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Ontario

2007:SB01

MEMORANDUM TO: Senior Business Officials

FROM: Nancy Whynot
Director
Business Services Branch

DATE: January 24, 2007

SUBJECT: **2006-07 Initiatives Impacting School Board Capital Reserves**

As a follow-up to B-Memorandum 2006:B8 dated June 12, 2006 regarding the Education Funding for 2006-07, I am writing to provide details on the Ministry's financial support of:

- Capital Debt Commitments that exceed school boards' Grants for New Pupil Places;
- the Growth Schools Capital Program; and
- approvals required for new commitments to be funded from capital reserves; that is, the Proceeds of Disposition Reserve and the Pupil Accommodation Allocation Reserve, excluding School Renewal commitments.

Capital Debt Commitments - Annual Debt Service Costs related to New Pupil Place funding

Changes to the capital funding formula introduced in February 2005, as part of the Good Places to Learn initiative, meant that boards were no longer able to increase their eligibility for Grants for New Pupil Places by removing the permanent capacity of surplus schools that were offered to coterminous school boards and the Ontario Realty Corporation at no cost. This decision may have had an impact on some boards' ability to continue to finance existing capital debt commitments.

The Ministry will review circumstances and consider funding recognition for capital debt commitments that exceed a board's Grants for New Pupil Places based on the following conditions:

1. Debt was incurred to fund a capital project(s) funded wholly or partially with the amount calculated with the New Pupil Places allocation.
    - Only the portion of the capital project(s) associated with a New Pupil Places allocation is eligible.
2. The annual debt service costs are related to capital debt commitments beginning after August 31, 1998, and no later than August 31, 2005, for capital projects constructed, under construction or where a tender has been awarded.
    - In the year school boards sell a facility or a vacant site if the net revenue generated is greater than $100,000, the Ministry will require that fifty percent of the net revenue be applied to reduce the capital

debt. Related debt service costs will be reduced to reflect the adjusted debt.

3. Capital debt will not be eligible if it was incurred to finance capital projects funded for primary class size, growth schools, Best Start or for debt related to amounts funded under the outstanding capital commitments allocation (Section 39 of the 2006-07 Grant for Student Needs regulation) or financed under the debt charges allocation (Section 40 of the 2006-07 Grant for Student Needs regulation).

Where a board's annual debt service costs exceed the board's annual Grant for New Pupil Places, available funds in the board's Pupil Accommodation Allocation and Proceeds of Disposition Reserves will be applied to reduce the difference (see the *Debt Commitments and Growth Schools funding offset* section).

The Ministry has received requests to recognize not permanently financed debt as well as permanently financed debt under this initiative. The Ministry proposes to recommend a regulation amendment to recognize this expansion in criteria for approval by the Lieutenant-Governor-in-Council. If approved, this expansion would cover debt service costs on not permanently financed debt on capital projects committed as of August 31, 2005.

Boards seeking funding support through this initiative will be required to provide documentation to the Ministry that identifies:

1. The capital related financial commitments made during the 1998-99 to 2004-05 period and the portion of the 2006-07 annual debt service cost attributable to these commitments. Include the current year's net revenues placed in the Proceeds of Disposition reserve to recalculate the reduced debt service cost;
2. The assumptions that the board relied on at the time of making the capital debt commitment;
    - Specifically, the ministry will be looking for documentation that shows that removal of permanent capacity of surplus schools offered at no cost was planned/projected as a way of increasing New Pupil Places revenue to finance these costs in whole or in part. Boards need to provide either projections submitted by board staff to credit-rating agencies and/or reports reviewed by the board at the time such capital debt commitments were entered into.
    - Some shortfalls could be the result of actual enrolment falling below the projections made at the time of the capital project. For boards in that situation, enrolment projection documentation justifying the capital decisions and debt service repayment schedule will be required.
3. A list of all closed schools/vacant sites owned by the board when requesting funding support under the Debt Commitment allocation. For each closed school or vacant site the board is required to provide a report outlining the future use or need for the property. For each surplus school or vacant site not required, boards are asked to provide a reasonable estimate of the timing of disposition, estimated fair market value and expected selling price.

If a board does not provide documentation to the Ministry, adjustments will be made at the time of Financial Statements.

Boards are expected to ensure that capital debt commitments made after August 31, 2005 are managed within their capital envelope.

Growth Schools Capital

Where a board has a need for new pupil places as a result of growth occurring in new residential areas but its available funds are insufficient to meet that need, the board may submit a business case to the Ministry that meets the following conditions:

1. A board's annual debt service costs (see page 1 under Capital Debt Commitments - Annual Debt Service Costs related to New Pupil Place funding) reported in the 2005-06 school year are greater than the board's 2006-07 annual New Pupil Places grant entitlement;

2. The project is needed in the 2006-07 or 2007-08 school years;

3. At a minimum, these plans are to provide information meeting the following criteria:

   - The board currently has an Education Development Charge (EDC) by-law in place in the area in which the project is needed;
   - The EDC by-law has been in existence since at least September 1, 2005;
   - The site of the proposed project has been acquired through the use of funds in the board's EDC reserve;
   - The project has been identified as part of the board's long-term capital plan submitted to the Ministry through the Capital Plan component of the School Facilities Inventory System;
   - Based on the size of the proposed project, in pupil places, enrolment projections for the proposed project will be at 90% utilization or greater for each of the 10 years beginning in the following year in which the school will be needed;
   - Boards are required to document in a business case that, prior to determining the size of the proposed project and the enrolment projections, that the following alternative methods of accommodation were considered:
     - Use of available space in area schools of the board;
     - Attendance boundary changes;
     - Program changes.

4. The planning area in which the school is located must be consistent with the planning area set out in the board's EDC background study and in the board's Capital Plan submitted to the Ministry;

5. In the business case, boards will be required to provide the construction budget developed for funding the schools and provide the total cost of constructing the schools, (excluding the site costs covered by the EDC by-law);

6. Boards will be required to construct the new project within the amount generated through the application of the Grant for New Pupil Places benchmarks. Boards will

be required to provide all documentation to support the projected cashflow analysis of the project and to file a New Facilities Report in the School Facilities Inventory System as part of the submitted plan. Plans are to be submitted to the Ministry's Business Services Branch by February 28 2007.

Debt Commitments and Growth Schools funding offset

Debt Commitments and Growth Schools allocations will be adjusted to reflect any funds that a board may have in its capital reserves. The balance in the capital reserves, as reported by the board in the 2004-05 Financial Statements, will be used as the base to calculate the reduction. This base will be adjusted to recognize any board motions to transfer funds from the Pupil Accommodation Allocation and/or the Proceeds of Disposition Reserves (established under section 1 and 2 of Ontario Regulation 446/98), passed after September 1, 2005 and before June 12, 2006.

Boards eligible under the following capital initiatives; Prohibitive to Repair, Enrolment Pressure, Capital Transitional Adjustment and the 2005 Capital Policy Adjustment that have not completed the projects nor have included any debt service costs associated with the financing of these projects, do not have to include related allocations as part of their capital reserve used to offset the Debt Commitment and Growth Schools allocations. These amounts are to be shown separately. Where a board has incurred eligible debt associated with a capital initiative set out above, the allocation associated with the initiative is to be recognized as part of the overall amount in the reserve. The ministry is strongly encouraging boards to proceed as soon as possible with completion of these capital initiatives within the context of the June 12, 2006 changes to the capital funding policies.

Initial adjustments will be made under the Capital Debt Commitments funding; the remaining adjusted reserve balance will then be deducted from the Growth Schools allocation.

Transfers from Capital Reserves

As of June 12, 2006 transfers from capital reserves for new commitments are subject to the Ministry's approval prior to the board completing the transfers. As a result of this requirement, boards are strongly advised to seek Ministry approval prior to entering into any new capital financial commitment and/or tendering a capital project. This change is being implemented as an accountability measure to ensure that the board has the financial resources to carry capital projects to completion. However, approval is not required for converting short-term financing to long-term financing or the renewal of long-term financing vehicles already in effect. To reflect this policy change, it is the intent of the Ministry to propose the required amendments to existing regulations. Boards will need to submit to the Business Services Branch a request identifying the transfer requiring approval. Boards may combine projects in one business case, such as all capital projects for one school year. When reviewing a school board's request, the Ministry will consider the following information provided through the SFIS/Capital plan website:

- School name and SFIS number
- Capacity
- Project schedule

- Total cost
- Funding arrangement
- Funding source
- Long-term financing term and rate and average annual debt service cost
- Funding source for long-term financing repayment
- Identify the allocation eligibility, i.e. PCS, enrolment pressure

The transfer of reserves request should include a signed resolution or copy of the minutes or staff report to the trustees by the school board approving each project and the transfer from reserves.

Accompanying your request, we also require a 25-year projection for both the Pupil Accommodation and Proceeds of Dispositions reserves. At a minimum the reconciliation should include:

- Detailed New Pupil Places projections for the next 25 years including your assumptions.
- A 25-year Capital reserves cash flow analysis starting with the amount as reported on your 2004-05 Financial Statements broken down between School renewal, New Pupil Places and Proceeds of Disposition. If the amounts differ from the 2004-05 Financial Statements, please provide a detailed explanation.
- Include all capital debts, related debt services costs and capital projects being funded. For not permanently financed debts provide a projected debt service cost and support your assumptions.
- If boards are submitting a growth schools business case include projected/actual related debt service costs and include the allocation in the New Pupil Places Projections.
- Include projected revenue from sales of assets.

Requests should be addressed to:

Business Services Branch
Ministry of Education
21st Floor, Mowat Block
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Should you require further clarification please contact Nancy Whynot at 416-325-4030 or at nancy.whynot@ontario.ca or Lygia Dallip at 416-325-2017 or at lygia.dallip@ontario.ca

Signed by Lygia Dallip for

Nancy Whynot
Director
Business Services Branch

cc. Superintendents of Plant