

Ministry of Education

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2015: B13

MEMORANDUM TO: Directors of Education

FROM: Gabriel F. Sékaly
Assistant Deputy Minister
Financial Policy and Business Division

DATE: June 11, 2015

SUBJECT: Proceeds of Disposition Policy

Proceeds of Disposition Policy

This memorandum is intended to provide boards with information about the revision to the Proceeds of Disposition (POD) policy outlined in **Ontario Regulation 193/10 Restricted Purpose Revenues (O.Reg 193/10)**. It outlines new restrictions on the use of POD and new reporting requirements. Please note that **O.Reg 193/10** regulation will be updated to reflect the changes made to the POD policy, the changes are effective September 1, 2015.

POD Policy Revision

The revision to the POD policy incorporates a number of changes to the use of POD and its expenditure requirements. The revised policy is as follows:

- 1) POD must be used for the repair or replacement of components within a school.
- 2) For components, boards are to follow the expenditure requirements set out in the School Condition Improvement (SCI) policy. Through this policy boards are to spend a minimum 80% of their POD to target key building components and systems, with the remaining up to 20% addressing other locally identified renewal needs. Boards are expected to report their expenditures through the TCPS database. Boards will not need to seek Ministry Approval to Proceed for school component repair or replacement using POD.

- 3) Boards will not be required to contribute POD to Capital Priority projects unless the board identifies POD as a source of funding for that project.
- 4) Boards can use POD to replace a school due to poor condition, but the board must submit the project through the Ministry's Capital Priorities process.
- 5) Boards requesting to use POD for purposes that fall outside of the SCI expenditure requirements may request a Minister's exemption to **O.Reg 193/10**.

Timing

This policy will come into effect on September 1, 2015, aligning with the SCI program. Prior to this policy coming into effect requests to use POD, including renewal projects, that are submitted before September 1, 2015 must receive Minister approval. Any approvals for the use of POD that have been received by boards prior to the policy coming into effect will remain valid.

As outlined in the B Memo **2015:B12 Request for 2015 Capital Priorities Business Cases** announcing the 2015 Capital Priorities process, boards will not be required to contribute POD to their Capital Priorities projects.

Background

POD are generated when boards sell school facilities or properties that the board has declared surplus. The process for selling surplus school board properties is governed by **Ontario Regulation 444/98 Disposition of Surplus Real Property**. Boards also have the capacity to generate Administrative POD (Admin POD) through the selling of administrative buildings. The restrictions outlined in **O.Reg 193/10** governing the generation or use of Admin POD will not be changed through this revision of the POD policy. Boards will still be required to seek Ministry approval in order to use Admin POD.

Addressing the renewal needs of schools is a Ministry priority. Now that most of the schools in the province have had condition assessments completed, the Ministry would like to ensure that boards have the capacity to best support the identified five-year renewal needs of schools and keep schools in a good state of repair. Though the \$1.25 billion in new SCI funding over three years announced in the 2014 budget will contribute significantly to address renewal issues, there is still a backlog of deferred replacement work that needs to be addressed.

The boards that generate the highest POD amounts are among the boards that have the largest renewal needs, as identified in the Condition Assessment Reports. The decision to restrict POD spending to renewal projects will ensure that more resources are directed to renewal. While developing this policy the Ministry consulted with stakeholders across the sector and received broad support from school boards to direct POD to renewal.

Policy Revision and Specifics

Under this revised policy, the Ministry will ensure that most POD is targeted towards identified major renewal needs, while still providing boards with the flexibility to direct some POD to address other locally identified renewal needs.

The revised POD policy restricts the use of POD to renewal work, following the SCI expenditure restrictions outlined in **Memorandum 2015:SB04 Update on the School Condition Improvement Funding Program and the Condition Assessment Program**. Following these requirements, boards are to use a minimum of 80% of their POD to address major building components (for example, foundations, roofs, windows) and systems (for example, HVAC and plumbing) and have the flexibility to use up to 20% of their POD to address locally identified renewal needs that are listed in TCPS. It is up to boards to determine how to prioritize their POD across individual schools, building components and systems. Boards also have the ability to use POD to address renewal needs at schools that have not yet been assessed as well as to address any building components and systems whose condition may have deteriorated since the date of the facility inspection.

Please see Table 1 below which explains the SCI categories of restricted (80 %) and unrestricted (20 %) expenditures.

Table 1: Summary of Restricted and Unrestricted Expenditures:

Categories	Restricted (80%)	Unrestricted (20%)
A. Substructure (e.g. foundations, basement walls)	Yes	Yes
B. Shell/Superstructure (e.g. roofs, exterior walls and windows)	Yes	Yes
C. Interiors (e.g. stairs, floor finishes, ceilings)	No	Yes
D. Services (e.g. plumbing, HVAC, fire protection and electrical)	Yes	Yes
E. Equipment & Furnishings	No	Yes
F. Special Construction & Demolition	No	Yes
G. Building Sitework (parking lots, site lighting)	No	Yes

Boards are expected to use POD to address renewal priorities of the board, including addressing health and safety, replacing and repairing building components, improving the energy efficiency of schools, and improving accessibility.

Boards are not to use POD for the following items, without either receiving prior approval or direction from the Ministry:

- Projects that increase the gross floor area (GFA) of a building;
- To build over Ministry benchmarks;
- Building new schools; or
- Projects that have no renewal components in them.

Boards must continue to use POD on depreciable renewal expenditures in schools that are expected to remain open and operating for at least five years.

Boards may use POD for projects that fall outside of the SCI expenditure requirements by requesting an exemption to **O.Reg 193/10** granted by the Minister of Education. Any request will be assessed based on the strength of the business case made by the board for the project. It is expected that any exemption request will address why the requested project takes priority over the boards identified renewal needs.

Linkages to SCI Expenditures

Unlike SCI funding, a source of funding that is allocated by the Ministry, POD are a board generated funding source. This means that the Ministry will not provide a tabled amount to boards identifying POD as “restricted” or “unrestricted”. While the Ministry is not explicitly determining restricted and unrestricted amounts of POD, boards are expected to spend POD according to the requirements set out in this memo.

While boards will be required to use POD for renewal expenditures, those expenditures will not affect the boards SCI funding eligibility or level of funding. POD will be treated as an additional source of funding that can be used to address the renewal needs identified in the Condition Assessments and by boards according to their priorities.

Reporting POD Renewal Expenditures

To align the reporting requirements for renewal expenditures, boards will now be required to report POD renewal expenditures in TCPS (and VFA facility once available) as is required with SCI expenditures. Boards are expected to begin reporting any POD expenditures as of September 1, 2015.

All reported expenditures must be consistent with amounts reported by boards to the Ministry in their annual financial statements as submitted in the Education Finance Information System (EFIS).

As good practice, school boards are also strongly encouraged to report their School Renewal Allocation capital expenditures (for buildings and other non-moveable type assets), which is flowed through the School Facility Operations and Renewal Grant, in TCPS for the 2015-16 school year. The Ministry will be moving to mandatory reporting of all renewal expenditures that are capital in nature (for buildings and other non-moveable type assets), in VFA.facility for the 2016-17 school year.

Public Accountability

The Ministry is working to develop a process for making board renewal expenditures in the TCPS database public. This will serve as the accountability mechanism for POD renewal expenditures. The Ministry will communicate this process to boards at a later date.

Key Contacts

We thank you for your ongoing co-operation. If you have any questions or require additional information, please contact the Capital Analyst assigned to your board (see Appendix A) or Grant Osborn, Director, Capital Policy and Programs Branch at (416) 325-1705 or Grant.Osborn@ontario.ca.

Original signed by

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cc: Senior Business Officials
Board Facilities Managers

