



# Memorandum

vancouver school board



June 11, 2010

To: Education & Student Services and Finance & Legal Committee  
(Committee III/V)

From: District Management Team

Subject: **Special Advisor's Report – Comments on VSB Projections**

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The Special Advisor's Report issued on June 4, 2010, had a number of comments and recommendations with respect to the Vancouver School Board's budget projections. This report provides a response to the comments made by the Special Advisor.

## **Projections for 2009/2010 and 2010/2011**

The Special Advisor has suggested that the VSB's projected surplus for 2009/2010 will be greater than projected and the 2010/2011 projected funding shortfall will be less than estimated. The following compares the VSB's projections with those suggested by the Special Advisor.

### **VSB Projections**

The VSB Board of Trustees approved a 2009/2010 Amended Budget in February, 2010 which included a projected unrestricted surplus of \$2.9 million largely due to higher enrolment than anticipated in the preliminary budget. The projected surplus for 2009/2010 has been revised to reflect a number of events since February, 2010. The following table reflects an updated projected surplus of \$1.92 million for 2009/2010. In addition, \$0.92 million will be transferred to the Local Capital Reserve from surpluses in the extended health and dental plans. The operating surplus of \$1.92 million and the \$0.92 million transferred to the Local Capital Reserve will be used to help offset the projected 2010/2011 funding shortfall.

<b>Updated 2009/2010 Projected Surplus</b>	
	<u>\$million</u>
• Projected Surplus (Feb./10)	2.90
• Additional Projected Rental and International Student Revenue	0.48
• Estimated Impact of Distributed Learning Audit	(1.46)
	<u>1.92</u>

The 2010/2011 Revised Budget Proposals considered by the Board of Trustees on April 29, 2010, included a projected funding shortfall of \$16.32 million. The projected funding shortfall for 2010/2011 has been revised to reflect subsequent events since April, 2010. The following table reflects an updated projected funding shortfall of \$17.23 million for 2010/2011.

<b>Updated 2010/2011 Projected Funding Shortfall</b>	
	<u>\$million</u>
• Projected Funding Shortfall (April/10)	(16.32)
• Ongoing Impact of Distributed Learning Audit	(0.93)
• District Management Reorganization	0.40
• Higher Grad Adult Funding and Interest Revenue	0.60
• Lower 2009/2010 Carry Forward	(0.98)
	<u>(17.23)</u>

### Special Advisor's Projections

The Special Advisor has proposed a restatement of the projected surplus for 2009/2010 to include an estimate of the restricted surplus as at June 30, 2010, as well as the projected unrestricted surplus. Their projected surplus totals \$6.81 million, as outlined in the following table.

<b>2009/2010 Projected Restricted and Unrestricted Surplus</b>	
	<u>\$million</u>
• Projected Unrestricted Surplus (Feb./10)	2.90
• Projected Changes to Unrestricted Surplus	
- Additional Rental and International Student Revenue	0.45
- Impact of Distributed Learning Audit	(1.46)
• Projected Restricted Surplus	<u>4.92</u>
	<u>6.81</u>

The projected restricted surplus is an estimate of the commitments outstanding as of June 30, 2010 related to purchase orders, remaining school supply budgets and other projects. The restricted funds will be carried forward to 2010/2011 to fund the current outstanding commitments.

The Special Advisor has projected a revised funding shortfall for the VSB for 2010/2011 of \$11.79 million as outlined in the following table.

<b>Proposed Revised 2010/2011 Projected Funding Shortfall</b>	
	<u><b>\$million</b></u>
• Projected Funding Shortfall (April/10)	(16.32)
• Provision for Additional Revenue	2.00
• Carry Forward of Additional Restricted and Unrestricted Surplus	3.46
• Impact of Distributed Learning Audit	<u>(0.93)</u>
	<u><u>(11.79)</u></u>

The District Management Team has identified the following concerns with the Special Advisor's projections:

- 1) The Special Advisor has included an adjustment of \$2.0 million for 2010/2011 to reflect what they feel is a conservative estimate for interest, leases and grant revenues. No detail is provided to support their adjustment. The updated VSB projection for 2010/2011 already includes an adjustment of \$0.5 million for higher interest revenue.
- 2) The most significant concern with the Special Advisor's projections is the assumption that the estimated restricted surplus as at June 30, 2010 (\$4.92 million) can be used to help reduce the projected funding shortfall for 2010/2011. The restricted surplus is already committed to fund expenditures that will be incurred in 2010/2011 related to outstanding purchase orders, school based expenditures (e.g. school supplies already ordered for 2010/2011) and other projects. Accordingly, these funds are not available to offset the projected funding shortfall for 2010/2011.

### **Three-Year History of Projected Surpluses/Shortfalls**

The Special Advisor has compared the Base Budget, Preliminary Budget and Amended Budget projections for the VSB, together with the actual results for the last three years, and believes the Preliminary Budget projections tend to be conservative.

The following table provides a summary of these projections.

<b>Three Year History of Projected Operating Surplus/Shortfall (\$ millions)</b>			
	<b>2007 2008</b>	<b>2008 2009</b>	<b>2009 2010</b>
<b>Unrestricted Operating Surplus</b>			
Base Budget Projection	(5.82)	(3.32)	(7.12)
Preliminary Budget	0.00	0.00	0.00
Amended Budget Projection	3.54	3.87	2.90
Actual	5.74	4.37	1.92
<b>Local Capital Reserve Transfers and Restricted Surplus</b>			
Transfers from Local Capital Reserve	-	2.70	0.92
Internally Restricted Surplus	10.08	9.52	4.92

In the above table, it is important to separate unrestricted surplus from Local Capital Reserve transfers and restricted surplus. Unrestricted surplus is funding that is not expected to be spent and, accordingly, can be used to fund future years' funding shortfalls. Restricted surpluses, on the other hand, are funds that are held in reserve to fund outstanding commitments (e.g. purchase orders). Restricted surpluses are not available to assist in funding future years' funding shortfalls. The Local Capital Reserve largely represents one-time reserves that, with the approval of the Board, can be used to help fund projected budget shortfalls.

As noted in the above table, the VSB has projected base budget funding shortfalls for the last three years. The Board has had to make budget reductions in order to pass a "balanced" Preliminary Budget in each of these years.

The Amended Budget and Actual results for each year tend to be more positive than the Preliminary Budget projection largely due to greater additional enrolment than anticipated. In particular, in 2007/2008 the actual unrestricted surplus was greater than expected due to additional Distributed Learning enrolment for February and May, which was not included in the Preliminary Budget owing to its uncertain nature.

In summary, the Preliminary Budget projections tend to be slightly conservative in order to avoid having to negatively impact schools and classrooms after September if enrolment projections are not achieved. It should be noted, however, that the additional net surplus reported in the Amended Budget and Actual results is not significant (typically less than 1% of the total annual budget) and is generally carried forward to help fund the future year's funding shortfall (which is usually a greater amount than the amount being carried forward). Given the ongoing structural deficit faced by the VSB, this approach minimizes the risk of negative surprises for schools in September and earmarks any surplus (once confirmed) to assist in funding future years' funding shortfalls.

**Other Comments**

The Special Advisor also has commented that the VSB projection includes the total expenditure budget for the year (instead of projecting what will actually be spent) and that the VSB should undertake a zero-based budgeting exercise to validate its incremental budget.

Firstly, the VSB projections are not based solely on the total expenditure budget. This is evident from the fact that a surplus is projected for 2009/2010. Secondly, the budget adjustments included in the base budget for 2010/2011 are fully supported by detailed salary information and projections for supplies expenditures.

Based on this response, the District Management Team does not believe any adjustments are required with respect to VSB's 2009/2010 projected surplus or the 2010/2011 projected base budget shortfall.

This report is provided for information.