Appropriated Surplus	<u>0.79</u>	<u>0.79</u>	-
Budgeted Surplus (Deficit)	<u>(6.67)</u>	<u>(9.36)</u>	(2.69)

There was no indication prior to the funding announcement that these amounts would no longer be funded separately. Other districts also assumed that the EHT, the SIA and the Carbon Tax refund would still be funded separately and not rolled into the block and accordingly experienced shortfalls in the funding they expected, as illustrated below for eight Metro districts in addition to Vancouver:



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Deficit Reduction Exercise (Cost Savings)

When the projected deficit of \$6.67 million in the status quo budget was identified, Finance staff began to look at areas of the budget where cost savings could be achieved. The intent, based on the original budget timeline, was to present a balanced budget to stakeholders on March 30, 2020. This exercise became more challenging after the Ministry funding announcement on March 12, 2020 as well as the impact of the pandemic which was proclaimed by the World Health Organization earlier that week. Interest rates cuts, reducing projected investment income, had already taken place.

Regardless, from mid-March to April 6th savings of \$5.98 million were identified at various points in that timeframe to reduce the projected deficit from \$9.36 million to \$3.38 million, as illustrated in the chart below:

	14-Mar-20 (millions)	6-Apr-20 (millions)	Increase (Decrease) (millions)
Revenue	512.96	513.12	0.16
Expenses			
Salaries	376.24	373.48	(2.76)
Employee Benefits	99.79	98.72	(1.08)
Total Salaries & Benefits	476.04	472.20	(3.84)
Services & Supplies	41.94	40.74	(1.20)
Purchases of Capital	5.13	4.90	(0.23)
Total Expenses & Capital	523.11	517.84	(5.27)
Net revenue (expense)	(10.15)	(4.72)	5.43
Appropriated Surplus	0.79	1.34	0.55
Budgeted Surplus (Deficit)	(9.36)	(3.38)	5.98

The following significant cost savings adjustments make up much of the \$5.98 million savings:

- A detailed examination of the average teacher salary cost and a revision on the number of teachers expected to retire reduced that cost from \$81,742 to \$81,527 which resulted in a savings of \$0.86 million.
- A detailed examination of the SSA staffing revealed that when the status quo budget was updated from the amended budget an incorrect assumption with respect to the current staffing level was made which resulted in a higher staffing allocation than the SSA's who were being paid at the time. This has been corrected which resulted in a savings of \$0.95 million.
- The status quo budget contained a salary lift for excluded staff as it was assumed the wage lifts for the last two years would continue. As the District has not made application to BCPSEA for this it has been removed and will be addressed in the amended budget. This resulted in a savings of \$0.70 million.
- The employee benefits impact of these salary adjustments and updating the benefit rates for current information resulted in a savings of \$1.0 million.
- The status quo budget contained an assumption that the funding shortfall of \$483,610 in the overhead component of the Classroom Enhancement Fund (a Special Purpose Fund) would be funded from the operating fund. This assumption has been reversed and the overhead in the CEF will be reduced accordingly which resulted in a savings of \$0.48 million. This shortfall is illustrated below:

CEF Overhead 2019/20	4,529,730
CEF Overhead 2020/21	<u>4,046,120</u>
Net CEF Overhead Funding Surplus / (Deficit)	<u>(483,610)</u>

- Insurance premiums were reduced by \$0.43 million to reflect actual costs. The savings that were realized in the amended budget have been confirmed to be continuing.
- An error in budgeting for the payout of a lease the District has for equipment in the status quo was corrected which resulted in a savings of \$0.43 million.

Further Refinements (Less Net Revenue)

At the April 27, 2020 Public Board Meeting it was explained that the projected deficit had increased by \$1.69 million from \$3.38 million to \$5.07 million at April 21, 2020. Two changes in Net Revenue contributed to this increase in the projected deficit. One change was a further reduction in investment income of \$0.20 million due to applying the last Bank of Canada rate decrease to the District's cashflow model. The other change related to the removal of the planned summer school budget, which had a projected net revenue forecast of \$1.49 million. These changes are illustrated in the chart below:

	6-Apr-20	21-Apr-20	Increase
	(millions)	(millions)	(Decrease)
			(millions)
Revenue	513.12	507.15	(5.97)
Expenses			
Salaries	373.48	370.28	(3.20)
Employee Benefits	98.72	97.95	(0.77)
Total Salaries & Benefits	472.20	468.23	(3.97)
Services & Supplies	40.74	40.43	(0.31)
Purchases of Capital	4.90	4.90	-
Total Expenses & Capital	517.84	513.56	(4.28)
Net revenue (expense)	(4.72)	(6.41)	(1.69)
Appropriated Surplus	1.34	1.34	-
Budgeted Surplus (Deficit)	(3.38)	(5.07)	(1.69)

International Student Program

The greatest amount of uncertainty addressed in preparing the draft operating fund budget relates to the International Student Program. Enrolment in the program in 2019-2020 is 1,809 FTE students. In the fall of 2019, a decision was made to reduce the projected enrolment for 2020-2021 to 1,650. This decision was due to primarily to concerns about the economic uncertainties in China at the time and the impact that could have on the Chinese market for international students. This 8.8% reduction was prior to the onset of the coronavirus concerns in China.

By mid-March 2020, the International Student Program department was reporting 1,642 fully paid students for next year, which compared favorably to the 1,649 fully paid students at the same point in time in 2019 for 2019-2020 and with the projection for 2020-2021. However, with the onset of the COVID-19 pandemic and the restrictions on international travel, concerns were raised on what the enrolment would be in 2020-2021.

By mid-April 2020, the fully paid enrolment was 1,674 students comprised of new applicants and returning students as illustrated below:

	New Applicants	Current Students	Total Students
Elementary	117	100	217
Secondary	516	941	1457
	633	1041	1674

To provide enrolment numbers for staffing purposes prior to the end of April, certain decisions had to be made. At the time there were approximately 1,100 ISP students still in British Columbia and based on that the following decisions were made:

- To remove the elementary new applicant enrolment of 117. All elementary students are required to be accompanied by a parent or have family member living in the District. It was felt this would put those applicants at greater personal financial cost due to the circumstances caused by the shutdown of economies.
- To reduce the remaining enrolment by 25%

This resulted in a projected enrolment for staffing purposes of 1,170 students as illustrated below:

	New Applicants	Current Students	Total Students
Elementary		75	75
Secondary	387	708	1095
	387	783	1170

Combined with the previous reduction, the projected enrolment for next year is approximately 35% less. Final numbers will still be evaluated over the next few weeks and the projection and the budget may change. The ISP Department has surveyed the 633 new applicants in the program and asked them to reply by May 12, 2020 whether they want to defer their application to 2021-2022, get a 90% refund or remain in the program. Of the 198 replies received by May 7, 2020 148 have indicated they will stay in the program.

Final Changes to Draft Budget

The impact on the draft budget due to the change in the ISP projected enrolment increased the net expense by \$3.27 million, increasing the projected deficit to \$8.34 million. Between April 21, 2020 and May 6, 2020 further refinements to the budget were made to reduce the projected deficit and provide room in the budget to address potential COVID-19 related costs, yet to be identified. The following changes were made:

- The average teacher salary cost was adjusted from \$81,527 to \$81,242 which resulted in a savings of \$0.92 million.
- An allocation of \$0.61 million was made for vacancies in positions to reflect historical trends which made.
- A revised model for summer school was developed to operate on a distributed learning model focused on completion courses. The projected net revenue from this reduced program is estimated to be \$0.23 million.
- The District received notification that the Net Carbon Neutral recovery expected for next year would be \$0.42 million.
- An allocation of \$1.0 million to address future COVID-19 cost pressures was added.

The final position in the draft operating fund budget is illustrated below:

	21-Apr-20	6-May-20	Increase
	(millions)	(millions)	(Decrease)
			(millions)
Revenue	507.15	514.71	7.56
Expenses			
Salaries	370.28	378.66	8.38
Employee Benefits	97.95	98.48	0.53
Total Salaries & Benefits	468.23	477.14	8.91
Services & Supplies	40.43	41.08	0.65
Purchases of Capital	4.90	4.90	-
Total Expenses & Capital	513.56	523.12	9.56
Net revenue (expense)	(6.41)	(8.41)	(2.00)
Appropriated Surplus	1.34	1.34	-
Budgeted Surplus (Deficit)	(5.07)	(7.07)	(2.00)

In addition to the \$1.34 of accumulated surplus already allocated to support certain budgeted capital purchases an additional \$7.07 million of accumulated surplus is required to balance the

operating fund budget. Staff is working on finalizing a projection of what the District's financial results will be at the end of June 2020. The financial update report that will be presented at the Finance Committee meeting on May 13, 2020 will indicate the District is in a \$7.22 million surplus at the end of March. In addition, the District have an unrestricted surplus from 2018-2019 of \$2.42 million and a contingency reserve of \$2.36 million.

Summary of Assumptions Used

As stated in the Budget Development Process issued in January, the Board of Education is committed to being responsible stewards of its resources and making budget decisions which are responsive to the overall District and which support the health and equity of our schools. To emphasize this commitment, the following assumptions will be employed by the District in the development of its annual operating budget:

1. The budget shall be developed in accordance with all legal and legislative requirements.
2. As stated previously enrolment in the International Student Program as been reduced by approximately 35%.
3. The wages and salaries paid to teachers and support staff will be the negotiated amount in the respective collective agreements.
4. With the recent ratification of the Provincial Collective Agreement between the BCTF and BCPSEA an estimate of the 2% lift for 2020-2021 has been included in the draft budget as a salary expense with a corresponding amount of revenue from the Government also included.
5. The other terms of the Provincial Collective agreement have not been included in this draft budget and will be reflected in the amended budget.
6. The Teacher Step and Increment increase is projected to be 1.12 percent.
7. The salaries paid to principals and vice-principals, as well as exempt staff will be those currently in place and any lifts permitted by the Public Sector Employers' Council. Originally this was projected to be 1.8 percent but has been removed pending an amended budget decision.
8. Services and supplies will be updated based on existing contract terms or a general inflation factor of 0.5 percent. Originally this had been projected to be 1.5% but with the recessionary impact the pandemic is having the inflation factor has been lowered.
9. Utilities were originally projected to increase 7.0 percent. This has been revised to 2.5%
10. Staffing levels are adjusted to reflect changes in enrolment.
11. Wage and non-wage sensitive employee benefit rates are adjusted as per Canada Revenue Agency (CRA) announcement and Morneau Shepell projections.

COVID-19 Allocation

As mentioned at the beginning of this report a \$1.0 million amount has been added to the draft budget to address COVID-19 related challenges that will arise in the 2020-2021 school year. That budget allocation has been included in the Supplies line in the budget and is intended to be used for supplies, staffing and equipment. How that funding will be used will be determined later as the uncertainties around COVID-19 continue to amass. Staff did not want to be too prescriptive

in the draft budget as to how that funding would be spent but wanted to address the Strategic Plan objective mentioned at the beginning of this report to “Encourage and enhance practices that support cultural, emotional, physical and mental well-being”. There will be safety challenges as schools resume in September which will have to be addressed with extra staffing, additional supplies and necessary mental health supports for staff and students. Also, with the increased use of technology and a focus on-line learning there will be needs to update security protocols and privacy protection.

Risks for 2020-2021

Budgeting in the world of a pandemic is challenging to say the least. While the draft operating fund budget for 2020-2021 was prepared using conservative assumptions, the impact of the pandemic on the District’s operation next year may not have addressed all risks that might occur. Following are major risks that would have a negative impact on the District’s budget:

1. International students are not permitted to enter the country. Currently there are approximately 1,100 ISP students in the province but if enrolment in the International Student Program is lower than the reduced amount in the draft budget the District will see a reduction in funding offset only partially by a reduction in staffing and departmental costs.
2. If there is a significant shift to distance learning for course completion the District’s revenue will decrease because the per course funding for Distance Learning courses is less than the basic per FTE allocation for students in a bricks and mortar school.
3. Summer School may not have the enrolment projected which will result in a loss of net revenue.
4. The average teacher salary cost is higher than was projected.
5. Government may place legislative conditions on districts which have the potential to add costs.
6. The revenue the District receives from community use and leases may decline if businesses and organizations no longer operate due to financial circumstances or the impacts of the pandemic.
7. There may be additional costs required to support students with special needs.
8. Supply shortages for cleaning and disinfecting supplies may impact operations.

NEXT STEPS:

1. There is a scheduled Committee of the Whole on May 20, 2020 to receive feedback and comments on the draft operating fund budget.
2. A complete preliminary budget for 2020-2021 in Ministry format, including the Special Purpose Funds and Capital Fund budgets, will be presented to a Finance Committee meeting in June for the committee’s direction to the Board of Education to approve the budget at the June 22, 2020 public board meeting.
3. Given the financial uncertainties that the pandemic is having on the International Student Program and how the projected reduced enrolment is affecting staffing levels, staff will continue to monitor enrolment information and the draft operating budget may be adjusted for the final presentation in June.

RECOMMENDATION:

There is no recommendation. This report is provided for information to the Finance Committee to engage stakeholders and the public in conversation about the efficacy of the budget as the District prepares to deliver education in a new-normal pandemic world.