Update on Three-Year Projection and Deficit Recovery Plan

To: Finance, Budget and Enrolment Committee

Date: 30 May, 2022

Report No.: 05-22-4334

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 update on three-year projection and deficit recovery plan report be received.

Context

At the 16 May 2022 Finance, Budget, Enrolment Committee (FBEC) meeting, staff presented a projected 2022-23 financial deficit of $52.2M (1.8% of operating budget) and a preliminary three-year deficit recovery plan for Trustees' feedback. The deficit reduction recommendations, if approved, would result in a reduction of TDSB's 2022-23 projected deficit to $40.4M (1.4% of operating budget), and an elimination of the deficit by the 2024-25 school year.

At the meeting, Trustees requested additional information regarding the proposed deficit recovery strategies and a summary of total unfunded pandemic costs incurred to date. This information is presented below for Trustee input. Staff will review feedback gathered from the Budget Town Hall meeting, as well as from internal and external stakeholders, before finalizing the 2022-23 budget and three-year deficit recovery plan for Trustees' approval at the 8 June 2022 FBEC meeting.

Three-Year Deficit Recovery Plan

To address the $52.2M 2022-23 deficit, staff developed a three-year deficit plan. This plan was prepared based on staff's assessment of system needs and after careful consideration of potential risks arising from the budget changes.

The following list of multi-year budget reduction measures was presented at the 16 May 2022 FBEC meeting:

(In $million)	**Year 1** 2022-23	**Year 2** 2023-24	**Year 3** 2024-25
Preliminary Deficit Position – Beginning of 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 year	($40.4)	($19.4)	$0.3
% (Deficit)/Surplus of Operating Allocation	(1.4%)	(0.7%)	0.01%

Staff will provide updates around actual savings achieved versus planned savings as outlined in the approved plan. It is important to note that the Board must approve a balanced budget, and any in-year deficit recovery strategies not implemented will result in increases to budget reductions in future years.

To support the decisions around the three-year deficit recovery plan, staff are also proposing the following additional options for consideration:

Additional Deficit Recovery Plan Options:

(In $million)	Year 1 2022-23	Year 2 2023-24	Year 3 2024-25
Offsite storage and other supplies savings through digitalization of records		0.3	
One-time reduction to school budget carryovers	2.0		
Permit revenue rate increases and parking fees	0.5	0.1	

Offsite Storage and Other Supplies Savings:

Staff will be conducting a review of system-wide records management practices in 2022-23 and will engage in digitalization of files that are stored offsite to reduce or eliminate the TDSB's annual file storage fees. The Board has also begun its pilot of the SAP Concur employee expense reimbursement platform in 2021-22 and anticipates a full rollout to all TDSB employees and Trustees in 2022-23. This initiative will further reduce document storage, printing, office supplies and inter-office courier costs with the gradual elimination of paper forms. This will also result in a reduction in staff administration time and costs relating to the approval and manual processing of the expense reimbursements. It is anticipated that the Board will achieve $0.3M in these savings by Year 2.

One-time Reduction to School Budget Carryovers:

Due to the pandemic and school closures/transition to remote learning over 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, which represents roughly 60% or $15M increase compared to the average pre-pandemic carryover balance. To address the projected deficit, staff previously recommended a $3M reduction to the school budget allocation across schools in 2022-23. In addition to the $3M reduction to the 2022-23 school budget allocation, staff are proposing a further $2M one-time reduction to the 2021-22 unspent budget carryover balance, to be applied to schools on a sliding scale based on remaining budget as of August 31, 2022.

The $3M in school budget allocation reductions will be made based on an equitable school budget reduction methodology to ensure that there are no significant adverse impacts to schools resulting from this reduction. Some factors that will be considered include the schools' Learning Opportunity Index, historic budget spending trends and other grants available to the schools.

Permit Revenue Rate Increases and Parking Fees:

In accordance with the Board Policy P011 Community use of Board Facilities, permit fees are applied in accordance with the fee schedule approved by the Board and adjusted annually by the Consumer Price Index (CPI). Staff are recommending an increase to permit fees by 4% in 2022-23 based on CPI increases. It is anticipated that these changes will generate an additional $0.5M in revenues for the Board in 2022-23.

The TDSB has also documented many incidents of unauthorized school bus parking on TDSB sites in the current year. When these incidents occur, TDSB will try to enforce ticketing and towing of the vehicles. School staff have expressed concerns about unauthorized parking on their sites. However, no penalties or fines have been charged as TDSB has not implemented a parking policy. Staff are proposing to enforce a fine or an additional permit charge to the bussing providers or other vehicles that park on TDSB premises without prior approval. It is anticipated that the Board can generate $0.1M in additional security or permit related revenues in Year 2.

<u>Pandemic Impacts and Board-Funded Costs</u>

Throughout the pandemic, the TDSB has made use of all available resources to keep students and staff safe. Below is a summary of the impact of the pandemic on TDSB's financial position:

2019-20 Pandemic Costs - During the start of the pandemic, the TDSB incurred $24.6M in pandemic costs that were not funded by the Ministry. These costs relate to additional staffing and technology costs to support students' pivot to remote learning, and personal protective equipment (PPE) and enhanced cleaning costs incurred in preparation for the return to in-person learning. These costs were offset by other savings due to the school closures.

2020-21 Pandemic Costs – The TDSB incurred $41.6M in board funded pandemic costs. The majority of these costs relate to the implementation of the virtual school, enhancements to mental health supports, purchase of PPE not supported by the Ministry of Government and Consumer services, and the increase in transportation costs to enhance physical distancing.

2021-22 Pandemic Costs – $3M in board funded pandemic costs are projected for 2021-22. These costs relate to the purchase of simultaneous learning kits, health and safety decals, student masks, and courier and printing costs relating to the rapid test kit and PPE distributions.

2022-23 Pandemic Costs – The TDSB has not forecasted any board funded pandemic costs for the 2022-23 school year.

Pandemic Impact on Other Revenues:

	A	*B*	*C*	*D*	*A X 3 – (B+C+D)*
Revenues	**2018-19 Actuals**	**2019-20 Actuals**	**2020-21 Actuals**	**2021-22 Projected**	**Cumulative 2019-2022 Other Revenue Reductions**
Rental & Permit	33.0	24.5	20.5	29.6	24.6
Tuition Fees	32.2	30.4	21.3	18.0	27.0
Cafeteria	5.3	3.1	1.6	3.3	7.8
Continuing Education	4.0	2.8	0.9	3.8	4.5
Total	**74.5**	**60.8**	**44.3**	**54.7**	**63.9**

In summary, the TDSB experienced a total enrolment decline of close to 17,000 ADE since the start of the pandemic. This resulted in a significant reduction in grants, which were offset by the one-time enrolment stabilization and recent immigrant supplement. It should be noted the Board experienced approximately $64M in other revenue reductions since March 2020 from sources such as international students, permits, leases, continuing education and cafeteria sales, as a result of the pandemic. These reductions could not be equally offset by an associated reduction in operating costs. In addition, the TDSB incurred over $69M in board funded pandemic costs that were not reimbursed from the Ministry. As there is insufficient funding to address the Board's cost pressures, the Board must implement deficit reduction strategies in order to achieve a balanced budget.

The TDSB has continued to advocate for additional and more stable funding from the province, including the reimbursement of all pandemic related expenses and other revenue losses incurred, a commitment to fund the TDSB's pandemic recovery plan, and additional funding to cover inflationary cost increases relating to employee benefits (CPP, EI, long term disability) costs, utilities, transportation, and other cost increases that are not currently funded by the Ministry. Should these costs be reimbursed to school boards, these supports would be sufficient to address the TDSB's projected deficits in both 2021-22 and 2022-23.

Action Plan and Associated Timeline

Staff has shared the preliminary deficit recovery plan and financial position with the Ministry on 20 May 2022 and have submitted a tentative budget approval request based on a 1.4% projected deficit. The Ministry has informed the TDSB that the approval will take approximately two to three weeks.

Should there be changes to the projected financial position after the FBEC meeting on 8 June 2022, a revised deficit recovery plan will be submitted to the Ministry on 9 June 2022. Staff will update the Board around the status of the approval submission as soon as it is received from the Ministry. The Ministry is aware of the TDSB's Board approval of the 2022-23 budget on 29 June 2022.

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.

A Special FBEC meeting may be scheduled during the week of 20 June 2022, should Trustees require additional information prior to the 29 June 2022 Board meeting.

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 30 June 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 Aug 31, 2021	2021-22 Projected use of reserves	Estimated Reserves, as of Aug 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 report will be posted on the TDSB budget webpage.

Board Policy and Procedure Reference(s)

Not applicable.

Appendices

Not applicable.

From

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