

EDMONTON PUBLIC SCHOOLS

October 8, 2002

TO: Board of Trustees

FROM: A. McBeath, Superintendent of Schools

SUBJECT: Identifying Projects to be Funded From the Capital Reserve

ORIGINATOR: A. Habinski, Department Head

RESOURCE

STAFF: Jenise Bidulock, Robert Craig, Michael Ediger, Brian Fedor, Sultan Ibrahim, Roland Labbe, Faye Parker, Dean Power, Larry Schwenneker

INFORMATION

A trustee initiative for 2002-03 requested that the administration prepare “a priority list of suggested projects to be funded from the capital reserve, with consideration to creative partnerships with community organizations,” and “that consideration be given to partnerships with community organizations in some of the city center schools similar to what was done with George P. Nicholson School.” The purpose of this report is to identify issues regarding use of capital reserves and to solicit initial feedback on the types of projects that should be funded from the reserve. The input will be used to generate a list of projects which will be presented to board as a recommendation in November.

Reserve Requirements and Status

A capital reserve is required to administer district capital assets. For example, Part 4(1)(b) of the *Disposition of Property Regulation* under the *School Act (3/2001)* requires that monies obtained through the sale of land, buildings or other real property are deposited into a capital reserve account. Funds may be spent for capital purposes only, such as to construct and make improvements to school facilities. Under the regulation, the proceeds from the sale of property must be retained in the capital reserve under two separate categories, a provincial category and a local school district category. The amount for each is based upon the percentage of the original cost of the building project that was contributed by each of the provincial government and the district.

The proceeds that are attributable to the provincial government’s original contribution, together with interest earned, must be applied to the cost of a future school building project that was identified in the district capital submission and received provincial support. The board must approve all expenditures from the capital reserve of any kind, and the approval of the Minister of Infrastructure is required to spend the portion of reserve funds attributable to the province’s contributions. The funds attributable to the district’s original contribution may be applied to a future capital expenditure of the board’s discretion (Table 1).

Despite the funds being divided into two categories, the Ministers of Learning or Infrastructure have the authority to direct districts to expend all funds or to expend funds on a project or projects of the minister's choosing.

The funds within the district's capital reserve were generated primarily from the sale of the St. Albert Trail land in 2000, and the recently completed City of Edmonton purchases of Beverly Heights School, Strathearn (Elem.) School and land at McQueen School. The following table indicates the current status of the account and projects the future status of the account, based on anticipated property sales, as divided into the two reserve categories in the regulation.

Table 1: District Capital Reserve

	Portion to Spent on Provincially Approved Projects	Portion to be Spent on Board Identified Projects	Total
Balance as of August 31, 2002		\$1,906,391	\$1,906,391

Deposits to Capital Reserve Made in September 2002			
Sale of two closed schools and lands at McQueen School to City of Edmonton	385,510	791,681	1,177,191
Balance as of Sept. 30, 2002	385,510	2,698,072	3,083,582

Estimated proceeds from sale of administration properties and Canora School (Dec. 15, 2002).	149,377	2,040,483	2,189,860
Estimated Balance as of December 31, 2002	\$535,027	\$4,738,555	\$5,273,582

Future sales of Cromdale, H.A. Gray and Donald Ross Schools within the next two years are expected to yield additional proceeds of approximately \$2.0M.

Principles and Issues Relating to Expenditures of Reserve Funds

Principle 1. The province has the responsibility to fund school capital projects.

Issues:

- Use of reserve funds for school projects can be seen as absolving the province of its responsibility to fund school capital needs.
- The province monitors the existence of capital reserves and encourages boards to utilize reserve funds to supplement provincially approved projects. The province may direct school authorities to expend their reserve funds on such projects.

Principle 2. It is advantageous for boards to retain an appropriate balance of funds within the capital reserve for emergency purposes, to undertake projects that are not approved for provincial support, or to promote partnership projects.

Issues:

- From the province’s perspective, the accumulation of reserves can undermine a board’s case for support for new projects as identified within the capital submission. Recent developments involving Ontario school boards, where auditors discovered significant reserves, have underscored the importance of not allowing the fund to grow too large.
- There is a lack of policy support at the provincial and municipal levels for the concept of partnership facilities or projects.

It is proposed that a balance of \$5.0M of funds that can be expended at the board’s discretion be retained in reserve to meet emergent capital needs, to address board-identified projects that are unlikely to receive provincial support, or to promote partnership projects. This figure represents 0.5 per cent of the total district capital assets, or approximately \$60 per student. Further, this balance within the capital reserve could be operated as a type of revolving fund, where identified projects receive “loans” to be fully or partially repaid from the district’s operating fund over time to ensure that the balance is retained. An example of a use of the fund that would be repaid is the required roofing of the Maintenance building. Funds that accumulate in excess of this amount could be expended on the same kind of projects, but need not be repaid from the operating account. A list of suggested projects will be brought forward as a recommendation in November.

It is proposed that the funds that must be spent on provincially approved projects be expended on an approved project in accordance with a recommendation to be brought forward in November.

The plans for use of the Capital Reserve, both provincially and locally approved, must be sensitive to the issue of mandate in order to avoid Government intervention in School District decisions.

APPENDIX I - Preliminary List of Potential Projects to be Funded from Capital Reserve

AMcB/dme

Preliminary List of Potential Projects to Be Funded From Capital Reserve

A. Approved Capital Projects

Funds are used to address the next highest project priority as identified in the district capital submission. This would enable projects to be advanced ahead of schedule. Once funds are received by Alberta Infrastructure, these funds would go back into funding Capital Projects. Project examples are:

- Commence the modernization on the next of the following schools which does not receive support in the upcoming funding announcement: Westmount, Wellington, Kenilworth, Hazeldean, Elmwood (Phase II), Sherwood, Eastglen or Winterburn (Phase II).
- Commence the new construction of an elementary school in the North Edmonton community of Mayliewan.

Positive elements of this use are:

- Reserve funds are directed toward current, board-approved capital needs.
- Reserve funds can be expended as soon as they are available and, as they do not accumulate, they are not seen to undermine the current demand for capital support.

Negative aspects of this use are:

- Reserve funds are not available for emergent or unforeseen or district-initiated capital needs.
- Reserve funds supplement capital projects that are the responsibility of the province and serve to reduce the amount of new investment into the district.

B. Unsupported or District-Initiated Partnership Projects

The funds are used to develop projects that are unlikely to receive provincial support, to address unsupported cost overruns, or to promote innovative projects or enhancements. Projects can involve existing school facilities or non-traditional school spaces. Project examples are:

- Major renovations or alterations to administration properties such as the maintenance building or Centre for Education.
- Promote a partnership with a government or community agency to convert part of an underutilized school to another use such as seniors' housing, low-income housing or a long-term care facility.
- Promote new construction project which is designed and jointly with a community or government agency, where each party contributes to the cost of the project.
- Build a Starter School
- Support the implementation of certain aspects of the Concept Development Study work that was undertaken at clusters of schools in the spring of 2002.
- Meet budget deficiencies in current projects underway.

Positive elements of this use are:

- Reserve funds are not used to supplement or pay down provincial responsibilities.
- District-Initiated projects that are innovative or fall outside provincial capital program criteria are feasible. Amiskwaciy, Centre High, Argyll Home Education

Centre, tenant space for Capital Health Authority and Young Men's Christian Association at George P. Nicholson School are examples of innovative projects undertaken in the past.

Negative aspects of this use are:

- The funds are used for projects other than those already identified as the districts highest priorities, sending a mixed message to the public.
- There is a lack of policy and understanding at the Province and the City of Edmonton regarding partnership use of school space or development of multi-purpose buildings. The City of Edmonton is adamant that reserve land cannot be used to enable or facilitate partnership uses.
- Following Alberta Infrastructure's Symposium on School Facilities, the province is attempting to clarify its positions on private-public partnerships, sustainable development, functionality and utilization. It may be premature for the district to move forward on innovative projects in these areas until the issues are resolved.

October 3, 2002