

# **British Columbia Ministry of Education**

Review of the Vancouver Board of  
Education (District 39)

School closure process supplemental report



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## Terms of reference

- ▶ Any term that is not defined in this EY School Closure Supplemental Report is defined in the EY Report
- ▶ Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars

## Defined terms

|   |  |
|---|--|
| BC  | Province of British Columbia   |
| Board                                       | Vancouver Board of Education Board of Trustees   |
| CAD or \$                                   | Canadian Currency  |
| COV   | City of Vancouver  |
| EY  | Ernst and Young LLP, Canada  |
| EY (our) Report                             | The 2016 EY report   |
| EY (our) School Closure Supplemental Report | This 2016 supplemental report on the financial impacts of the suspension of the school closure process |
| IRL   | Information request list dated October 12, 2016 to the VBE   |
| MEd   | The BC Ministry of Education, the Ministry   |
| Province                                    | The Province of British Columbia   |
| Special Advisor                             | Peter Milburn  |
| SMP   | Seismic Mitigation Program   |
| SY  | School Year  |
| The Act                                     | The School Act, Province of BC Legislature   |
| Trustees                                    | Board of Trustees of the Vancouver school district   |
| VBE   | Vancouver Board of Education, the District, School District 39,  |
| VSD   | Vancouver school district, the geographical district   |

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# 1 Background

## 1.1. Introduction of the issue

On July 18, 2016, the Ministry of Education (“MEd”) appointed Special Advisor (“Special Advisor”), Peter Milburn, to complete a review of the Vancouver Board of Education (“VBE”). The review is as a result of the VBE’s failure to balance the operating budget of the VBE on or before June 30, 2016; as required under the *School Act*.

The Special Advisor was supported by Ernst & Young LLP (“EY”) and the review pertained to three work-streams: (1) Forensic audit, (2) Operations and Governance, and (3) 2016/17 Budget Review (“Budget Review”). The results of this Budget Review are included in the EY report (the “EY Report”).

This supplemental report is a subset of the Budget Review work-stream (the “School Closure Supplemental Report”).

Section 8 of the EY Report titled “Long Range Facilities Plan and capital asset management” is dedicated to analyzing the Long Range Facilities Plan (“LRFP”). One of the major components of the LRFP analysis is the proposed school closures. In particular the analysis focuses on how the 11 proposed school closures can be utilized to generate additional revenue and realize cost savings in an effort to mitigate future budget deficits.

The EY Report and the analysis contained therein are based on the information provided to EY on or before September 30, 2016. On October 3, 2016, the VBE issued a press release reporting a decision to suspend indefinitely the school closure process (the “School Closure Suspension Press Release”). The School Closure Suspension Press Release states, *inter alia*: “The decision of the Board means that in accordance with the VSB school closure policy, none of the 11 schools identified for consideration of closure will be closed by June 30, 2017.”

The School Closure Suspension Press Release is included as Appendix B of this report. Since the decision to suspend the school closure process occurred after September 30, 2016, the purpose of this School Closure Supplemental Report is to provide an overview of the impact of the suspension of school closure process of the finances of the VBE and the findings highlighted in the EY Report.

## 1.2. VBE’s rationale for the suspension of the school closure process

As mentioned above, on October 3, 2016, the VBE issued the School Closure Suspension Press Release with the decision to suspend the school closure process indefinitely. The School Closure Suspension Press Release states, *inter alia*: “The decision of the Board means that in accordance with the VSB school closure policy, none of the 11 schools identified for consideration of closure will be closed by June 30, 2017.”

On October 3, 2016, the VBE also issued a document named “Referred Motion re Administrated Report: Schools Considered for Potential Closure” (the “School Closure Suspension Motion”), as part of

the agenda for the VBE Trustees meeting held on October 3, 2016. The School Closure Suspension Motion is included as Appendix C of this report.

On October 13, 2016 in response to a supplemental information request from EY, the VBE provided additional information to support the rationale for the abandonment of the school closure process. The VBE's response is in line with the School Closure Suspension Press Release and the School Closure Suspension Motion, and in addition, highlights that there were multiple reasons for the suspension. The VBE advised that numerous concerns were raised by the Trustees, including, *inter alia*:

- ▶ moving students to seismically at-risk school space for temporary accommodation;
- ▶ staff capacity to support the school closure process;
- ▶ the recent change in the MEd's requirement for 95% capacity utilization;
- ▶ the offer of additional information from the COV regarding potential development and demographic data; and
- ▶ the pending release of Census data and potential alternative suggestions for temporary accommodation of students during seismic upgrades.

The VBE further advised EY that the decision regarding school closures will have a multi-generational impact that will affect students, families, and communities. A revised plan and additional review will have to be undertaken in light of the present situation and the above identified considerations.

## 2 Purpose and scope of the school closure supplemental report

### 2.1. Purpose of the school closure supplemental report

The purpose of this document is to summarize the impact of the suspension of the school closure process on the findings included in the EY Report pertaining to the Budget Review.

Specifically, this School Closure Supplemental Report is intended to highlight:

- ▶ the financial impact of the suspension of the school closure process in SY2017/18, in relation to:
  - ▶ facilities related cost savings that will not be achieved in SY2017/18; and
  - ▶ potential rental opportunities that are foregone in SY2017/18.

- ▶ the financial impact of the suspension of the school closure process on future years, in relation to:
  - ▶ facilities related cost savings that may not be achieved in future years;
  - ▶ potential rental opportunities that may be foregone in future years;
  - ▶ the Seismic Mitigation Plan (“SMP”); and
  - ▶ the deferred maintenance costs.
- ▶ amendments required to the recommendations included in the EY Report and additional recommendations flowing from the decision to suspend the school closure process.

## 2.2. List of information requested and documents reviewed

In analyzing the impact of the suspension of the school closure process, EY has reviewed the following documents, in addition to those outlined in the EY Report:

- ▶ MEd Press Release titled “Province clarifies utilization targets for school construction” dated September 21, 2016;
- ▶ School Closure Suspension Press Release;
- ▶ School Closure Suspension Motion; and
- ▶ Additional answers and documents received from the VBE in response to the information request list (“IRL”) sent by EY to the VBE on October 12, 2016. The IRL including VBE’s response is appended as Appendix D of this School Closure Supplemental Report.

### 3 Financial impact of the suspension of the school closure process in SY2017/18

#### 3.1. The projected budget shortfall for SY2017/18

As presented in the table below, the budget shortfall projected by the VBE for SY2017/18 is \$14.9M. The accumulated surplus balance, of which a large portion was used to balance the SY2016/17 budget, is projected to be \$1.1M<sup>1</sup> by the end of SY2016/17. The accumulated surplus remaining at the conclusion of the SY2016/17 will not be sufficient to fund this projected shortfall and the VBE will have to achieve alternative remedies to table a balanced budget.

Each component of the shortfall projected by the VBE was analyzed in detail in the EY Report. In the IRL, EY requested that the VBE advise of any modifications to the projection of a \$14.9M deficit for SY2017.18. The VBE has responded that no updates are expected at this time.

| 2017/2018 Preliminary Operating Budget Projections (\$M) | 2017/2018      |
|--|----------------|
| <b>Costs Not Funded by the Province</b>                  |                |
| Salary Increments  | (1.26)         |
| Employee Benefits Increase                               | (0.42)         |
| Inflation (on Utilities only)                            | (0.19)         |
|  | (1.87)         |
| <b>Enrolment Change (decline of 196 FTE)</b>             | (1.51)         |
| <b>Prior Year's Surplus</b>                              |                |
| 15/16 Projected Operating Surplus Carry Forward to 16/17 | (1.10)         |
| Use of 2014/15 Unrestricted surplus                      | (0.87)         |
|  | (1.97)         |
| Prior Year One-Time Revenue and Expenses                 | 0.80           |
| Reversal of One-Time Budget Proposals                    | (8.29)         |
| Pay-back of School Balances                              | (2.06)         |
|  | (9.55)         |
| <b>Total Projected Surplus / (Shortfall)</b>             | <b>(14.90)</b> |

Source: Revised preliminary budget proposals (2016/2017); 2016/2017 budget proposal summary provided by VBE

<sup>1</sup> EY was notified by the MEd that there is an underestimation of the accumulated operating surplus balance for SY2015/16 in the range of \$1.0 million-\$1.6 million, which would affect the ending accumulated operating surplus balance of \$10.4 million for SY2015/16. As a consequence, the projected accumulated operating surplus for SY2016/17 of \$1.0 million would also be affected, resulting in a revised accumulated operating surplus in the range of \$2.1 million to \$2.6 million. EY has not had the opportunity to verify this underestimation with management of the VSB and therefore the figures in this report reflect the projected accumulated surplus balance of \$1.1 million as at SY2016/17 per the information provided by the VSB to EY.

The VBE advised EY that it intends to follow the normal budget process for SY2017/18 as described in the EY Report. The next round of updates for SY2017/18 budget projections will occur in February 2017, which will incorporate the best available information and enrolment data at the time.

## 3.2. Impact of the suspension of school closure process on the projected budget shortfall for SY2017/18

The proposed 11 school closures, previously projected to be completed by SY2017/18, were intended to mitigate the size of the deficit forecast, specifically through: (1) facilities related cost savings of \$4.7M as a result of the proposed closures; and (2) potential rental of the closed school buildings generating net rents of \$3.9M. As a result, the total financial impact of the suspension of the school closure process in SY2017/18 was estimated to be \$8.6M.

### 3.2.1 Elimination of facilities related cost savings

Facility related costs are annual expenses that can be directly attributed to the operation and maintenance of the school, which could be saved if a school is no longer in operation. These costs primarily pertain to the salary and benefits of administration (school administrators, school office staff, supervision aides, custodial and cafeteria staff); as costs related to instruction (teachers and teacher assistants) are directly linked to students and move with students when they are reassigned to other schools. Facility related costs also include maintenance, utilities, and supplies and other physical property holding costs.

### 3.2.2 Foregone potential rental revenue

In the EY Report, EY identified a possible opportunity to rent out the school buildings subject to closure. Based on extrapolations of studies conducted by a reputable Vancouver based real estate brokerage and other data sourced by EY, EY had projected \$3.9M in potential rental revenue for the first year. This amount would have been available to mitigate some of the projected shortfall for SY2017/18.

### 3.2.3 Updated SY2017/18 preliminary operating budget projection

At figure 85 in the EY Report, potential mitigation opportunities were identified that could have reduced the size of the deficit forecast; these included the facilities related cost savings and the potential rental of the closed buildings.

Without the projected school closure savings and the potential rental of closed facilities, the VBE is faced with an adjusted deficit of \$9.44M (instead of \$4.74M as reported in Figure 85 of the EY Report) for which it will have to find alternative budget proposals and cuts to balance the SY2017/18 budget. The EY Report utilizes \$4.74M as opposed to the \$8.6M reported above, as this is the amount

pertaining to estimated facility savings by the VBE. The \$3.9M in potential revenue is an estimate by EY and arises from our recommendations as opposed to VBE representation.

| 2017/2018 Potential Budget Projections (\$M)                                    | 2017/2018     |
|---|---------------|
| Projected Surplus / (Shortfall)   | (14.90)       |
| Cuts avoided in 2016/17 Budget process could be re-instated in 2017/18          | 5.46          |
| Other Budget Proposals  | TBD           |
| <b>Projected Surplus / (Shortfall) with school closures and reinstated cuts</b> | <b>(9.44)</b> |

Source: Revised preliminary budget proposals (2016/2017); 2016/2017 budget proposal summary provided by VBE

The VBE has advised EY that no plans have been developed to address the updated projected shortfall for the SY2017/18 budget. The VBE further advised that this will form part of the discussion as part of the normal VBE budget process in February 2017.

The adjusted shortfall of \$9.44M assumes that the VBE would reinstate cuts of \$5.46M; originally budgeted and subsequently avoided in SY2016/17 due to additional funding that was received from the MEd.

The VBE classifies each of their budget proposals with the following classifications:

- ▶ Level 1: Limited direct impact on students;
- ▶ Level 2: Some impact on students;
- ▶ Level 3: Impacts a large number of students; and
- ▶ Level 4: Severe impacts on teaching and learning.

As shown below, \$5.03M of the \$5.46M cuts avoided in SY2016/17 are level 3 and 4 impact. These cuts that may have to be reinstated would have a high impact on learning and teaching.

| One-time vs. ongoing avoided in SY2016/17 (\$M) |               |             |             |
|---|---------------|-------------|-------------|
| Impact Level                                    | One-time      | Ongoing     | Total       |
| L1  | (0.28)        | 0.35        | 0.07        |
| L2  | -             | 0.36        | 0.36        |
| L3  | -             | 1.02        | 1.02        |
| L4  | -             | 4.01        | 4.01        |
| <b>Total of all levels</b>                      | <b>(0.28)</b> | <b>5.74</b> | <b>5.46</b> |
| <b>Total of L3 and L4</b>                       | <b>-</b>      | <b>5.03</b> | <b>5.03</b> |

Source: Revised preliminary budget proposals (2016/2017); 2016/2017 budget proposal summary provided by VBE

The VBE has already implemented the majority of level 1 and level 2 proposals. As a result, the proposals required to balance the updated projected deficit of \$9.44M will likely have a significant impact on student learning and teaching.

Furthermore, the next round of updates for SY2017/18 budget projections in February 2017 will also need to take into considerations the deferred maintenance costs associated with the 11 schools originally proposed for closure. Specifically, the 11 schools originally proposed for closure have significant deferred maintenance of \$54M associated with them, which is expected to grow to \$97M by 2030.

As described in detail below, EY requested additional clarification from the VBE regarding how it intends to address the deferred maintenance of the 11 schools originally proposed for closure. The VBE advised EY that at this time, specific decisions on how to address the deferred maintenance for these schools has not been made. Specifically, the VBE states that: "Only essential maintenance would be undertaken with respect to these schools at this time."

## 4 Financial impact of the suspension of the school closure process on future school years

### 4.1. The future of the school closure process

As noted in the School Closure Suspension Press Release the VBE states: *"The decision of the Board means that in accordance with the VSB school closure policy, none of the 11 schools identified for consideration of closure will be closed by June 30, 2017."*

In the IRL, EY requested that the VBE confirm the assumptions regarding the future of the school closure process, in order to confirm if the school closure process is:

- ▶ simply postponed for one year with the same 11 schools closing SY2018/19;
- ▶ if the school closure process is cancelled indefinitely;
- ▶ if the VSB will be adopting another process at a later date; or
- ▶ if a decision has not been made at this time.

The VBE advised EY that a decision regarding the future of the school closure process has not been made at this time. The VBE further advised that it intends on performing the following activities:

- ▶ commissioning a report to recommend strategies for expediting and accelerating seismic upgrades using available school space;
- ▶ creating a report recommending processes and timelines for updating the LRFP; and
- ▶ further reviewing policies on school closures and other related matters.

Since the VBE has not defined a school closure process in the future, the following paragraphs highlight the potential financial impact of the suspension of the school closure process for school years after SY2017/18.

## 4.2. Lost facilities cost savings after SY2017/18

As described in section 8 (Paragraph 8.4.5 Proposed school closures) of the EY Report, the total cost savings anticipated from the school closures for the period from SY2018/19 to SY2030/31 was estimated at \$78.1M (in addition to the \$4.7M in SY2017/18). As a result of the suspension of the school closure process, these costs savings may not be achieved. The table below summarizes the total cost savings by school after SY2017/18 that is foregone if the school closures are not reinstated in SY2018/19.

| In (000's)                                  | Lost facilities cost savings from SY2018/19 to SY2030/31 |
|---|--|
| Champlain Heights Annex                     | \$2,223  |
| Gladstone Secondary                         | 24,582   |
| Queen Alexandra Elementary                  | 8,527  |
| Queen Elizabeth Annex                       | 2,171  |
| Tecumseh Annex                              | 2,496  |
| Graham D. Bruce Elementary <sup>8.4.5</sup> | 7,514  |
| Sir Guy Carleton Elementary                 | 6,825  |
| Dr. A.R. Lord Elementary                    | 8,084  |
| McBride Annex                               | 3,432  |
| Admiral Seymour Elementary                  | 5,944  |
| Pierre Elliott Trudeau Elementary           | 6,285  |
| <b>Total</b>                                | <b>78,083</b>  |

Source: VBE Internal Documents and VBE 2016 LRFP

## 4.3. Foregone lease revenue after SY2017/18

As described in section 8 (Paragraph 8.4.7 Vacant school closures) of the EY Report, the potential lease revenue for the 11 vacant school properties from SY2018/19 to SY2030/31 was projected by EY to total \$28.8M (in addition to \$3.9M in SY2017/18). If the suspension of the school closure process extends beyond SY2017/18, the lease revenue for the vacant 11 school properties may not be achieved. The table below summarizes the total foregone lease revenue by school after SY2017/18 that is foregone if the school closures are not reinstated in SY2018/19.

| In (000's)                        | Foregone lease revenue from SY2018/19 to SY2030/31 |
|-----------------------------------|--|
| Champlain Heights Annex           | \$2,561  |
| Gladstone Secondary               | 6,892  |
| Queen Alexandra Elementary        | 1,206  |
| Queen Elizabeth Annex             | 2,106  |
| Tecumseh Annex                    | 2,379  |
| Graham D. Bruce Elementary        | 5,109  |
| Sir Guy Carleton Elementary       | 1,728  |
| Dr. A.R. Lord Elementary          | 1,152  |
| McBride Annex                     | 2,392  |
| Admiral Seymour Elementary        | 1,740  |
| Pierre Elliott Trudeau Elementary | 1,575  |
| <b>Total</b>                      | <b>28,840</b>                                      |

Source: VBE Internal Documents and EY projections

#### 4.4. Deferred maintenance

The 11 schools proposed for closure also had significant deferred maintenance associated with them. As noted in the EY Report and reproduced in the table below, the current deferred maintenance for the 11 schools is estimated at \$54.0M in SY2017/18 and is projected to increase to \$97.2M by 2030.

EY requested additional clarification from the VBE regarding how it intends to address the deferred maintenance of the 11 schools originally proposed for closure. The VBE advised EY that at this time, specific decisions on how to address the deferred maintenance for these schools has not been made.

Specifically, the VBE states that: *"Only essential maintenance would be undertaken with respect to these schools at this time."*

| Name of School                    | Deferred Maintenance Cost Savings Now | Deferred Maintenance Cost Savings 2030 |
|-----------------------------------|---------------------------------------|--|
| Champlain Heights Annex           | \$2.6M                                | \$3.8M                                 |
| Gladstone Secondary               | \$17.5M                               | \$32.2M                                |
| Queen Alexandra Elementary        | \$4.5M                                | \$7.8M                                 |
| Queen Elizabeth Annex             | \$2.7M                                | \$3.5M                                 |
| Tecumseh Annex                    | \$2.0M                                | \$3.4M                                 |
| Graham D. Bruce Elementary        | \$3.0M                                | \$7.1M                                 |
| Sir Guy Carleton Elementary       | \$5.5M                                | \$11.4M                                |
| Dr. A.R. Lord Elementary          | \$4.5M                                | \$7.8M                                 |
| McBride Annex                     | \$1.7M                                | \$2.9M                                 |
| Admiral Seymour Elementary        | \$8.3M                                | \$11.8M                                |
| Pierre Elliott Trudeau Elementary | \$1.7M                                | \$5.5M                                 |
| <b>Total</b>                      | <b>\$54.0M</b>                        | <b>\$97.2M</b>                         |

Source: VBE Strategic Report: Potential School Closures dated September 15, 2016, and VBE Internal Documents

The MEd currently provides funding of \$10M per year to the VBE for facility maintenance through the Annual Facilities Grant (“AFG”), which is separate from the operating budget, to assist in addressing some of the capital costs and deferred maintenance issues of the schools. The VBE further allocates approximately \$6.8M of its operating budget annually to help reduce deferred maintenance. This equates to approximately 0.5% of replacement value for all assets. This allocation is significantly below the Building Owners and Managers Association (BOMA) recommended industry standard of 2% annual allocation towards deferred maintenance.

The current level of funding available for deferred maintenance is already inadequate to complete the required deferred maintenance for the remaining schools. Adding back the deferred maintenance for the 11 schools that were proposed for closure puts further strain on the budget.

The VBE projected by 2030 that in most cases, it would be cheaper to build a brand new school rather than perform the renovations. This will add more strain and increase the funding needs in the future.

## 4.5. Seismic Mitigation Plan (“SMP”)

There are two sets of implications affecting the SMP that arise as a result of the suspension of the school closure process.

### 4.5.1 Swing space

Six out of the 11 schools proposed for closure were slated to be utilized as swing space to accommodate other schools as they undergo seismic mitigation work. In the School Closure Suspension Press Release, the VBE stated that seismic upgrade accommodation will have to be done using available school space and capacity in existing schools.

EY requested additional clarification on how the VBE intends to accommodate these students. The VBE represented to EY that the projects currently under construction or in the planning and design phase either do not require temporary accommodation, or already have their accommodation needs met. The VBE further advised that future seismic projects may require school closures in order to provide temporary accommodation of students.

Without the school closures, EY understands that other accommodations and arrangements may be implemented, which could have significant cost to the VBE and impact on the communities associated with the seismic mitigation upgrades. For example: portable school sites may have to be constructed and utilized; busing may have to be provided to students to locations outside their current catchment area or within the catchment area; classrooms and schools may have to be divided into multiple locations based on availability, with the result being that students are separated from their current classmates.

## 4.5.2 Seismic upgrade costs

Most of the 11 schools proposed for closure had significant seismic risk, and would require upgrade. Specifically, 5 of the schools were classified as High 1 (highest risk), 3 schools were classified as High 3, 2 schools were classified as Medium, and 1 school has already had seismic work completed.

| Name of School                    | Seismic Risk    |
|-----------------------------------|-----------------|
| Champlain Heights Annex           | Medium          |
| Gladstone Secondary               | High 1          |
| Queen Alexandra Elementary        | High 1          |
| Queen Elizabeth Annex             | High 3          |
| Tecumseh Annex                    | Medium          |
| Graham D. Bruce Elementary        | High 1          |
| Sir Guy Carleton Elementary       | High 1          |
| Dr. A.R. Lord Elementary          | High 3          |
| McBride Annex                     | High 3          |
| Admiral Seymour Elementary        | High 1          |
| Pierre Elliott Trudeau Elementary | N/A - Completed |

Source: VBE 2016 LRFP, VBE Internal Documents, and Strategic Report: Potential School Closures dated September 15, 2016

The VBE estimates that on average, seismic mitigation costs are approximately \$7M for an annex, \$8M to \$16M for an elementary school, and \$30M to \$60M for a secondary school. Costing is done through individual feasibility studies as schools are approved for funding. There are many unknown variables that are specific to each location and ranges provided are rough estimates only.

The VBE estimated the total costs associated with completing all of the required SMP work for the 10 schools (as 1 has already been completed) was \$98M to \$168M (as reported in the table below). If these schools are not closed, funding will be required to complete the seismic upgrades. As the SMP is a province-led initiative, the MEd has stated that 100% of the capital costs of approved seismic mitigation projects will be funded by the Province.

| Name of school                    | Seismic Mitigation Plan Cost Savings Estimate |
|-----------------------------------|---|
| Champlain Heights Annex           | \$7M  |
| Gladstone Secondary               | \$30 to 60M                                   |
| Queen Alexandra Elementary        | \$8 to 16M                                    |
| Queen Elizabeth Annex             | \$7M  |
| Tecumseh Annex                    | \$7M  |
| Graham D. Bruce Elementary        | \$8 to 16M                                    |
| Sir Guy Carleton Elementary       | \$8 to 16M                                    |
| Dr. A.R. Lord Elementary          | \$8 to 16M                                    |
| McBride Annex                     | \$7M  |
| Admiral Seymour Elementary        | \$8 to 16M                                    |
| Pierre Elliott Trudeau Elementary | N/A - Completed                               |
| <b>Total</b>                      | <b>\$98 to \$168M</b>                         |

Source: VBE Strategic Report: Potential School Closures dated September 15, 2016, and VBE Internal Documents

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## 4.6. Collective Agreement renegotiation

Section 7 (Paragraph 7.4.3 VBE labour costs comparison) of the EY Report compares VBE's cost structure and operating metrics to its Subset Districts to determine cost savings that are available to the VBE. This EY analysis was based on comparative staffing levels identified in the Janzen Report.

Based on this analysis, VSD was significantly overstaffed in many of its employee categories in comparison to its Subset Districts. If the VSD was able to reduce staff levels to the levels of its Subset Districts, the net annual cost savings on salaries was estimated at approximately \$24.7M. After adjusting for the staffing reduction proposals in the SY2016/17 budget, which reflect a reduction of 99 full time equivalents ("FTE") employees, the savings opportunity still available to be captured are \$17.7M at the end of SY2016/17. By including the impact from the 11 proposed school closures for SY2017/18, the analysis suggested a further reduction of 81 FTE employees and savings of \$4.9M. This translates into \$12.8M in savings still to be captured.

With the suspension of the 11 school closures, the reduction of 81 FTE staff positions will not be achieved starting from SY2017/18 and the cost saving of \$4.9M will not be realized. As a result, in 2019, when the collective agreements will be renegotiated, there may be a higher base for negotiation, considering the low VBE student to staff ratio compared to the Subset Districts; assuming the 11 schools are not closed prior to the renegotiation of the collective agreements.

## 5 Recommendations

### 5.1. Impact on recommendations included in the EY Report

The table below reports any changes required to certain recommendations included in the EY Report in light of the suspension of the school closure process.

| Ref   | Original recommendation  | Change required from the suspension of the school closure process   |
|-------|--|---|
| BR 12 | It is recommended that the VBE engage with the MEd to maximize the utility of invested capital associated with the SMP to sustain the economic life of the school facilities. This engagement would include coordination of deferred maintenance undertakings and/or alternative means of achieving an acceptable economic outcome when considering the cost of the SMP and deferred maintenance associated with an individual school facility relative to the schools replacement cost.   | The recommendation is still relevant. However, as a result of the suspension of the school closure process, additional costs associated with the SMP and deferred maintenance relating to the 11 schools may have to be considered, including between \$98M and \$168M of SMP costs, and \$54M to \$97.2M of deferred maintenance costs.                                      |
| BR 13 | It is recommended that the VBE commit to a systemic asset rationalization approach aimed at capacity rationalization to a target utilization, with an annual review. It is noted that the proposed LRFP rationalization would increase the effective utilization of the VBE to 91.7% immediately thereafter. It is further noted that utilization within the VBE will, likely, continue to erode between today and 2030, arising from the addition of a planned 3,070 seats over the next 15 years and a flat or near flat enrolment projection throughout the forecast period. Absent other alterations to supply and demand, the closure of the 11 schools will cause utilization to accede to approximately 89.3%, therefore a second round of school closures will be required and which is provided for in the LRFP (approximately 3,439 seats to be closed by 2025). | <p>Due to the change in policy regarding target utilization, and the decision to review each school on a case by case basis, a revised LRFP must be completed by the VBE as soon as possible.</p> <p>The LRFP will still need to focus on a reduction in costs and an increase in overall utilization, such that the limited resources available can be best distributed.</p> |
| BR 14 | It is recommended that the VBE seek means of maximizing the value attributable to its asset rationalization program. The maximization approach would include: (i) a strategic review of the real estate assets by a qualified professional having regard to the existing   | The recommendation is still relevant and can be implemented without inclusion of the proposed school closure sites.   |

| Ref   | Original recommendation   | Change required from the suspension of the school closure process  |
|-------|---|--|
|       | market value of the surplus lands (by way of sale or lease); and (ii) the closed and pending closed school annexes, proposed school closure associated with the LRFP, and non-school assets.  |  |
| BR 15 | It is recommended that the VBE engage real estate professionals to assess the market rental potential and highest and best use of each of the school facilities proposed for closure in the LRFP following a final determination of the facilities disposition by the Trustees. The timing of the engagement of the real estate professionals must be aligned with the staggered period to which the facilities will become available for alternative use following the facility's hosting responsibility as swing space. | This recommendation may not be relevant if school closures are suspended indefinitely.   |
| BR 16 | It is recommended that the VBE review all policies approved by the Board that would limit the ability of the VBE to achieve proceed generation and revenue opportunities associated with the foregoing assets. Specifically, this would include a review of the June 15, 2016 policy limiting the VBE to lease existing surplus assets to other private education institutions.   | This recommendation is still relevant as there are numerous surplus assets in VBE's portfolio besides the proposed school closure sites. |

## 5.2. Additional recommendations

Based on the analysis and discussion presented above, EY proposes the following additional recommendations:

### **Additional Recommendation #1**

EY recommends that the VBE clarify to all stakeholders the path that it intends to take with respect to the school closure process within thirty days hereof.

### **Additional Recommendation #2**

EY recommends that the VBE provide additional information to stakeholders regarding the space that will be used to accommodate seismic upgrades for the projects that are in the planning and design phase.

### **Additional Recommendation #3**

EY recommends that the VBE determine the essential maintenance required for these 11 schools in the near term, such that these amounts are included in the SY2017/18 budget.

### **Additional Recommendation #4**

EY recommends that the VBE immediately commission a revised LRFP and capital asset plan.

The revised LRFP must be completed by the VBE as soon as possible and the final goal must still be a reduction in costs and an increase in overall utilization. The MEd continues to indicate that each school that requires capital funding will be evaluated on a case-by-case basis. Therefore, the VBE must commit to increasing overall utilization even without defining a specific target utilization, as districts must justify the need for new, expanded or upgraded schools.

## Appendix A: Documents and materials reviewed

| Document  | Source organization or author | Date               |
|---|-------------------------------|--------------------|
| Press Release titled "Province clarifies utilization targets for school construction" | MEd                           | September 21, 2016 |
| Press Release titled "Vancouver Board of Education suspends school closure process"   | VBE                           | October 3, 2016    |
| Matters arising from the Board Minutes of September 26, 2016                          | VBE                           | October 3, 2016    |
| Information Request List and VBE Response   | VBE and EY                    | October 12, 2016   |

# Appendix B: School closure suspension press release



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## Vancouver Board of Education suspends school closure process

MEDIA RELEASE, SCHOOLS & STUDENTS

The Vancouver Board of Education has suspended its school closure process immediately.

The September 21 announcement by the Ministry of Education that it was removing the 95 per cent capacity utilization target set out in the Memorandum of Understanding (MOU) signed with the board in 2014 played a role in the board's decision to suspend the closure process.



In the MOU, the board and ministry committed to achieving an average 95 per cent capacity utilization across the district through the provincially-funded Seismic Mitigation Program. The MOU was a key factor in the Long Range Facilities Plan (LRFP) and the school closure recommendations that flowed from it.

"The school closure process, including the development of the LRFP and administrative reports on schools, involved thousands of hours of staff time. The closure process was working on very tight timelines and the minister's announcement about the removal of the 95 per cent requirement came too late to allow detailed consideration of the implications prior to the September 26 board meeting to move schools forward for public consultation. A new staff report may not be ready before decisions have to be made in December," said VSB chairperson Mike Lombardi. "The decision of the Board means that in accordance with the VSB school closure policy, none of the 11 schools identified for consideration of closure will be closed by June 30, 2017."

In addition to suspending the closure process, trustees are referring three recommendations from the acting superintendent to the facilities committee for consideration. They include developing a report recommending strategies for expediting and accelerating seismic upgrades using available school space. Another report recommending processes and timelines for updating the LRFP. And that there be a further review and report to the Board on policies related to school closures and other related matters.

Note to Editors:

Board Chair, Mike Lombardi will be available to talk to media at 10:30 on October 4, in the Boardroom of the VSB: 1580 W. Broadway.

For more information, please contact: [communications@vsb.bc.ca](mailto:communications@vsb.bc.ca)

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# Appendix C: School closure suspension motion

**ITEM III-B1**

## Matters Arising from the Board Minutes of September 26, 2016

### **Referred Motion re Administrative Report: Schools Considered for Potential Closure**

That the board request staff prepare a revised set of proposals utilizing the board-approved level-one criteria, specifically based on in-catchment-only enrollment and projections.

The revised proposals should:

- Utilize the board-approved level-two factors, in particular giving full consideration of the impact on closing schools in relation to their specific community and social impacts to ensure schools with higher concentrations of vulnerable students and families are not disproportionately targeted for closure, as they are in the September 2016 report.
- Be developed with the understanding that 95% average capacity utilization is no longer a goal of the LRFP and incorporate any other new information that has become available since the report was adopted by the VSB in May 2016.
- Explore split swing sites for secondary schools in lieu of closing entire schools, similar to what is currently being proposed for Kingsford-Smith.
- Contemplate the educational and social impacts of proposing large combined school populations and will ensure there is a process for consulting with proposed "receiving" schools.

#### Rationale:

The September 2016 Administrative Report did not adhere to the board's criteria included the LRFP.

The LRFP was initiated and developed based on the government's requirement that "The VBE shall develop and submit to the province for approval a long-range facilities plan, with agreed-upon levels of projected enrolment growth and location, ultimately to determine how to achieve 95% capacity utilization through the SMP..."

This is no longer the case and the plan needs to be revised to reflect this.

The September report does not appear to contemplate the educational and social impacts of the size of proposed consolidated school populations. For example, the proposal for relocating Trudeau to Moberly proposes a school population of 753 K-7 students, which is extremely large for this age group.

The disproportionate focus of the September proposals on East Vancouver communities appears reinforce and exacerbate the impact of the Premier's school choice policy amendments to the School Act (made when she was the Education Minister) that have contributed to more rapid enrollment declines in lower-income communities. This is a social justice issue the Board must consider.

The decision being proposed will have long-term impacts that will affect students, families and communities for generations - we can't make these decisions in haste and in the absence of a full range of options and relevant new information.

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# Appendix D: Information request list and VBE's response

RESPONSE to SA - VSB IRL12102016SA

## Vancouver School Board – Information Request List dated October 12, 2016

1. Please advise if management is continuing to implement the budget proposals totalling \$21.8M that are required to balance the SY2016/17 budget. If yes, please advise if management is implementing the Level 3 and Level 4 proposals. If no, what are your plans to balance the SY2016/17 budget shortfall?

Yes. Management is continuing to implement the budget proposals totalling \$21.8M that are required to balance the 2016/2017 budget, including implementing the Level 3 and Level 4 proposals included in the 2016/2017 preliminary budget proposals of June 9, 2016.

2. We have reviewed the press release issued by the VSB on October 3, 2016 regarding the rationale behind the suspension of the school closure process. Please provide any additional information to support the rationale for the abandonment of the school closure process you deem appropriate for our review.

The motion to suspend the school closure process was supported by the majority of the Board. There was not one single reason for suspending the closure process; a number of reasons were raised by individual trustees during debate. For example: preference to not move students to seismically at-risk school space for temporary accommodation, staff capacity to support the process, the change in the ministry's requirement for 95% capacity utilization, the offer of additional information from the City of Vancouver regarding potential development and demographic data, the pending release of Census data and potential alternative suggestions for temporary accommodation of students during seismic upgrades and others.

3. Please confirm the assumptions we should incorporate into our budget review analysis regarding the future of the school closure process. We need to confirm if the school closure process is:
  - a. simply postponed for one year with the same 11 schools closing SY2018/19;
  - b. if the school closure process is cancelled indefinitely; or
  - c. if the VSB will be adopting another process at a later date or if a decision has not been made at this time.

Please provide as much information as you can at this time regarding an alternative process if that is the path that the VSB is planning to undertake.

1

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A decision has not been made at this time. A number of recommendations have been referred by the Board to Committee II (Facilities) for the committee's consideration for direction in this area in the near future. These recommendations are:

1. That a report recommending strategies for expediting and accelerating seismic upgrades using available school space be prepared for the Board.
2. That a report recommending processes and timelines for updating the Long Range Facilities Plan (LRFP) be developed for the Board.
3. That there be a further review and report to the Board on a review of policies on School Closures and other related matters.
4. Please comment, on the following matters that are impacted by the cancellation of the school closure process. Specifically, please comment on:
  - a. how the VSB intends to accommodate students in classrooms/schools that are undergoing seismic upgrades without the swing space from the schools that were going to close;

A number of projects are currently under construction or in the planning and design phase that either do not require temporary accommodation, or those temporary accommodation needs have already been met.

Future seismic projects may require school closures in order to provide temporary accommodation of students.

- b. how is the VSB planning to address deferred maintenance and seismic upgrade costs for the 11 schools that were on the closure list.

Specific decisions related to deferred maintenance and seismic have not been made at this time. A decision would have to be made after any future school closure process, which may or may not involve these properties. Only essential maintenance would be undertaken with respect to these schools at this time.

Could you please comment on the calculation of the expected surplus/ (deficit) for 2017/18 in light of recent events?

c. Have there been any modifications to the projection of a \$14.9M deficit?

Not at this time. The next update of the 2017/2018 projection would be presented along with the 2016/2017 amended budget, which will be updated in February, and which will incorporate updated enrolment figures and other factors that have changed.

| 2017/2018 Preliminary Operating Budget Projections (\$M) | 2017/2018      |
|--|----------------|
| <b>Costs Not Funded by the Province</b>                  |                |
| Salary Increments  | (1.26)         |
| Employee Benefits Increase                               | (0.42)         |
| Inflation (on Utilities only)                            | (0.19)         |
|  | (1.87)         |
| <b>Enrolment Change (decline of 196 FTE)</b>             | (1.51)         |
| <b>Prior Year's Surplus</b>                              |                |
| 15/16 Projected Operating Surplus Carry Forward to 16/17 | (1.10)         |
| Use of 2014/15 Unrestricted surplus                      | (0.87)         |
|  | (1.97)         |
| Prior Year One-Time Revenue and Expenses                 | 0.80           |
| Reversal of One-Time Budget Proposals                    | (8.29)         |
| Pay-back of School Balances                              | (2.06)         |
|  | (9.55)         |
| <b>Total Projected Surplus / (Shortfall)</b>             | <b>(14.90)</b> |

d. Could you please comment on your expected mitigation plan in light of the school closure process being halted? Attached below is the previous plan which would have resulted in significant school closure savings (facilities related operating costs) of \$4.7M in the first year.

| 2017/2018 Potential Budget Projections (\$M)                                    | 2017/2018      |
|---|----------------|
| <b>Projected Surplus / (Shortfall)</b>  | <b>(14.90)</b> |
| School closure savings (including closing costs)                                | 4.70           |
| <b>Sub-total</b>  | <b>(10.20)</b> |
| Potential rental of closed buildings  | TBD            |
| Cuts avoided in 2016/17 Budget process could be re-instated in 2017/18          | 5.46           |
| Other Budget Proposals  | TBD            |
| <b>Projected Surplus / (Shortfall) with school closures and reinstated cuts</b> | <b>(4.74)</b>  |

This is to be determined as part of the 2017/2018 budget process along with any changes in provincial funding announced in the interim.

Does the VSB plan to follow the existing budget process for SY2017/18 or is a new process being adopted? Does the VSB plan to follow the same detailed process followed in SY2016/17 for the identification of the management proposals to balance the shortfall? If a new process is being adopted, please provide specific details on the new process.

We normally request Board approval for our budget process for the new budget year in January based on the recommendations of Committee V (Finance and Legal). However, staff will be developing strategic and multi-year options for the Board's consideration.

- Please confirm your understanding that sale proceeds related to a Kingsgate Mall transaction can be used as operating funds.

The VSB has a letter from the Minister dated June 28, 2016, which states "...section 100 of the *School Act* does not apply to this particular situation. As a result, VSB will not be constrained by section 100...".

A copy of this letter is attached.

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