



**BOARD OF TRUSTEES
ELK ISLAND PUBLIC SCHOOLS**

SPECIAL
MEETING

THURSDAY, JANUARY 5, 2023

Board Room
Central Services
Administration Building

AGENDA

Mission Statement: To provide high-quality, student-centred education that builds strong, healthy communities.

3:00 pm 1. **CALL TO ORDER** T. Boymook

NEW BUSINESS

2. **REALLOCATION OF SURPLUS FUNDS** M. Liguori/C. Cole
(encl.)

ADJOURNMENT



RECOMMENDATION REPORT

Page 1 of 7

DATE: January 5, 2023

TO: Board of Trustees

FROM: Mark Liguori, Superintendent

SUBJECT: Reallocation of Surplus

ORIGINATOR: Candace Cole, Secretary-Treasurer

RESOURCE STAFF: Leah Lewis, Director, Financial Services

REFERENCE: Policy 2: Role of the Board

EIPS PRIORITY: Enhance high-quality learning and working environments.

EIPS GOAL: Quality infrastructure for all.

EIPS OUTCOME: Learning and working environments are supported by effective planning, management and investment in Division infrastructure.

RECOMMENDATION:

That the Board of Trustees approve the allocation of surplus as per Attachment 1 and outlined below.

That the Board of Trustees approve the request to the Minister to request a transfer to capital reserves for the buses ordered of \$756,000 in case they do not arrive by August 31, 2023.

BACKGROUND:

To ensure EIPS stays under the provincial reserve cap, the following considerations need to be made:

- reallocation of current year surplus in contingency, and
- reallocation of additional surplus identified in projections.

Operating Reserves Cap

The operating reserve cap is effective Aug. 31, 2023. EIPS' reserve cap equates to \$6,090,273, calculated as 3.15% of our 2021-22 expenditures.

At the time of fall budget, after removing estimated school and department carryforward reserve balances, and removing expected reserve expenditures for 2022-23, EIPS projected reserve balances at August 2023 to be below the maximum reserve cap by \$877,209; therefore, EIPS did not expect to return any excess funds to the province (see Attachment 2).

On Sept. 1, 2022, the Board approved requesting from the Minister the usage of \$1 million of Operating Reserves as well as \$1.2 million from Capital Reserves for the Salisbury Composite High stormwater project. The

operating reserve usage of \$1 million was approved by the Minister on Nov. 23, 2022. This approval was good news because this was built into the fall budget and used in our calculations to stay under the cap. The Board approved transferring the \$1 million from operating reserves to capital reserves in December 2022 as recommended by Alberta Education (AE).

Meeting with Alberta Education

Operating Reserve Requests

Administration met with AE the week of November 21. There are some new staff in place there, and the process for how reserve requests are currently being handled was outlined below:

- All reserve requests received in one month are grouped together (September 1 submission lumped in with a September 30 submission).
- If there is a question on one of the reserve requests, it will hold up the rest of them.

AE was open to us submitting draft requests to ensure that our submission flows smoothly, but that does not guarantee approval.

Administration does not feel comfortable leaving any reserve requests beyond the end of January 2023. The last request took 2.75 months to approve. Working backwards, with the election on May 29 and the May 1 dropping of the writ, submitting a request in January gives AE three months to approve our request.

Transfers to Capital Reserves

In our discussions with AE, we pointed out that our capital reserves will be nearly depleted once the Salisbury Composite High stormwater project is completed. We asked if we would be able to put a reasonable amount into our capital reserves for unforeseen items – they suggested we could do that but to also support that amount. This is also good news. In our budget submission this spring, when EIPS transferred \$1 million to capital reserves, EIPS was asked to submit a plan to AE on how that \$1 million was going to be spent.

In order to present your request to the Minister we will require more detailed information regarding the timing of the planned spending and the justification for the growing capital reserve balance. Should this information not be available then this request will not be submitted to the Minister for approval.

Based on the above comments, if we did not have all the capital purchases identified then this would not be approved. Given our recent conversations with AE we were hopeful a transfer to capital reserves would be approved given that we have such a small balance available. AE also provides an annual financial profile for all Alberta school boards, and EIPS' profile indicates we carry a much lower capital reserve balance per student than the average school board (even of a similar size).

In late December, we reached out to AE once again on this item. Now, we are not as hopeful a transfer to capital reserves would be approved, however we still believe we could try.

The explanation should show the need to have the funds transferred in the current year; so if the capital is not needed for a few years, it may not need to be transferred now.

Next year, we should be able to transfer funds to capital reserves without Ministerial permission as this section of the *Education Act* will be repealed.

Accumulated surplus fund

143.1(1) A board that establishes an accumulated surplus fund that is not a capital reserve fund or an endowment fund may make a payment, or transfer money, from the fund only with the prior approval of the Minister.

(2) The Minister may, on any conditions that the Minister prescribes, permit or require a board to make a payment, or transfer money, from an accumulated surplus fund referred to in subsection (1).

(3) This section is repealed on September 1, 2023.

Given the reserve cap considerations and the timing on reserve cap and transfer approvals, funds that are sitting in contingency (not allocated to any particular project or purpose) and funds that have been identified as additional surplus since fall budget development need to be either:

- Reallocated to spend in the current year on a particular project or reallocated out to schools to spend in the current school year; or
- Transferred to capital reserves for future use on capital assets/projects – this would require Ministerial approval which may or may not be approved.

The following items are outlined on Attachment 1 and need to be reallocated:

Current Year Contingency (Section 1 on Attachment 1):

The items in contingency (“To Be Allocated” line) were included as ‘spent’ in the Fall budget and so need to be spent in 2022-23 or transferred to capital reserves in order to stay under the cap. It would be decided in January to determine where to allocate these amounts.

- For the first three items (curriculum funding not needed, rural school funding not needed and general contingency with a combined total of \$760,199), administration is recommending these surplus funds be used to purchase additional replacement computers (see page 4 for further discussion of this item).
- The classified standard cost contingency is not needed and we recommend this go to Early Learning and Specialized Supports Schools to allow for hiring additional educational assistants etc. as these areas hire classified staff for schools (impacted by standard cost).
- Currently, human resources is projecting the additional illness funds will be needed. This will be reviewed again at the end of January.
- The general contingency has been allocated for emergent items since the fall budget.
- Lastly, we would still like to continue with the Facility Term Project Manager starting on March 1. We feel this would need to be offered as a yearlong position.



RECOMMENDATION REPORT

Surplus Identified Due to Projections and Items that Need Funding (Section 2 on Attachment 1):

These amounts have come about as a result of projections being completed at the end of quarter 1 (Nov. 30, 2022). Explanations are provided on Attachment 1. These amounts also need to be spent in 2022-23 or transferred to capital reserves to stay under the cap. Offset against these amounts are some new items that need funding. Although general contingency covered most items that needed to be funded, there are a few remaining: enrolment adjustments, human resource items and information technology security.

Administration is recommending these net surplus funds (\$436,463) be used to purchase additional computers (see below for further discussion of this item).

Computers – Windows 11 Problem

Information Technology is working on the replacement of Windows devices not compatible with implementation of Windows 11. As shared with the Board last year, EIPS has a significant number of Windows devices not able to operate under Windows 11. Windows 11 has to be implemented no later than June 2025. To date, there has not been a workaround for this compatibility issue.

Currently, the problem has been assessed at 2,927 devices with a \$3.28 million replacement cost if each computer was replaced like-for-like. There are 254 devices that still need to be assessed for compatibility so this total could grow to \$3.5 million. In the 2022-23 budget, \$500K from reserves and \$300K from allocations, totaling \$800K, has been earmarked towards replacements. Work is currently underway with schools to determine if all the computers need to be replaced and what type of computer should it be replaced with. This may reduce the cost estimate if devices are not replaced like-for-like.

We are in the final stages of setting up the contract with ordering of items to occur in January 2023. This problem is not going away, and these computers are due for replacement regardless of the Windows 11 issue. There were a few years where there was no evergreening (replacement funding) in the budget. Even if there was a work around, many of our Windows 11 computers have reached end of life. As there will be many upcoming costs in the next few years, it makes considerable sense to tackle this problem now while we have the funds to do so.

Below is a reconciliation of the cost and timing of proposed reductions.

| | |
|------------------------------|-------------|
| Year 2022-23 opening Balance | \$3.5M cost |
| Allocations in Fall Budget | (\$0.80M) |
| Allocation from Section 1 | (\$0.76M) |
| Allocation from Section 2 | (\$0.44M) |
| Balance at August 31/23 | \$1.50M |
| 2023-24 Allocation | (\$0.75M) |
| 2024-25 Allocation | (\$0.75M) |
| Balance at August 31/25 | \$0 |



RECOMMENDATION REPORT

By covering a large portion of this in 2022-23, that leaves about \$750,000 in 2023-24 and \$750,000 2024-25 to fund our annual funding.

Standard Cost Surplus (Section 3 on Attachment 1)

Standard costs are determined during the budget. The use of standard costs for certificated and classified staff at the schools ensures staffing decisions are based on hiring the best person as opposed to the actual cost of individuals. It also provides timely reporting to aid monitoring and projections at the schools as costs are charged over ten months instead of tied to how individuals are paid.

We try to be as accurate as we can with this projection, however, average salary and benefit costs across EIPS can change over the course of the year as a result of staffing changes (such as additional grants being issued mid-year) that makes the standard cost variance more difficult to project. The estimate is where we think we will end the year.

Administration is recommending allocating these funds back out to schools. First off, it puts the dollars in front of students. Secondly, standard cost surplus should be allocated to the schools to spend as standard costs are built to break-even and any surplus here should go back to schools. We also recommend leaving the spending to schools to determine where the need is greatest. Some schools are staffed at 97% staffing already and perhaps they need to buy some additional supplies and materials, whereas other schools may choose to add staffing. The allocation would be a block allocation of \$10,000 to each school (excluding the colony schools) with the remainder being allocated on student fulltime equivalent enrolment at each school.

This would allow schools to combine this funding with other new funding recently distributed to schools such as: learning disruption funding, Ukrainian student funding, wellness funding etc. If schools combine the allocations, they can get synergies and do some proper planning with all the funds at once.

Transfers to Capital Reserves

We did not use capital reserves as much in the past to maintain flexibility with our funds. Once we transfer funds to capital reserves, they cannot be transferred back to operations unless we get permission from the Minister of Education. However, now that our operating reserves are under a cap (and capital reserves are not), we could transfer amounts into our capital reserves to fund unforeseen building costs (emergent) and capital items that are not funded for by the province (buses, information technology equipment).



RECOMMENDATION REPORT

Below is a table of estimated capital costs based on information we have to date.

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | TOTAL |
|---|----------------|----------------|----------------|------------------|----------------|------------------|
| Information Technology Infrastructure | 58,865 | | 93,319 | 917,279 | 223,261 | 1,292,724 |
| Aging/New Equipment at schools * | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 1,000,000 |
| Bus Purchases | 312,000 | 185,000 | 238,000 | 312,000 | - | 1,047,000 |
| | 570,865 | 385,000 | 531,319 | 1,429,279 | 423,261 | 3,339,724 |
| * schools buy typically 300,000 to 500,000/yr | | | | | | |
| bus purchases determined by end of life of existing buses (need to be replaced) | | | | | | |
| information technology information from last year's capital submission | | | | | | |

Deferred Maintenance

In conversations with Facilities, there is currently \$29 million in deferred maintenance. This is maintenance not completed but is due/overdue. We have been able to defer some of this because we have performed great predictive and preventive maintenance practices on infrastructure. This number will continue to climb in the next five years. This is an additional capital cost not factored into the above table.

Capital Reserve Balances compared to Other Divisions

Each year, AE provides a Financial Reporting Profile that compares financial information of school divisions across Alberta and to other comparably sized jurisdictions. This document allows a review and evaluation of the current financial position.

A comparison of EIPS' capital reserves to other divisions is provided in the table below. The current financial position indicates an increase to capital reserves of \$30 per student. If EIPS maintained capital reserves at the average rate for jurisdictions of a similar size, capital reserves would be \$5.5 million. EIPS' capital reserves are currently below the average reserve balance for similarly sized jurisdictions.

Transfer to Capital Reserves Conclusion:

We have identified surplus up to mid-December through projections. There may or may not be additional surplus. It is too far ahead to know. Looking at Attachment 2, top of the page (Review of the Cap), we feel we could justify a reduction in our Division Unallocated Reserves and still be within the requirements. We know, based on projections, our schools and departments are projecting a surplus of about 1% (when we built the budget we budgeted as though they would spend it all). In addition, there clearly is support for capital funds needed to accumulate to make purchases in the upcoming years (as per the above schedule), and it makes sense to put some money away each year, to help "smooth" these purchases versus trying to fund them all in one year. Administration recommends waiting until January projections to see if we should request an additional transfer to capital reserves.



RECOMMENDATION REPORT

Timing of orders

Not included in any of the above is the assumption all of our purchases will be received on time. There are some significant amounts being purchased this year. In discussions with our vendors to date, they indicate the goods and services will be received on time (by Aug. 31, 2023). Computers are about a 4-6 week time frame from the date of ordering and the buses should be received by June 30.

That being said, we recommend we ask the Minister to request that the \$765K for buses be transferred to capital reserves as well. This just gives us the wiggle room in case the delivery of these buses is delayed. This will then remove the request for an exemption request made much later in the year if these buses do not arrive before year end.

Overall Analysis and Conclusions

By reallocating the funds in contingency and the additional net surplus identified, we still have the original \$877,209 as cushion below the 3.15% cap.

COMMUNICATION PLAN:

If approved by the Board, Administration will advise schools and departments, and draft a request to the Minister.

ATTACHMENTS:

1. Summary of Additional Surplus
2. Review of the Cap and Cushion Under the 3.15%

Elk Island Public Schools

Reallocations

Section 1

Items Currently in Contingency that Need Allocation - budgeted to be spent by August 31, 2023

suggested allocations

| | | | |
|--|----------|------------------|---|
| Curriculum funding not needed | | 353,240 | computers |
| Rural schools transition funding not needed due to increased enrolment | | 314,913 | computers |
| General contingency due to change in estimates on reserve carryforward | | 92,046 | computers |
| | subtotal | <u>760,199</u> | |
| Classified standard cost contingency | | 313,295 | Early Learning&Specialized Supports Schools |
| Illness -needed based on November projections | | 200,000 | hold until January projections |
| General Contingency | | 347,021 | *allocated out for emergent items |
| Facility term certain project manager March 1 start (one year posting) | | 59,000 | allocate out to Facilities |
| | | <u>1,679,515</u> | agrees to quarter 1 statements |

Section 2

Surplus - New Revenue or Additional Savings - Needs to be spend by August 31, 2023

| | | | |
|--------------------------------------|--|------------------|---------------------|
| Health/wellness forfeited deposits | first year wellness expenditure expiring | 169,000 | |
| Previous insurance provider | 2 years for property claims had expired | 237,193 | |
| Treasurer | legal - reduced estimate | 30,000 | |
| Treasurer | Insurance- adjusted to actuals | 43,000 | |
| Facility Insurance and small project | Insurance estimate adjusted to actual | 59,000 | |
| Staff relations and training LTD | reduction of long term disability | 39,000 | |
| SFS Associate Superintendent | survey work budget unable to use | 25,000 | |
| More interest income | rates increased, updated cash flow | 281,257 | |
| General contingency overspent | from above | <u>(6,342)</u> | |
| | | <u>A 877,108</u> | surplus to allocate |

Items that funding is needed for - New Costs

| | | | |
|---|-----------------------------------|--------------------|-----------------------------|
| Human Resources - Superintendent | | (138,000) | |
| Criminal Record Checks | completing all in current year | (31,500) | |
| PALS coding and enrolment to schools | | (19,906) | |
| Enrolment revenue reduction offset by allocation reductions | | (50,450) | |
| Information technologies security | | (83,333) | ongoing cost of \$200K/year |
| Information technologies project work | | (57,456) | |
| Human resources work | | (60,000) | |
| modular moves | likely not hear until Budget 2023 | | wait on this one |
| | | <u>B (440,645)</u> | costs to allocate surplus |

current year items = A- B 436,463 computers

Section 3

Standard Cost Surplus Projections

902,000 schools

Elk Island Public Schools
Review of the Cap

Attachment 2

| | | |
|---|------------------|-------------------------------------|
| Division Unallocated Reserves | \$ 3,514,150 | as per the fall budget |
| 2021-22 Total Operating Expenses | \$ 193,342,011 | as per audited financial statements |
| Total Operating Reserve Maximum Limit based on 3.15% rate | 6,090,273 | |
| Less estimated school & department carryforward reserves (1%) | (1,698,914) | 1% calculated on Operating Budgets |
| EIPS Division Reserves Maximum Limit | 4,391,359 | |
| Division Reserves over (under) the Operating Reserve Limit | (877,209) | |
| Total Operating Reserve Minimum Limit based on 1% rate | 1,933,420 | |
| Division Unallocated Reserve at Fall Budget | \$ 3,514,150 | |
| Potential Transfer to Capital Reserves | \$ (500,000) | |
| Potential Updated Division Unallocated Reserves | \$ 3,014,150 | |