

DATE: March 19, 2019

TO: Board of Trustees

FROM: Darrel Robertson, Superintendent of Schools

SUBJECT: Multi-Year Block funding Models
(Response to Request for Information #037)

ORIGINATOR: Dr. Lorne Parker, Assistant Superintendent

**RESOURCE
STAFF:** Terri Gosine, Geoff Holmes, Roland Labbe, Jennifer Thompson, Christopher Wright

REFERENCE:

ISSUE

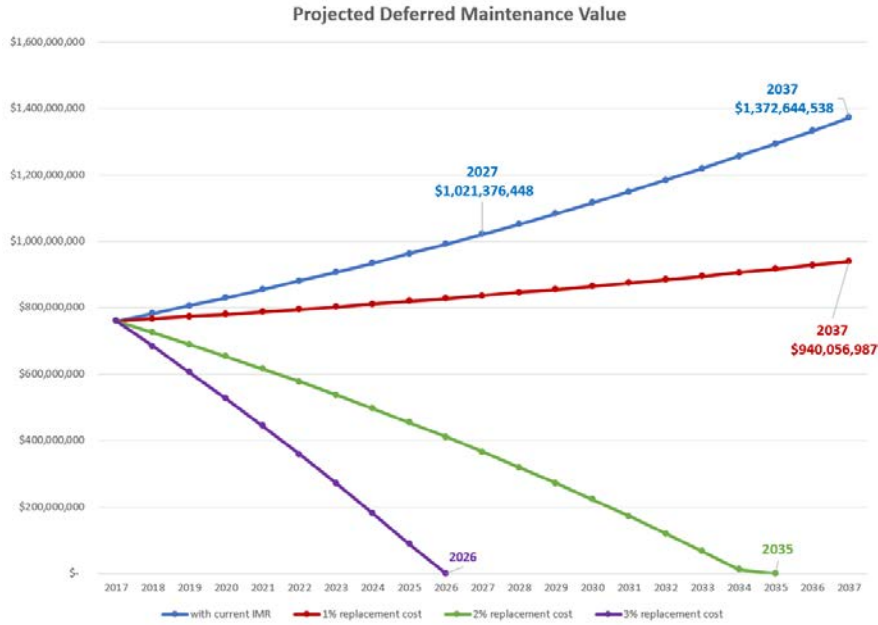
The following information was requested by Trustee Ip at the October 9, 2018, Caucus meeting: That Administration prepare a report that outlines how a multi-year block funding model for school infrastructure can address the District's short-term and long-term infrastructure needs. Please provide scenarios based on different levels of funding and cost efficiencies that can potentially be realized.

BACKGROUND

In August 2017, the District completed 171 school condition assessments that quantify the total value of deferred maintenance at \$756,984,958. A summary report of this data was presented at the March 5, 2019, Caucus meeting and is scheduled to be presented at the March 19, 2019, public Board meeting. The report summarized the condition assessment information, and contextualized the rising deferred maintenance value through condition, maintenance category, building age and historical funding received to address the rising deferred maintenance cost. The report also introduced some models that showed the positive influence of a block funding model, whereby the District would receive a per cent of total replacement cost for all buildings in the District (valued at \$4.1 billion in 2018) to use as they see fit to address deferred maintenance. This information report provides some additional depth into the scenarios and addresses the opportunities a block funding model may provide.

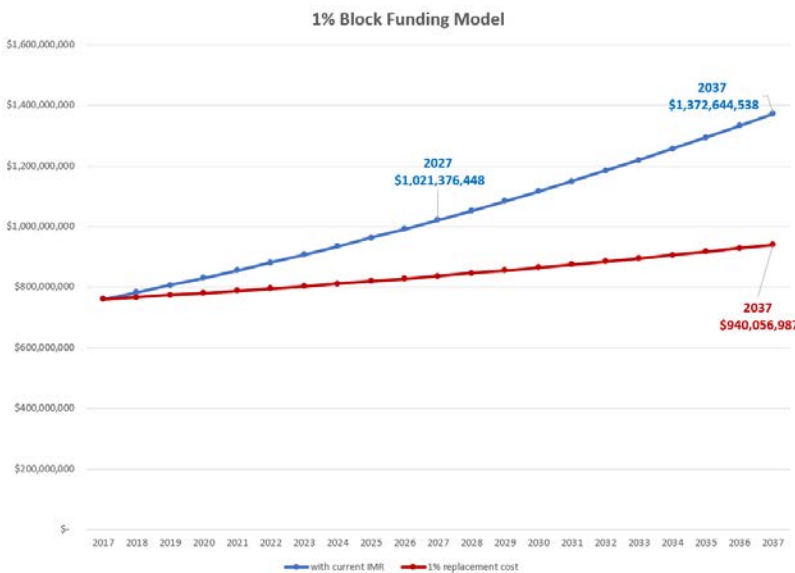
CURRENT SITUATION

Given the lack of adequate Provincial funding to plan and implement preventative maintenance, jurisdictions are currently placed in a position of focusing efforts on unplanned or reactive maintenance and repair, which is the least cost-effective approach. A planned, preventative maintenance program informed by accurate system and component data, funded to meet benchmarks for reinvestment or replacement of components, would be the most cost effective approach. If the current funding model persists, deferred maintenance will continue to grow.

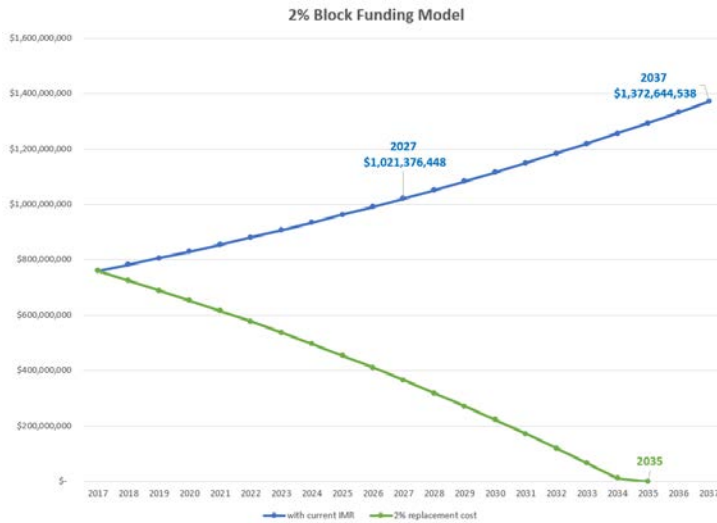


An innovative approach to dealing with deferred maintenance, like block funding, would provide a more proactive solution. The block fund could incorporate support for new school construction, modernizations, replacement projects, and Infrastructure Maintenance and Renewal funding (IMR). The District will continue to advocate for stable and predictable capital funding to help address the mounting deferred maintenance deficit.

Under a one per cent block funding conceptual model, approximately \$41 million per year, the District would see a reduction in the growth of deferred maintenance. In this funding model, deferred maintenance would still grow, but at a slower rate and the District would still need to request capital funding from the Province for new construction, major modernizations, replacement schools and modular classrooms.



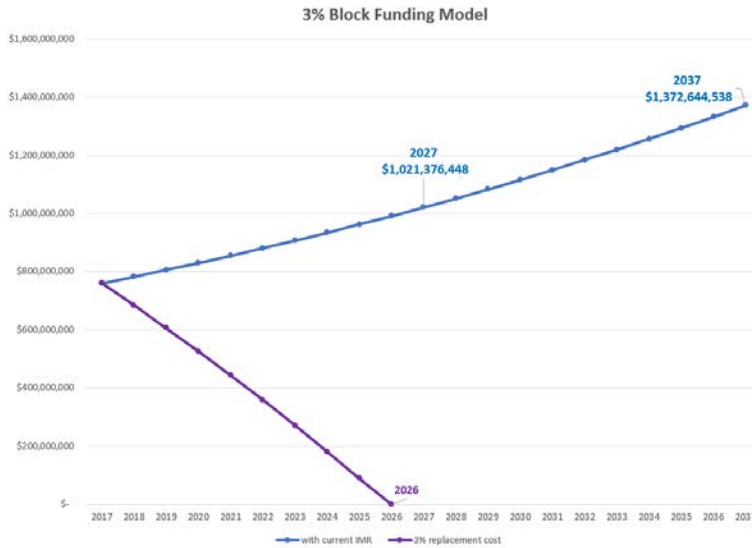
Under a two per cent block funding conceptual model, approximately \$82 million per year, the District would be able to address the current deferred maintenance and manage major modernizations. This funding model would permit the District to create a sustainable capital schedule allowing the replacement of some of the existing aged space. The two per cent model is in line with industry best practice which recommends two per cent of the replacement cost be reinvested into the infrastructure annually.



Under a three per cent block funding conceptual model, at approximately \$123 million per year, the District would be able to accomplish the entirety of the two per cent block funding conceptual model but on an accelerated schedule. This conceptual model could also include the procurement and distribution of new space, including new school construction and modular classrooms. Some of the benefits from the District managing the pace of new construction include:

- the increased ability to distribute programs and District Centres
- the ability to accommodate students as development occurs, instead of long distance designations while waiting for new schools
- the increased opportunity to pursue partnerships.

One of the greatest challenges for capital partnerships under the current model is the inability to predict the timing of funding for capital projects. If the District was in control of the funding schedule, there would be increased opportunities to partner with other entities as funding schedules could align.



All of these conceptual models are dependent on an assurance that funding would be ongoing for a minimum of 10 years and that the functional capacity of staff could deliver the infrastructure or component maintenance within the time period. From 2005 to 2017, there has been an average of \$81,504,154 spent on infrastructure per year (ATTACHMENT I). This average cost includes IMR funding, modernizations, replacement schools, new construction and modular classrooms. This rate is almost equivalent to the two per cent model. However, two thirds of the current \$81,505,154 in funding was for new construction, was unpredictable in yearly amount, and did not address the increase deferred maintenance.

A sliding scale to determine which of the three models would be appropriate to apply to a school jurisdiction could be based on a matrix of factors, such as: total deferred maintenance (total value or as a per cent of total replacement value), enrolment growth over a specified time period and the utilization rate of the district. If a District is caught up on deferred maintenance, in a relatively stable or low growth period with adequate space to accommodate students, then the one per cent model may deliver the infrastructure and maintenance required. However, if a District is growing at a steady or high rate, is well-utilized and has a large backlog of deferred maintenance, then a three per cent model might be more appropriate.

In place of the current funding approach, a model that provides five-year envelopes of block funding, at \$123 million per year or three per cent, would maximize the District’s flexibility and ability to be proactive and responsive in addressing deferred maintenance.

- Block funding would provide greater flexibility to procure and bundle projects to maximize value
 - The capacity of the construction industry under such a model could lead to completion of additional projects in a more timely fashion than would be realized in a conventional manner.
- Additional opportunities for partnerships with community partners would be feasible under a more consistent, block-funded system.
 - Block funding could allow for some measured debt servicing to supplement Provincial resources such as the ability to borrow or leverage block funding (bridge financing and energy performance contracts with industry partners).

- Block funding would increase the District's ability to bulk purchase and possibly finance solar panels in larger quantities.
 - Additional savings would be realized through the bulk purchase and installation and by accelerating the pace at which solar panels are installed, lower utility costs in the District could be realized in a shorter timeline resulting in additional cost savings.
 - Once the deferred maintenance is addressed in our older buildings, additional school buildings will be physically able to accept solar panels.
- The block funding conceptual model could include the ability of the District to maintain current transportation services levels while minimizing the increase to parent fees and avoiding a redirection of operational funding from classrooms.
 - The model would allow the District greater flexibility in locating infrastructure closer to where students reside, which would shorten ride times or eliminate them for students that would be walking distance to a school.
 - In contrast, any surplus from transportation fees collected could be returned to support school infrastructure.
- Annual reporting requirement on how the funds were spent would ensure long-term transparency relating to expenditures and efficiencies.
 - In the event that not all the funds were able to be used in a budget year, due to staffing capacity, for example, the remainder could likely go into Capital Reserve.
 - The remaining funds (over a certain amount) would be accompanied by a plan of how they would be subsequently used, subject to approval by the Province.

Piloting a block funding model would provide an opportunity for the District to become a regional leader in the application of block funding:

- creation of procedures, plans and best practices around the planning, procurement, project management and maintenance of school buildings under the model
- the knowledge and learnings could be shared with other jurisdictions in the province to enhance the delivery and maintenance of all school facilities
- the best practices would also extend to the District's stakeholder engagement processes
 - our current level of engagement in relation to mature communities would be maintained and could be enhanced by the fact that the District is able proceed with construction in a timely manner to realize the preferred models identified in the community consultations

In summary, consistent, predictable funding of a school jurisdiction's longer-term planning efforts, such as a 10-year vision, would generate greater efficiencies and flexibility than the separate annual capital funding processes.

KEY POINTS

- If the current funding model persists, deferred maintenance will continue to grow and building components will fail as structures continue to age.
- An innovative approach to dealing with deferred maintenance, like block funding, could provide a solution and could include capital funds for modernization and replacement projects, as well as addressing deferred maintenance by preserving or growing the amount of IMR funding available.

- Under a one per cent block funding conceptual model, at approximately \$41 million per year, the District would see a reduction in the growth of deferred maintenance.
- Under a two per cent block funding conceptual model, at approximately \$82 million per year, the District would be able to address the current deferred maintenance and manage major modernizations.
- Under a three per cent block funding conceptual model, at approximately \$123 million per year, the District would be able to accomplish everything listed under the two per cent block funding conceptual model on an accelerated schedule and also include the procurement and distribution of new space, including new school construction and modular classrooms.
- All of these conceptual models are dependent on the assurance that funding would be ongoing and that the functional capacity of staff could deliver the infrastructure or component maintenance within the time period.
- The block funding could:
 - Increase the District's ability to bulk purchase and possibly finance solar panels in larger quantities.
 - Maintain current transportation services levels while minimizing the increase to parent fees and avoiding a redirection of operational funding from classrooms.
 - Include the ability of the District to maintain current transportation services levels while minimizing the increase to parent fees and avoiding a redirection of operational funding from classrooms
- Piloting a block funding model would provide an opportunity for the District to become regional leaders in the application of block funding by creating procedures, plans, and best practices around the planning, procurement, project management and maintenance of school buildings under the model.
- This model would not require significant additional funds but would consolidate multiple funding sources under a block allocation that would significantly improve service level to community stakeholders.

ATTACHMENTS and APPENDICES

ATTACHMENT I Infrastructure Funding Received 2005 to 2017

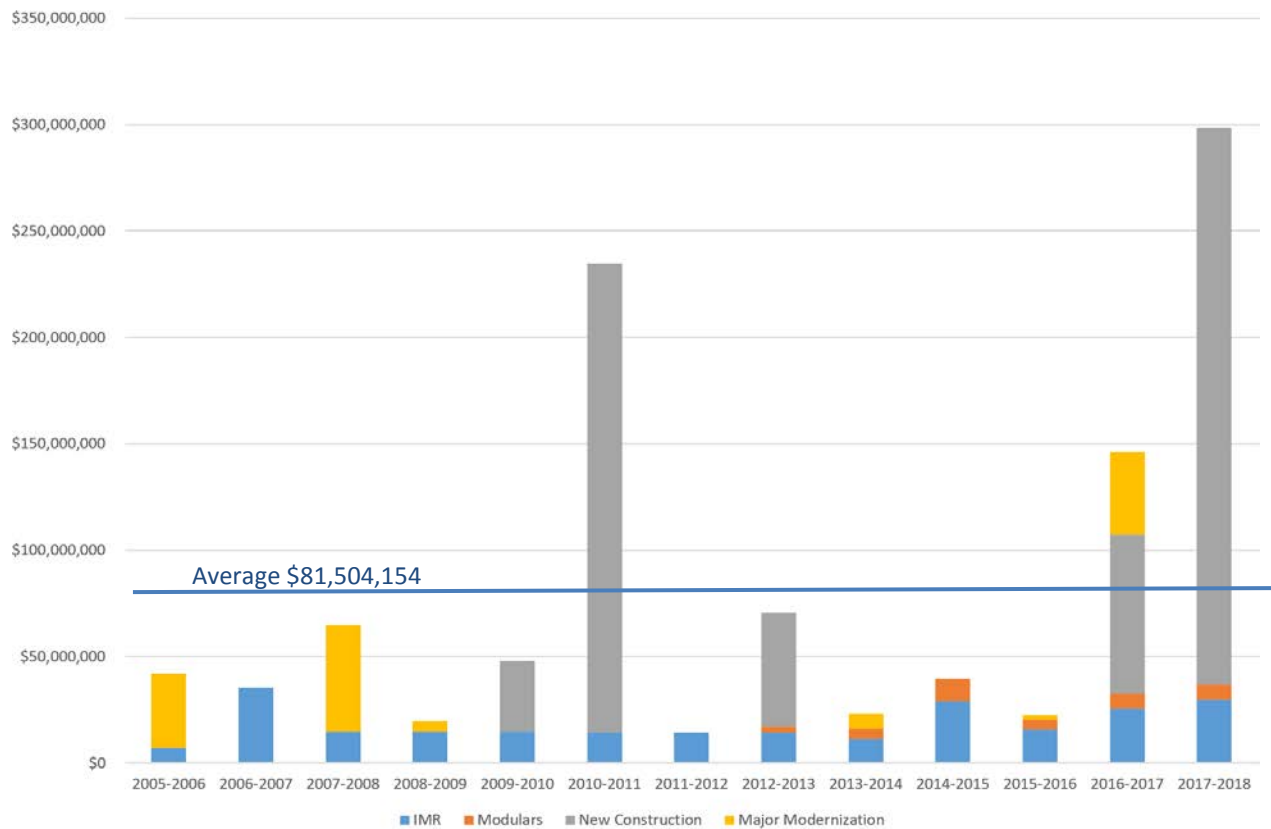
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Infrastructure Funding Received 2005 to 2017



Edmonton Public Schools

Infrastructure Investment 2005 to 2017



| Year | IMR Funding | Modular Classrooms | New Construction | Major Modernization | Total Investment |
|-------------------------------|----------------------|---------------------|----------------------|----------------------|------------------------|
| 2005-2006 | \$6,920,000 | \$0 | \$0 | \$35,000,000 | \$41,920,000 |
| 2006-2007 | \$35,577,136 | \$0 | \$0 | \$0 | \$35,577,136 |
| 2007-2008 | \$14,900,000 | \$0 | \$0 | \$50,000,000 | \$64,900,000 |
| 2008-2009 | \$14,800,000 | \$0 | \$0 | \$5,000,000 | \$19,800,000 |
| 2009-2010 | \$14,818,287 | \$0 | \$33,156,958 | \$0 | \$47,975,245 |
| 2010-2011 | \$14,420,094 | \$0 | \$220,224,720 | \$0 | \$234,644,814 |
| 2011-2012 | \$14,502,989 | \$0 | \$0 | \$0 | \$14,502,989 |
| 2012-2013 | \$14,345,635 | \$2,802,000 | \$53,216,512 | \$0 | \$70,364,147 |
| 2013-2014 | \$11,363,900 | \$4,670,000 | \$0 | \$7,200,000 | \$23,233,900 |
| 2014-2015 | \$29,253,631 | \$10,274,000 | \$0 | \$0 | \$39,527,631 |
| 2015-2016 | \$15,650,399 | \$4,670,000 | \$0 | \$2,200,000 | \$22,520,399 |
| 2016-2017 | \$25,673,307 | \$7,005,000 | \$74,700,167 | \$38,700,000 | \$146,078,474 |
| 2017-2018 | \$29,665,644 | \$7,005,000 | \$261,838,621 | \$0 | \$298,509,265 |
| Total (2005 to 2017) | \$241,891,022 | \$36,426,000 | \$643,136,977 | \$138,100,000 | \$1,059,553,999 |
| Average (2005 to 2017) | \$18,607,002 | \$2,802,000 | \$49,472,075 | \$10,623,077 | \$81,504,154 |

IMR Funding – does not include the IMR funding for the ASAP I and II schools as this allocation is given to a third party and not Edmonton Public Schools for the 30-year maintenance period

New Construction and Major Modernization – counted in the year of completion

Modular Classrooms – counted by unit and multiplied by \$467,000, the unit cost to procure and install a modular classroom in 2018