Ministry of Education **Ministère de l'Éducation**

Assistant Deputy Minister
Business & Finance Division
20th Floor, Mowat Block
900 Bay Street
Toronto ON M7A 1L2

Bureau du sous-ministre adjoint
Division des opérations et des finances
20e étage, Édifice Mowat
900, rue Bay
Toronto ON M7A 1L2

Ontario

Dr. Chris Spence
Director of Education
Toronto District School Board
5050 Yonge Street, 5th Floor
Toronto, Ontario M2N 5N8

Dear Dr. Spence,

I am writing to express the Ministry's concerns with respect to TDSB's Capital Deficit Recovery Plan submitted to the Ministry on August 29, 2012.

As you are aware, the TDSB has been required to provide quarterly updates to the plan since April 2011, when the original plan was approved. Based on the Ministry's evaluation of the revenue and expenditure projections contained in this latest update, we believe that the board is at significant risk of not eliminating its capital deficit by 2012-13 as required. This is of great concern to the Ministry with respect to the potential impact a capital deficit might have on the board's overall financial operating position.

Essentially, the risks we have identified emanate from increasing capital project scope and costs and the uncertainty around the amount and timing of proceeds of disposition (POD) of surplus properties.

On the expenditure side, the Ministry's concerns have been further heightened by the recent disclosure of significant cost over-runs at Nelson Mandela Public School. It is our understanding that until recently, the TDSB was unaware of these over-runs in excess of $10M on the Nelson Mandela project. The Ministry is not supportive of the board's current proposal to defer $16.5M in renewal projects planned for 2012-13 to offset the Nelson Mandela cost over-runs.

The cost over-runs at Nelson Mandela raise serious concerns about the board's internal processes around oversight on major capital projects. We are aware that a Peer Review is being carried out by the board to investigate how the Nelson Mandela costs escalated so dramatically. We expect this will include recommendations to instruct the board on how to avoid similar circumstances from occurring in the future.

…/2

On the revenue side, the board is relying on its current projections for anticipated revenues to be generated from the strategic disposition of some of TDSB's surplus assets. While the board has made progress in selling a number of surplus properties, the revenues achieved have not been able to keep pace with higher overall capital costs and new capital projects.

The current fiscal climate requires the Ministry and school boards to make some very difficult decisions. What may have made sense only a year or two ago, may no longer be feasible or prudent. As a result, the Ministry expects the TDSB to give serious consideration to all options to establish an acceptable capital deficit recovery plan.

On the expenditure side, it is imperative that the board re-evaluate all planned capital projects to ensure that these are the right projects to pursue in the current fiscal climate. The board needs to revisit all their capital projects and consider possible changes to the scope and/or timing to ensure value to the taxpayer. This should include a review of the major planned redevelopment projects, which appear to be exerting a tremendous financial burden on the board's ability to eliminate its capital deficit.

The Ministry notes that many of the board's major capital projects are budgeted to cost significantly more than the Ministry's new benchmark funding. It is the Ministry's expectation that capital projects should be planned to be built within the Ministry's construction cost benchmarks. Further, the board is reminded that listing projects on the Capital Deficit Recovery Plan does not represent a Ministry approval of the need, priority or scope of the projects.

On the revenue side, the board may need to identify additional properties to be declared surplus and assigned to the TLC to be sold.

The Ministry will continue to review and provide the board with approvals to proceed on smaller scale projects, particularly related to Full-Day Kindergarten (FDK). However, given the seriousness of the current situation, the Ministry will not provide the board with approval to proceed on any new major capital projects until:

a) TDSB has submitted a Capital Deficit Recovery Plan acceptable to the Ministry; and,

b) the Peer Review is completed and the TDSB can demonstrate that it has the necessary controls firmly in place to prevent future cost over-runs.

…/3

The next update to the Capital Deficit Recovery Plan is due by October 15, 2012. Should you require additional information, please do not hesitate to contact Nancy Whynot at 416-325-4030, or Andrew Davis at 416-327-9356.

Sincerely,

Gabriel F. Sékaly
Assistant Deputy Minister

Cc. Nancy Whynot, Director, Capital Programs Branch
Andrew Davis, Director, Financial Analysis and Accountability Branch