



EXECUTIVE REPORT TO STANDING COMMITTEE

TO: STANDING COMMITTEE

FROM: John Malloy, Director of Education

DATE: October 15, 2013

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RE: 10-Year Capital/ Deferred Maintenance Costs

Action

Monitoring

Rationale/Benefits:

The following report is in response to a notice of motion brought forward by Trustee Turkstra at the Board Meeting on March 25, 2013 (Appendix – A). The intent of this report is to summarize the capital/ maintenance costs which the Hamilton-Wentworth District School Board (HWDSB) could incur over the next 10-years and highlight potential funding sources available to the Board.

Background:

At the March 25, 2013 Board Meeting, Trustee Turkstra brought forward a notice of motion asking the Director of Education to “produce a report of the capital dollars available by panel considering such revenues and costs including but not limited to:

- Projected annual capital & capital related maintenance costs for the Health and Safety criteria
- Plus the projected legacy costs per remaining school
- Plus the capital renovation costs of school consolidations
- Plus MOE construction benchmark variations
- Plus land acquisitions for projected new sites
- Less the projected/available annual Ministry capital funding
- Less the capital savings from projected school closures/consolidations
- Less the projected property dispositions and severances
- Plus or minus a reasonable variance, for example 10% for property values, renovations and Board decisions that do not match the staff model”

The information contained within this report will “give Trustees the opportunity to continually assess and advocate for adequate capital funding for its schools to be competitive in the 21st century.”

Appendix B provides the detailed calculation of the capital deficit due to the legacy costs as referred to in the Notice of Motion.

Highlights from this Appendix include:

Total deferred capital renewal/maintenance costs	\$628,000,000
School renewal grant to be applied to these costs	<u>\$(80,000,000)</u>
Total status quo deferred capital deficit	<u>\$548,000,000</u>

If we continue to operate with current school compliment, the Board will have a \$548 million of deferred capital maintenance deficit to manage. The Board's Long-Term Facilities Master Plan (LTFMP) anticipates the reduction of surplus pupil places. By applying the recommendations in this plan, the Board could potentially reduce this deficit by \$226 million.

Total status quo deferred capital maintenance deficit	\$ 548,000,000
Savings from projected school closures/consolidations	\$(226,000,000)
Contingency	<u>\$ 37,000,000</u>
Total projected deferred capital deficit	<u>\$ 359,000,000</u>

Over that same time period it is projected that the HWDSB will reinvest in in new capital projects (including new schools, additions, renovations and contingency funds) as a result of the elementary and secondary accommodation reviews.

New capital projects costs	\$ 233,000,000
Less approved and projected Ministry funding	\$(111,500,000)
Less projected EDC revenue	<u>\$(31,500,000)</u>
Projected capital projects to be funded by HWDSB	<u>\$ 90,000,000</u>

HWDSB will cover the remaining capital project costs with proceeds of disposition. The projected reserve from proceeds of disposition is \$176 million. Therefore, after accounting for new construction costs, land acquisition costs, contingency costs, etc. the HWDSB could potentially have approximately \$86 million in funding remaining at its disposal, generated primarily through proceeds of disposition (including severances). These funds could, in conjunction with the annual renewal grants (approximately \$8,000,000/ year), provide the foundation for a comprehensive long-term capital renewal/ maintenance strategy.

In order to manage the future unfunded liability the HWDSB must undertake the following steps:

- Develop a comprehensive 10-year maintenance and renewal strategy to address the needs of those schools remaining in our inventory. This work is currently underway and will be incorporated as part of the LTFMP update in February 2014.
 - The first step in the development of a comprehensive 10-year capital renewal/ maintenance strategy began with the introduction of the Board's LTFMP in January 2013. The LTFMP clearly identifies where accommodations issues are located and provides an overview of our facility conditions. The LTFMP also outlines an elementary accommodation review strategy designed to address the long-term accommodation requirements of the Board.
 - The second step in the process is to develop a strategy that will work towards no longer having any schools identified as being in "poor condition" based on their facility condition index (LTFMP, p. 9). Many of the elementary schools located in this category will be included in upcoming accommodation reviews while a strategy to address the "critical items" (those items that could close a school if the components fail) in the remainder of the facilities is currently underway. The strategy to address the renewal needs at the remaining schools will be consistent with the Board approved motion (March 26, 2012) directing Facilities

Management to proceed with capital renewal projects that meet the *Capital Projects Criteria* including a) Health & Safety, b) Regulatory Compliance, c) Risk of Failure causing School Closure, d) Urgent of High Needs and, e) New Program Initiatives.

- Facilities Management met with secondary school department heads, consultants and school principals in April 2013 to better understand what they require to deliver programs and to define an HWDSB standard for science labs, technology classrooms, art/ theatre rooms, etc. These elements will be incorporated into the HWDSB design manual and factored into our secondary school renewal strategy.
- Finally the development of the renewal and maintenance strategy will include a plan to manage our deferred renewal costs, specifically those items identified as critical (i.e. boiler, roof, windows, HVAC) while at the same time re-investing new capital funds into existing schools.
- Continue to submit strong business cases which adhere to the criteria as defined by the Ministry of Education when they request their annual capital priorities submission.
- Take full advantage of any future funding initiatives developed by the Ministry of Education (i.e. Good Places to Learn and Prohibitive to Repair funding)

The process of addressing the Board's long-term accommodation requirements began with the secondary accommodation review process which concluded in May 2012 and more recently with the introduction of the Long-Term Facilities Master Plan in January 2013. The upcoming elementary accommodation reviews will also assist in ensuring that we eliminate surplus pupil places which will help ensure that the Board is investing future capital/renewal funds only in those schools which will remain in our inventory over the long-term. Moving forward, staff is working towards developing a plan to manage the outstanding deferred maintenance while at the same time planning for the capital reinvestment in our existing facilities.

Notice of Motion Notes for March 25th, 2013

There are insufficient capital funds at our Board and the in the Province to fully fund all legacy costs of the remaining schools from ARCs as well as the school exempted from ARCs.

We have a responsibility as a Board of Trustees to fund our remaining secondary and elementary schools equitably and strategically. We currently do not have a comprehensive LTF Financing Plan congruent with the LTFMP therefore precluding a systemic view of finite capital dollars over the next 10 years.

In order to be informed and strategic and view the HWDSB in its entirety, this motion is asking that the Director produce a Report of the capital dollars available by Panel considering such revenues and costs including but not limited to:

Projected annual capital & capital related maintenance costs for the Health and Safety criteria

Plus the projected legacy costs per remaining school

Plus the capital renovation costs of school consolidations

Plus MOE construction benchmark variations

Plus land acquisitions for projected new sites

Less the projected/available annual Ministry capital funding

Less the capital savings from projected school closures/consolidations

Less the projected property dispositions and severances

Plus or minus a reasonable variance, for example 10% for property values, renovations and Board decisions that do not match the staff model

This will produce a capital deficit due to the total legacy costs of the remaining schools. I believe that The Board would then be in a position to make the informed and appropriate capital decisions for the entire district in a more equitable and systemic manner complementary to the LTFMP.

Essentially the Board will be aware of the starting deficit it is dealing with. This Report will give Trustees the opportunity to continually assess and advocate for adequate capital funding for its schools to be competitive in the 21st century.

Appendix - B: 10-Year Projected Renewal/ Construction Costs vs. Potential Funding Sources

	Elementary (2021/22)	Secondary (2021/22)	10-Year Total (2021/22)	Comments/ Assumptions
a) Projected annual capital & capital related maintenance costs for the Health and Safety Criteria	\$ 163,587,066	\$ 107,691,450	\$ 271,278,516	Source: LTMP (Page 7), King George is the only school closure incorporated in to this value
b) PLUS the projected legacy costs per remaining school	\$ 20,405,138	\$ 151,455,002	\$ 358,260,841	Source: LTMP (Page 7), King George is the only school closure incorporated in to this value
c) Total Deferred Capital Renewal/Maintenance Costs	\$ 388,392,205	\$ 259,146,452	\$ 627,538,657	(Lines b + c)
d) LESS the capital savings from projected school closures/consolidations	\$ 115,583,840	\$ 110,031,402	\$ 225,595,242	Includes all approved secondary school closures, Prince Philip, and the proposed administration of an additional 6,700 elementary pupil places
e) PLUS or minus a reasonable variance, for example 10% for property values, renovations and Board decisions that do not match the staff model	\$ 36,839,221	\$ -	\$ 36,839,221	@ 10% of Total Deferred Capital Renewal/Maintenance Costs (Line d) (Does including property values as any variance will be captured in the EDC)
f) SUBTOTAL Renewal Costs by 2021/22	\$ 285,607,586	\$ 408,262,699	\$ 693,870,285	(Lines d + e + f)
g) * School Renewal Grants	\$ 80,600,000	\$ -	\$ 80,600,000	\$6m for 10 years, assumes existing funding levels remain
h) TOTAL Projected Renewal/Maintenance Costs by 2021/22	\$ 366,207,586	\$ 408,262,699	\$ 774,470,285	Current annual renewal funding = \$8m/ year

	Elementary (2021/22)	Secondary (2021/22)	10-Year Total (2021/22)	Comments/ Assumptions
i) PLUS the capital renovation costs of school consolidations	\$ 82,734,600	\$ 82,149,000	\$ 164,883,600	Source: February 11, 2012 ConW Report "Strategy in Response to Capital Funding Announcement" \$100m for approved ARC projects - \$64m for future elem ARC related projects - 3,100 new pupil places
j) PLUS MOE construction benchmark variations	\$ 10,341,835	\$ 10,268,625	\$ 20,610,450	Based on 12.5% contingency
k) PLUS land acquisitions for projected new sites	\$ 21,340,000	\$ 17,050,000	\$ 38,390,000	Source: HWD58 2013 Education Development Charges Background Study, p. A-34
l) PLUS or minus a reasonable variance, for example 10% for property values, renovations and Board decisions that do not match the staff model	\$ 9,307,643	\$ -	\$ 9,307,643	@ 10% of new construction (Lines h + i) (Does including property values as any variance will be captured in the EDC)
m) Total of Projected Construction/Land Acquisition Costs	\$ 123,723,068	\$ 109,467,625	\$ 233,190,693	
n) LESS land acquisitions for projected new sites funded through Education Development Charges as of June 2013	\$ 19,651,350	\$ 12,040,054	\$ 31,691,404	Source: HWD58 2013 Education Development Charges Background Study, p. A-34 (Includes the proposed acquisition of all or a portion of an elementary site and the secondary site)
o) LESS the projected/available annual Ministry capital funding	\$ 3,840,280	\$ 37,200,000	\$ 41,040,280	Source: February 11, 2012 ConW Report "Strategy in Response to Capital Funding Announcement" (Net OMA repo, \$495m addition and New North Secondary School)
p) Future request for MOE capital funding	\$ 64,000,000	\$ -	\$ 64,000,000	This number has also been factored into elem capital/ repo costs (Line i) - funding requests to be submitted to the MOE as part of annual capital request
q) Future request for MOE funding for land acquisition	\$ 1,055,650	\$ 5,029,345	\$ 6,085,000	Addition funds to acquire land not eligible under the EDC (Lines h - i)
r) LESS the projected property dispositions and severances	\$ 302,145,000	\$ 75,989,000	\$ 378,134,000	Source: February 11, 2012 ConW Report "Strategy in Response to Capital Funding Announcement"
s) SUBTOTAL Construction Costs by 2021/22	\$ 67,802,213	\$ 18,771,375	\$ 86,573,588	(Lines m) - (r) - (q) - (t)

* School renewal funding allocated based on criteria as defined by the Board and not by panel

COMMENTS/ ASSUMPTIONS:

1. Deferred Capital Maintenance Costs were calculated using the Ministry of Education's VFA software (formerly TCPS, ReCAP)
2. "Health & Safety Criteria" includes the value of all items that could close a school if one or more of the components fail
3. 10-year school renewal grant funding remains consistent with current levels (Line g)
4. Property values were calculated using the estimated per acre values used in the Education Development Charges Background Study (EDC)
5. Total value of potential severances is subject to our ability to be able to sever the property and determining highest and best use of the land
6. Estimated variances (Lines g) and (h) have not been included for secondary as the Board has already approved the secondary accommodation strategy and corresponding capital investment
7. Constructing within MOE benchmarks has the potential to save approximately \$21 million which could be reinvested into existing facilities (Line (h))

