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# Missing the Mark

How Ontario's education  
funding formula is  
shortchanging students

By **Hugh Mackenzie**



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# Introduction and summary

On March 19, 2007, Ontario announced its funding for elementary and secondary education for the 2007–08 school year, projecting operating funding increases amounting to \$667 million. Despite this substantial increase in funding, however, school boards continue to struggle to balance the needs of the students they serve with the funding provided by the provincial government.

We continue to hear of school boards forced to consider cuts to programs they believe to be essential to their students. We continue to hear horror stories about the physical condition of school buildings brought on by budget-driven maintenance deferrals. We continue to hear concerns that schools aren't able to do enough to support students at risk.

Why?

The immediate and obvious explanation is that, while funding has indeed increased, most of that increase is required to implement new provincial program commitments and to cover other cost increases at the current-year inflation rate.

To understand the basis for the current troubles facing Ontario's elementary and secondary

school system, however, you have to go back to the basic design of Ontario's then-new centralized funding formula for education in 1997.

The 2007–08 funding announcement continues to ignore basic flaws in the funding formula for elementary and secondary education in Ontario that have been there right from its beginnings — flaws that work their way through the system into significant gaps between the needs of students at greatest risk and what can be delivered.

From its outset in school year 1998–09, the funding formula was designed to provide less than was required to fund the basic elements of the education system.

- The formula provided less to school boards for teachers' salaries than was required to pay the teachers. Boards were compelled to pay the salary levels stipulated in the teachers' employment contracts.
- For boards serving the majority of students in the province, the formula provided less for school operations and maintenance in 1998–99 than they were actually spending in 1997 — in many cases, substantially less.

- The formula funded adult secondary school credit courses at half the amount provided for regular secondary students.
- The formula also short-changed programming requirements for special education, for students at risk, and to address local priorities that could not be anticipated by a central funding formula.
- The formula provided less than half the amount under the learning opportunities grant recommended by the expert panel convened to study programming for students at risk.
- The formula provided less funding for special education than the amounts that school boards were actually spending in the years before the formula was introduced.
- Despite repeated recommendations from study after study, the formula made no provision at all for funding for local priorities.

In addition, a substantial proportion of boards' funding under the formula was driven by student enrolment numbers on the questionable assumption that a substantial proportion of boards' costs varied directly and immediately with enrolment.

The funding formula has been modified on a number of occasions since its introduction to deal with emerging political problems and to adjust funding benchmarks to reflect cost increases. Funding for special education was initially increased to reflect demonstrated needs for services and then, as a cost-control measure, changed to an enrolment-driven system. The fixed per-student space allocations used for school operating funding were relaxed in the face of widespread evidence that the inflexibility of the system was forcing unnecessary school closures.

New grants were also created to deal with problems the government of the day considered

to be politically important, such as those affecting remote and rural schools.

Despite these changes, however, major structural problems continued to plague the system.

As the number of boards experiencing declining enrolment increased as a result of demographic change, the lack of realism in the implicit assumption underlying the formula — that costs would decline in proportion to enrolment — put growing numbers of school systems into financial difficulty.

The Harris government acknowledged the problem, beginning in 2002–03, with a declining enrolment adjustment that provided temporary (one-year) partial relief from funding cuts driven by enrolment decline. But it wasn't nearly enough to deal with the problems.

The McGuinty government recognized this fact in its 2006–07 funding model, when it pulled school-based administrative costs out of the enrolment-driven Foundation Grant and established a new School Foundation Grant. This new grant was a step forwards, in that it recognized that school administrative functions — the office, the principal, vice-principal, etc. — could not be divided neatly into enrolment-determined fractions. But the new system did not go nearly far enough in recognizing other functions and costs that are school-determined rather than enrolment-determined, such as library or guidance services or custodial services.

The gap between salary benchmarks and actual salary obligations of boards was initially approached indirectly.

The Harris government added a local priorities amount to the Foundation Grant in 2002–03 and increased it from \$100 per student to \$200 per student. Increased funding for the demographic portion of the Learning Opportunities Grant and for English as a second language funding was provided early in the McGuinty government's term in office, but those funding increases were swallowed up by the expanding gap between

what teachers and other staff were paid and what the formula benchmarks provided.

What was touted as funding for local priorities and for students at risk was actually each of these government's way of addressing the salary benchmark problem without having to admit there was a problem.

That became obvious when the McGuinty government finally adjusted funding benchmarks for teachers' salaries in 2006–07 to move them closer to reality. The "increase" in funding for salaries was completely offset by the elimination of funding for local priorities and a substantial reduction in the demographic portion of the Learning Opportunities Grant. The government effectively admitted that funding for local priorities and for students at risk was actually being used to fill salary funding gaps.

The other major gaps — for school operations and maintenance, and for adult credit education — have not been addressed at all. Indeed, by allowing the fixed funding per square foot for school operations to fall behind inflation, successive governments have allowed the gap to widen significantly.

An analysis of 2007–08 funding reveals that these funding gaps amount to:

- \$455 million for school operations;
- \$128 million for adult education; and
- \$232 million for the Learning Opportunities Grant for programs for students at risk.

In addition, the government's "solution" to the salary benchmark problem left no funding at all for local priorities. Local priorities funding at 5% of operating expenditures, as recommended by the Crombie Task Force in 1997, would require an additional \$850 million. At \$200 per student, indexed to inflation as recommended by the Rosanski Task Force in 2003, additional funding of \$387 million would be required.

The Harris, Eves, and McGuinty governments have all denied the existence of these funding shortfalls, and have chosen to characterize funding issues as disputes between the provincial government and school boards, and to characterize underfunding as a victimless problem.

As the government essentially admitted when it reconfigured funding for teachers' salaries in 2006–07, however, funding gaps have to be filled somehow, either by reducing underfunded services or by diverting funding from other areas. By far the biggest gap is for school operations, and boards have filled the gap by deferring maintenance and by cannibalizing already inadequate Learning Opportunities Grants for students at risk and Language Grants for English as a second language to meet the shortfall.

Gaps in funding are paid for not by school boards as institutions, as the government would like us to believe, but by students in general who are expected to study in deteriorating facilities, and by students at risk for whom needed support programs either do not exist or fall far short of what is needed.

And the lack of any recognition of local priorities means that school boards have no funding available either to innovate beyond the restrictions of formula funding or to respond to local circumstances.

Funding without programming is clearly identifiable in English as a second language services. A survey of schools conducted by People for Education for the 2005–06 school year identifies a clear decline in the availability and intensity of ESL programming at the elementary level in Ontario at a time when funding under the ESL component of the Language Grant has been increasing.

Unfortunately, for 2007–08, the government has chosen not to address problems with the basics of the funding formula.

Of the \$667 million in increased operating funding for 2007–08, \$593 million is required to cover the cost of the final year of the provin-

cial labour framework (\$484 million); and the primary class size reduction policy (increased funding of \$109 million).

Assuming that the increased funding is indeed sufficient to enable boards to pay for these increased provincial commitments, that leaves additional funding of \$74 million to cover inflationary increases — at 2% — in areas not covered by the labour framework. In a stable environment, that would be sufficient to cover the status quo. Unfortunately, however, provincially mandated program changes and inflation aren't the only financial pressures on school boards.

Many school boards will head into the 2007–08 budget year with unresolved issues left over from 2006–07, either because they will end up with budget deficits this year, or because they balanced their 2006–07 budgets using one-time-

only tactics — drawing down reserve funds, for example — that will not be available to them for 2007–08. The 2007–08 funding framework offers no additional flexibility with which to deal with those lingering issues.

In addition, for 56 of the 72 school boards in Ontario, declining enrolment, driven by demographic change, creates additional financial pressure. Boards with declining enrolment projected for 2007–08 will be looking for an additional \$90 million in cost savings to offset the portion of the estimated enrolment-related decline in funding for 2007–08 not covered by the \$75 million declining enrolment grant. On top of that, these boards will be looking for an additional \$64 million in savings to offset the loss of last year's declining enrolment grant.



# An analysis of basic funding formula issues

## Declining enrolment

In keeping with the political philosophy underlying the 1997 funding formula, a significant proportion of overall funding was driven strictly by enrolment numbers. The original formula assumed implicitly that boards would be in a position to adjust costs directly in proportion to enrolment changes, providing no funding to assist boards losing funding as a result of enrolment declines.

Once the funding formula had been fully implemented, that position was clearly recognized as untenable. Beginning in 2002–03, the formula included a special grant intended to offset a portion of the impact of declining enrolment on board funding. That year, 38 boards representing 57% of total enrolment in Ontario received \$38 million in transitional funding.

That approach, with some modifications, has continued in each year since. In 2007–08, declining enrolment is projected to affect 56 of the 72 boards. Those 56 boards together make up 71% of the total enrolment in the province, and as a group will experience a decline in enrolment of 1.6%. The other 16 boards, representing 29% of

total enrolment, will as a group experience an increase in enrolment of 1.6%.

The 56 boards which are losing enrolment see a decline in funding of \$165 million, offset in part by a declining enrolment offset grant of \$76 million, leaving them having to find another \$90 million in cost savings in 2007–08 in addition to filling the budgetary hole left behind by the end of the \$65 million in declining enrolment grants they received for enrolment losses in 2006–07.

There are two major problems with the approach to declining enrolment in the funding formula. First, the overall funding approach assumes implicitly that 85% of boards' operating costs vary continuously with enrolment — i.e., that after a transitional period most costs will decline in proportion to enrolment. Second, it is assumed that the need for transitional funding ends after one year: in other words, that costs can be matched to enrolment over a one-year adjustment period.

These assumptions are clearly at variance with how the system actually operates. Education is not delivered on a fragmented basis from teacher to individual student. It is delivered in

classrooms with students studying the same subject or of a similar age located in school buildings that serve students living in a defined geographic area.

A decline in enrolment may be sufficient to enable the number of classes in a school to be reduced, but it may not. And if the number of classes doesn't change, neither does the need for teachers and other support services. A decline in enrolment may be sufficient to justify closing a school, but it may not. And if a school remains open, the need for library, guidance, and other common services does not change in response to a small decline in enrolment. Neither does the need to clean the building, supervise students at lunch, or operate the heating system.

The same problem exists on the up side. Small increases in enrolment can often be absorbed in existing facilities and with existing staff. Larger increases, or cumulating small increases over time, will require expansion.

And because school boards are responsible for such large geographic areas in the post-1997 system, both declining enrolment and growing enrolment can be happening at the same time in the same board.

Paradoxically, the government has repeatedly recognized the disconnect between enrolment and costs in parts of the funding formula. It backed away from an enrolment-driven formula for student transportation because it was clearly unrealistic to assume that transporting one less student would have any impact on transportation costs. It introduced the School Foundation Grant in recognition of the obvious fact that funding for  $\frac{1}{4}$  of a principal or  $\frac{3}{10}$  of a school secretary in a small school didn't make any sense. And, in implementing its class size reduction strategy, it has recognized the inherent impossibility of limiting enrolment to exactly 20 students in primary grades in real classrooms in real schools by allowing greater flexibility to boards in achieving the targets.

Declining enrolment is not a temporary aberration in the system. Ontario's population continues to shift towards the suburban areas around our large cities. In addition, the demographic shift as the echo generation's children move through their school lives will, other things being equal, result in a general decline in enrolment for years.

Budget time will continue to be a time of political crisis as long as the funding system fails to recognize the full extent to which education costs are driven by factors other than enrolment.

### **Get the basics wrong, and other things fall apart**

The inventory of grants provided for in Ontario's education funding system presents a picture in which all of the relevant bases are covered. There are 15 grant categories and 43 major grant sub-categories. There is a grant for special education broken down into several sub-categories. There is a grant for Language, covering French immersion instruction; English-as-a-second-language programs; for First Nations, Metis and Inuit language instruction. There is a grant whose funding is driven by community and student demographic factors linked to the prevalence of students at risk. There is a transportation grant for boards whose enrolment is growing, and a transportation grant for boards whose enrolment is declining.

Unfortunately, the comprehensive nature of the grant system is an illusion. With the exception of special education, none of the funding under these grants is earmarked specifically for the purpose implied by its label. Generally speaking, the grants do not describe activities; they are factor-based mechanisms for generating funding.

This would not be a particular problem if the system were generally properly funded. But from the beginning of funding under the new formu-

la in 1998–99, the basics of the system have not been appropriately funded.

The most significant shortfall when the formula was first introduced was in funding for teachers' and other salaries. Salary benchmarks provided funding that was substantially below actual employment costs. By the time the salary benchmarks were reconfigured for 2006–07, the gap had grown to nearly a billion dollars. In the reconfiguration, the gap was largely eliminated, not by increasing funding by enough to cover actual salaries, but through a paper exercise of reducing other grants to offset the cost of salary benchmark increases.

The adjustment may not have resulted in any increased funding, but it did expose clearly the illusory nature of the formula's funding for local priorities and for students at risk. Declaring that boards were actually using their local priorities money and a substantial portion of their funding for students at risk to fill the teacher salary gap, the government eliminated the local priorities amount and reduced funding for students at risk through the demographic portion of the Learning Opportunities Grant.

The relationship between the adequacy of funding for the basics of the system and its ability to meet special needs couldn't have been more transparent.

That transparency, however, has not led the government to address the other major gaps in funding.

### **School operations and maintenance**

When the formula was introduced in 1998–99, school operations and maintenance were funded at \$5.20 per square foot. In the course of court proceedings over Bill 160 in 1998, it was revealed that the \$5.20 per square foot figure was arrived at by determining the median of the average 1997 operating cost of the 122 boards in existence prior to the consolidation of school boards that took place in 1998. It was the average of the operating

costs of the boards ranked 61 and 62 — the Brant County Roman Catholic School Board and the Kent County Roman Catholic School Board. In effect, the allocation for school operations in the funding formula was determined by the operating costs of two largely-rural boards making up less than 0.6% of the space maintained by school boards in the province.

The funding level was both unreasonably low and unrealistically simple. It was substantially less than the overall average operating costs of schools in the province and less than the amount recommended by the expert panel that had studied the subject. This guaranteed that the operations and maintenance expenditures of schools serving more than half of the students in the province would be underfunded.

The simple flat amount per square foot also ignored a substantial degree of variation in operating costs among boards, ranging from a low (in 1997) of \$3.92 per square foot to a high of \$8.18 per square foot. Based on actual 1997 costs, the \$5.20 per square foot funding formula would have provided \$60 million less than boards' actual total expenditures in 1997.

The arbitrariness of the formula didn't stop there. It also limited total area funded to a flat per-student amount based on the configurations of two recently-constructed schools in rural areas of Ontario. The combined effect of these two measures was to provide operations funding for 1998–09 at \$160 million less than boards' actual costs in 1997.

Since the introduction of the formula, funding for operations has deteriorated. Adjusted for cost increases and projected inflation since 1997, the original \$5.20 per square foot amount would be approximately \$7.30 today. Actual funding for 2007–08 stands at \$6.10 per square foot.

Adjusting actual 1997 costs for inflation, the total shortfall in funding relative to 1997 adjusted costs comes to approximately \$454 million across the province.<sup>1</sup>

There is nothing mysterious about the impact of this underfunding. Faced with inadequate resources for school operations and maintenance, school boards deferred maintenance, allowing facilities to deteriorate, and diverted funding generated for other purposes to fill the gap. By 2002–03, the deferred maintenance problem was so severe that the Rozanski Task Force recommended special emergency capital funding to bring schools up to standard.

To its credit, the McGuinty government addressed the deferred maintenance problem in its first budget year, establishing a new program for deferred maintenance recovery. Unfortunately, it did nothing about the inadequacy of the allocation for school operations and maintenance that created the problem in the first place.

### **Adult and continuing education**

Despite the fact that, historically, boards in larger urban areas offered adult education programming that played an important role in the broader mix of educational programs for adults in their communities, adult general education programs receive no funding. The only adult programs receiving funding are adult credit programs leading to a secondary school certificate.

Furthermore, on a full-time equivalent basis, adult credit programs are funded at barely more than half the rate for regular secondary school students. This funding gap alone amounts to \$128 million across the province.<sup>2</sup>

### **Students at risk — the Learning Opportunities Grant and funding for English as a Second Language**

One of the consequences of successive governments' failure to provide sufficient funding for the basic building blocks of the system is that, to make ends meet, school boards have used funds generated for students at risk to paper over the funding gaps in other areas. Funding without

programming is a general issue that applies to all funding for students at risk — including both the Learning Opportunities Grant and the grant for English as a Second Language. Having said that, however, it is often difficult to point to specific gaps because programming for students at risk in general is not easily distinguished from normal programming or programming for special education. That is not a problem, however, when it comes to programming for ESL, which is easily identifiable and distinguishable from other programming.

A survey conducted by People for Education for the 2006–7 school year provides a clear indication of the extent to which funding ostensibly generated for ESL programming is being used for other purposes.<sup>3</sup> The PFE report concludes as follows:

- 53% of elementary schools and 27% of secondary schools with ESL students report they have no ESL teacher. The number has increased steadily since 2004.
- The percentage of schools with English as a Second Language (ESL) students has increased from 46% in 2001 to 62% this year.
- The percentage of elementary schools with ESL teachers declined from 41% in 1999 to 29% this year.

Data collected by People for Education show 62% of schools had ESL students, but only 29% had an ESL teacher. That compares with 1999 when 48% of schools had ESL students and 38% had ESL teachers.

In the Greater Toronto Area, the focal point of immigration into Ontario, 40% of schools with ESL students had no ESL teacher.

At the same time, the Language Grant under which funding for ESL is generated increased from \$350 million in 1998–9 to nearly \$600 million projected for 2007.

Even if funding for students at risk were not being diverted, however, it is evident that

the amounts allocated fall far short of what is needed.

The 1997 Expert Panel that studied the creation of the Learning Opportunities Grant recommended a specific funding level — \$400 million — as the starting point for funding based on demographic factors to support programming for students at risk. In 1997, that would have represented 3.3% of boards' operating funding. The estimated level of funding for the demographic component of the learning opportunities grant — \$330 million — represents 1.9% of operating funding. To bring LOG demographic funding back to the level recommended by the Expert Panel in 1997 would require an increase in funding of \$232 million.

Although ESL funding has been improved, significant issues remain. The Language Grant generates funding only for students who have been in Canada for four or fewer years and who have immigrated from a country in which English is not the first or standard language. The implicit assumption — that students no longer require additional support once they have been in the country for more than four years — is widely criticized as unrealistically restrictive. In addition, there is no recognition in funding of the impact of the intensity of ESL needs on program requirements.

Writing a 2002–03 submission to the Rozanski Task Force, the York Region school board stated:

ESL programs are essential to ensure students entering our schools from non-English speaking backgrounds are given a fair chance to succeed in their studies. As a suburban school board centred in the GTA (the destination of most immigrants coming to Canada), there is a continuing and increasing need for quality ESL programming in York Region.

The ministry defines student needs for ESL programming based on language proficiency criteria as set out in the

Ministry's ESL Resource Guide. Our Board has calculated, based on students' needs, that there are 8,457 elementary students in York Region District School Board who require ESL services.

Eligibility for student funding for ESL programming, however, is defined much more narrowly. The current base formula provides pro-rated funding for students who have entered Canada over the last three years from non-English-speaking countries. Funding eligibility is based on the date of entry into Canada. As per this Board's 2001 report to the Ministry, 2,698 students (less than 32% of our students requiring ESL instruction) meet this funding criterion.

The discrepancy in definition between those students identified as needing ESL programming and those who are eligible to receive funding means that there are almost 6,000 students in need of services who do not qualify for funding. These students include:

- students from non-English speaking families who arrive in Canada via an English speaking country;
- students who arrive in Canada prior to entering school but are not exposed to the English language in their homes or communities; and
- students born in Canada who spend their pre-school years in homes and communities where no English is spoken.

Prior to introduction of the funding formula in 1998, the Board employed 121 elementary teachers of English as a second language. Despite continuous growth in the demand for these services, the funding formula now allows us to maintain only half the number of teachers employed in 1998.

Research has demonstrated that ESL learners require five to seven years to

master language proficiency. The current funding only provides for a maximum of three years. Nearly three-quarters of this board's ESL/ELD learners, as defined by the Ministry, are ineligible for any funding at all.

EQAO Grade 3 and Grade 6 assessment results indicate a growing achievement gap between ESL and non-ESL students. These results clearly suggest that we are not preparing ESL/ELD learners adequately to pass the Ontario Secondary School Literacy Test, which is required for high school graduation. We expect that, in the near future, a number of students will have attained 30 credits, but will not be eligible for an Ontario Secondary School Diploma (OSSD) because they will not have passed the literacy test. We are concerned about this as a potential human rights issue.

Although the question is somewhat abstract, given the fact that ESL funding is routinely allocated to fill other funding gaps, it is clear that the current level of funding would not generate an adequate level of programming even if it were earmarked for ESL programs.

### **One size does not fit all — equality does not produce equity**

Many of the remaining problems with the funding formula can be attributed to the formula's blindness to legitimate differences in costs across the province and to the related reluctance of governments to provide different levels of funding to school boards in recognition of those cost differences.

These issues are most obvious in the design of the grant for school operations and maintenance, and the reluctance of successive governments to provide adequate funding for students at risk and for ESL students.

Funding school operations and maintenance at a flat rate across the province flies in the face

of reality. There are differences in climate from region to region in Ontario. Those differences are reflected in school operating costs, but not in the grants ostensibly intended to cover those costs. It is hardly surprising, therefore, that boards in Northern Ontario had among the highest operating costs in 1997 and are among those under greatest financial stress today.

The age, design and physical condition of a school building has a direct impact on operating and maintenance costs. It is inevitable that a flat-rate system for operations and maintenance funding will provide less than is needed to operate and maintain older buildings. It is hardly surprising that urban boards serving older established communities had among the highest operating costs in 1997 and are among those under greatest financial stress today.

Labour markets for support staff vary differ from region to region in the province. A lowest-common-denominator flat-rate system cannot recognize the impact of those differences on board operating costs. It is hardly surprising that boards in communities with high living costs and relatively higher wage levels had among the highest operating costs in 1997 and are also among those under greatest financial stress today.

Given these differences in underlying costs, equal funding is clearly not equitable. Equal funding translates directly into unequal standards of operations and maintenance across the province and/or to differences in funding for students at risk based not on measures of need for programming, but on the distribution of funding short-falls in other funding categories.

The politics behind the uniformity problem are obvious. It is much easier for a provincial government to declare that everyone is being funded on the same basis — regardless of the situation — than it would be to explain why funding levels differ, especially when the recognition of differences would lead to higher funding for large urban areas which are already seen as privileged and for remote and northern areas

which account for only a small number of seats in the legislature.

Those same political pressures clearly lie behind the decisions of successive governments to provide less funding than is needed for ESL programming. Because large urban boards — notably those in the Toronto area — are the destination for most immigrants to Ontario, it is inevitable that those boards would receive a disproportionate share of realistic funding for ESL programming. Indeed, in 2005–06, major urban areas received 93% of ESL funding; boards in the GTA, 78%; the two Toronto boards 47%.

A similar situation prevails with respect to funding for students at risk as a result of demographic factors such as poverty. In 2006–07, major urban areas received 77% of LOG demographic funding; boards in the GTA 65%; the two Toronto boards 49%. The political downside for a provincial government to delivering a significant funding enhancement primarily to the GTA, and to Toronto in particular, is obvious.

As politically difficult as it may be to provide adequate funding to cover the costs of programming required to support students at risk, such funding is an essential component of an equitable funding system in which the focus must be on giving students what they need to succeed. Nowhere is the distinction between equity and equality more obvious.

### **How should we define education?**

When the Harris government introduced its new funding formula in 1997, it did so based on a clearly articulated (and narrow) view of what education should be and of what school boards should be doing.

For the Harris government, education was primarily an interaction between a teacher and a student in a classroom, focused on the development of core academic skills. The government was particularly concerned that funding generated by classroom-related benchmarks

be spent on classroom-related activities (as defined by the government). For example, boards received no funding for space provided to child care centres, or to support community use of school facilities.

The McGuinty government clearly has a broader view of what goes into a modern and effective education system. Yet that broader view has not been reflected in any meaningful way in the design of the education funding system. The Harris-era restrictions on spending remain. The Harris-era insistence on equality as opposed to equity in funding remains. The grants that might support broader programming remain underfunded. The role of schools in their communities has not been integrated into the design of the funding formula. The only recognition of that role is in a small grant intended to enable boards to reduce fees for the community use of school facilities.

We need a better funded elementary and secondary education system in Ontario. We also need a funding regime that is linked directly to a coherent and consistent view of what elementary and secondary education should be. Well into the McGuinty government's fourth year, we still do not have either.

### **How these issues affect individual boards**

In this paper, two categories of issues have been identified: 1) long-term issues arising from the underfunding of the basics of an effective and equitable school system, and 2) immediate fiscal pressures arising from current year funding and enrolment changes. Board-by-board summaries are presented in Appendix I.

Gaps in the funding formula have different impacts across Ontario. Consequently, changes in the formula to take account of these gaps will also have different impacts.

Table 1 summarizes the impacts of these gaps for the twelve selected boards, and for boards categorized by geographic area.<sup>4</sup>

TABLE 1 **Impact of funding gaps**

	Operations and maintenance (\$ million)	Adult credit courses (\$ million)	Learning opportunities demographic (\$ million)	Local priorities (\$ million)	Estimated impact of funding shortfalls (\$ million)	% of boards' 2007-8 budgets	% of provincial total enrolment
Algoma DSB	2.0	0.7	1.7	2.1	6.5	5.5%	
Dufferin-Peel Catholic DSB	42.8	7.9	8.5	16.8	75.9	11.1%	
Greater Essex County DSB	2.3	1.3	1.8	7.3	12.7	4.3%	
Hamilton-Wentworth Catholic DSB	2.2	3.5	0.5	5.5	11.7	5.0%	
Hamilton-Wentworth DSB	0.4	2.6	3.1	10.0	16.1	3.7%	
Ottawa-Carleton Catholic DSB	3.0	5.9	4.1	7.6	20.6	6.1%	
Ottawa-Carleton DSB	12.2	4.2	9.1	13.2	38.7	6.7%	
Peel DSB	16.4	7.1	11.9	28.3	63.7	5.7%	
Renfrew County DSB	0.6	0.3	0.5	2.0	3.4	3.8%	
Thunder Bay Catholic DSB	0.0	0.0	0.6	1.6	2.2	3.0%	
Toronto Catholic DSB	16.6	9.7	30.6	17.4	74.3	9.5%	
Toronto DSB	124.9	31.9	83.3	48.9	289.1	12.9%	
<b>Total All Boards</b>	<b>454.1</b>	<b>127.7</b>	<b>231.5</b>	<b>386.9</b>	<b>1,200.2</b>	<b>7.0%</b>	<b>100%</b>
French	22.3	3.1	8.8	16.5	50.7	5.1%	4%
English	431.9	124.6	222.7	370.4	1,149.5	7.2%	96%
North	28.8	3.8	14.0	21.3	67.9	5.7%	6%
South	425.3	123.9	217.5	365.6	1,132.3	7.1%	94%
<b>GTA</b>	<b>289.3</b>	<b>70.8</b>	<b>150.9</b>	<b>175.5</b>	<b>686.4</b>	<b>9.3%</b>	<b>45%</b>
Major Urban	329.4	94.8	178.5	244.2	846.9	8.2%	63%
Rural	124.8	32.9	52.9	142.7	353.3	5.3%	37%
Public	293.3	83.5	158.7	262.3	797.7	7.0%	68%
Catholic	160.8	44.2	72.8	124.6	402.5	7.2%	32%

Overall, the identified funding gaps total \$1.2 billion. Percentage impacts vary significantly among individual boards. However, while noting

the relatively more favourable impact on urban boards noted above, the variation in impact among categories of boards is relatively narrow.



## 2007–08 funding — provincial priorities come first

The increased funding for 2007–8 does not address any of these basic funding issues. Instead, it is accounted for by increased costs resulting from the implementation of the provincial education labour framework agreement for 2007–08 and the final stage in the implementation of its 2003 campaign promise to reduce primary class sizes.

The operating funding increase breaks down as follows:

- \$421 is the amount calculated by the province to be required to fund the pay increases for 2007–8 in the labour framework agreement between the province and the teachers' organizations;
- \$42 million is the amount calculated by the province as required for elementary specialist teachers in the provincial agreements dealing with teacher preparation time;
- \$21 million is the amount required to hire additional student success teachers in secondary schools in accordance with provincial agreements; and

- \$109 million is the increase in funding provided to cover the cost of the next phase in the provincial government's primary class size reduction program.

These four categories of mandated costs amount to \$592.7 million of the \$667 million operating funding increase.

The remaining \$74 million in increased funding for 2007–08 would be barely sufficient to cover the remaining current year cost pressures, assuming inflation at 2% per year.

That leaves no additional funding to deal with the carry-over of prior years' funding pressures into 2007–08, and no additional funding to address more fundamental structural problems with the funding formula.

### **Individual board impacts for 2007–8**

The impact of the changes for 2007–08 also varies among boards. Because of the particular configuration of grant increases, a change that may be approximately revenue-neutral across the province can have quite different effects on

TABLE 2 **Budget flexibility first approximation**

	Estimated current year financial position (\$ million)	% of 2006–7 operating funding	Enrolment change
Algoma DSB	-2.1	-1.8%	-4.3%
Dufferin-Peel Catholic DSB	4.2	0.7%	0.0%
Greater Essex County DSB	4.9	1.7%	1.9%
Hamilton-Wentworth Catholic DSB	-2.4	-1.1%	-1.2%
Hamilton-Wentworth DSB	-6.3	-1.5%	-2.5%
Ottawa-Carleton Catholic DSB	0.0	0.0%	-0.8%
Ottawa-Carleton DSB	-4.4	-0.8%	-1.2%
Peel DSB	31.4	3.0%	3.1%
Renfrew County DSB	-0.4	-0.4%	-2.5%
Thunder Bay Catholic DSB	-0.2	-0.3%	-1.9%
Toronto Catholic DSB	-1.0	-0.1%	0.4%
Toronto DSB	-19.0	-0.9%	-1.6%

individual boards. Boards also differ in their ability to react to enrolment changes.

The projected funding data provided by the Ministry are sufficient to provide a first approximation of budget flexibility for school boards as they prepare their budgets this year.

The analysis compares the overall increase in operating funding for each board with an estimate, board-by-board, of costs attributable to the implementation of the provincial labour framework and the provincial policy on primary class size reduction. The result is added to an estimate of the inflationary impact on costs not covered by the labour framework (assuming a 2% inflation rate) to generate an estimate of current year budget flexibility before enrolment change is taken into account.

A comparison of budget flexibility as a percentage of the 2007–08 operating funding with the percentage change in enrolment puts the budget flexibility change into perspective.

It is important to note that this approach to estimating budget flexibility is limited, in that it does not take into account the hangover effects of prior years' budgets. It therefore does not take

account of factors that will have a substantial impact on current year flexibility, including —

- **Deficits:** Prior year deficits affect current year budgeting both because current year planning starts from a negative base and because boards are required to cover prior year deficits in the current year.
- **Reserve funds:** Many boards have employed the self-limiting strategy of drawing down reserves to meet balanced budget requirements.
- **Deferred expenditures:** Boards' reliance on deferral of maintenance and other "discretionary" expenditures to manage budget pressures is self-limiting, if not for the individual board, then for the system as a whole.
- **Running out of options:** Many boards have resisted making cuts in programs that are not provided for in the funding formula, but which they believe are important to their communities. Over time, these boards have tended to run out of options to protect these programs.

- **Continuing effects of prior years' enrolment changes.**

According to the Ministry of Education and Training website, 12 boards finished fiscal year 2004–05 in deficit. Data for 2005–06 have not been made public.

Table 2 presents first approximation estimates of budget flexibility for 10 selected boards.

The table shows, for example, that for Ottawa-Carleton, the overall funding increase (not including the declining enrolment adjustment

increase) falls an estimated \$4.4 million short of the combination of the estimated cost of provincial initiatives and the impact of inflation on costs not covered by the labour framework. That negative overall impact represents 0.8% of the board's budget.

The Peel board's funding, after allowing for inflation and provincial commitments, has improved by \$31.4 million, or 3% of its budget. From that increase, however, it will have to fund for an enrolment increase of 3.1%.

# Conclusion

The identified gaps in the funding formula detract significantly from school boards' ability to enhance programs to meet the needs of students at risk, either for demographic reasons or because their first language is not English.

These gaps also detract from the government's effort to improve the physical standards of school infrastructure, particularly in major urban areas.

It is clear from the data that the funding shortfall is a substantial problem. It is equally clear that there is no solution to the problem if the government continues to insist on equality in funding, rather than equity in funding, as the objective of centralized education finance in Ontario.

# Notes

**1** The estimated gap is the difference between each board's inflation-adjusted 1997 operating costs and \$6.10 per square foot, multiplied by the number of square feet projected for 2007–08 funding. Inflation is based on the Statistics Canada Education Price Index for the period 1997 to 2003 (the latest year for which the Education Price Index is available) and the Consumer Price Index thereafter. The Education Price Index for school operations is a blended index of 57% non-teaching salaries and 43% facilities costs.

**2** The funding shortfall for adult credit courses is determined by adjusting actual board-by-board funding for adult education for the difference between second-

ary school per-student funding and adult funding per full-time-equivalent student.

**3** The Annual Report on Ontario's Public Schools, People for Education, May 2007.

**4** Learning opportunities grant demographic funding shortfalls are estimated on a board-by-board basis by distributing the province-wide funding needed to achieve the 3.3% of operating funding recommended in 1997 among boards in proportion to their share of current demographic component funding. Local priorities funding is \$200 per student.

# Appendix 1

	Financial pressures in 2007-8:			Impact of general funding gaps					
	Estimated current year financial position (\$ million)	% of 2006-7 budget	Enrolment change	Operations and maintenance (\$ million)	Adult credit courses (\$ million)	Learning opportunities demographic (\$ million)	Local priorities (\$ million)	Estimated impact of funding shortfalls (\$ million)	% of 2007-8 budget
Algoma DSB	-2.1	-1.8%	-4.3%	2.0	0.7	1.7	2.1	6.5	5.5%
Algonquin and Lakeshore Catholic DSB	0.1	0.1%	-0.8%	3.9	1.9	0.7	2.3	8.9	7.9%
Avon Maitland DSB	-1.1	-0.7%	-1.4%	0.0	0.3	0.7	3.4	4.4	2.9%
Bluewater DSB	-2.2	-1.3%	-1.6%	0.3	0.1	0.9	3.8	5.1	2.9%
Brant Haldimand Norfolk Catholic DSB	0.0	0.0%	-1.0%	1.4	0.1	0.5	2.1	4.1	4.6%
Bruce-Grey Catholic DSB	-0.3	-0.8%	-2.0%	0.5	0.0	0.1	0.7	1.3	3.8%
Catholic DSB of Eastern Ontario	-0.0	-0.0%	-1.7%	2.9	0.3	0.6	2.7	6.5	5.2%
CSD catholique Centre-Sud	5.4	4.3%	3.4%	2.9	0.0	1.0	2.3	6.3	4.6%
CSD catholique de l'Est ontarien	0.1	0.1%	-2.2%	0.6	0.5	1.0	2.2	4.3	3.5%
CSD catholique des Aurores boréales	1.4	12.6%	10.5%	0.2	0.0	0.9	0.1	1.2	9.1%
CSD catholique des Grandes Rivières	0.9	1.0%	-0.2%	1.4	0.2	0.1	1.4	3.1	3.4%
CSD catholique du Centre-Est de l'Ontario	4.0	2.5%	1.4%	0.7	0.4	1.2	3.2	5.6	3.3%
CSD catholique du Nouvel-Ontario	1.2	1.4%	-2.4%	3.4	0.0	1.7	1.3	6.4	7.4%
CSD catholique Franco-Nord	0.8	2.1%	-1.2%	0.0	0.3	0.9	0.6	1.8	4.3%

	Financial pressures in 2007-8:			Impact of general funding gaps					
	Estimated current year financial position (\$ million)	% of 2006-7 budget	Enrolment change	Operations and maintenance (\$ million)	Adult credit courses (\$ million)	Learning opportunities demographic (\$ million)	Local priorities (\$ million)	Estimated impact of funding shortfalls (\$ million)	% of 2007-8 budget
CSD des Écoles catholiques du Sud-Ouest	2.0	2.9%	1.3%	2.5	0.0	0.4	1.4	4.3	5.7%
CSD des Écoles publiques de l'Est de l'Ontario	2.7	2.6%	1.3%	1.5	1.5	0.3	2.0	5.3	4.6%
CSD du Centre Sud-Ouest	1.9	2.4%	1.1%	7.1	0.0	0.9	1.3	9.2	11.1%
CSD du Grand Nord de l'Ontario	0.8	2.0%	1.4%	2.1	0.0	0.1	0.5	2.7	6.7%
CSD du Nord-Est de l'Ontario	0.5	2.3%	1.9%	0.0	0.0	0.1	0.3	0.4	1.8%
DSB of Niagara	-4.4	-1.4%	-2.5%	6.3	2.1	2.8	7.7	18.9	5.7%
DSB Ontario North East	-1.1	-1.2%	-2.9%	2.7	0.3	0.9	1.6	5.6	6.1%
Dufferin-Peel Catholic DSB	4.2	0.7%	-0.0%	42.8	7.9	8.5	16.8	75.9	11.1%
Durham Catholic DSB	-0.2	-0.1%	-1.4%	11.8	0.9	0.6	4.8	18.1	9.3%
Durham DSB	1.4	0.3%	-0.3%	15.9	2.5	2.0	13.2	33.7	6.3%
Grand Erie DSB	-2.0	-0.9%	-0.7%	4.5	0.6	2.2	5.4	12.7	5.5%
Greater Essex County DSB	4.9	1.7%	1.9%	2.3	1.3	1.8	7.3	12.7	4.3%
Halton Catholic DSB	2.0	1.0%	0.1%	7.2	1.0	3.7	5.4	17.4	8.3%
Halton DSB	5.4	1.5%	1.8%	3.9	1.3	0.3	9.5	15.1	4.0%
Hamilton-Wentworth Catholic DSB	-2.4	-1.1%	-1.2%	2.2	3.5	0.5	5.5	11.7	5.0%
Hamilton-Wentworth DSB	-6.3	-1.5%	-2.5%	0.4	2.6	3.1	10.0	16.1	3.7%
Hastings and Prince Edward DSB	-2.5	-1.6%	-4.0%	3.3	0.4	7.8	3.3	14.9	9.5%
Huron-Perth Catholic DSB	-0.5	-1.1%	-3.1%	0.8	0.0	1.5	0.9	3.2	7.4%
Huron-Superior Catholic DSB	-0.0	-0.0%	-3.3%	1.5	0.2	0.1	1.0	2.9	5.1%
Kawartha Pine Ridge DSB	-4.2	-1.4%	-2.6%	3.7	0.8	0.8	7.0	12.4	4.0%
Keewatin-Patricia DSB	-0.0	-0.1%	-3.4%	1.8	0.2	1.4	1.1	4.5	7.0%
Kenora Catholic DSB	0.3	2.2%	-0.4%	0.1	0.0	0.5	0.2	0.9	6.6%
Lakehead DSB	-3.6	-3.5%	-6.2%	3.1	0.4	0.1	2.0	5.6	5.5%
Lambton Kent DSB	-3.5	-1.8%	-2.3%	2.9	0.9	1.3	4.8	9.9	4.8%
Limestone DSB	-0.9	-0.5%	-1.2%	3.2	2.6	1.0	4.2	11.0	5.7%
London District Catholic School Board	-0.2	-0.1%	-0.5%	7.2	1.0	1.3	4.2	13.8	7.7%
Near North DSB	-1.0	-0.9%	-3.4%	2.6	0.3	1.4	2.2	6.5	5.6%
Niagara Catholic DSB	0.2	0.1%	-0.6%	8.0	3.5	1.2	4.6	17.3	9.1%
Nipissing-Parry Sound Catholic DSB	-0.2	-0.6%	-2.8%	0.3	0.2	0.3	0.6	1.4	4.1%
Northeastern Catholic DSB	-0.3	-1.0%	-3.2%	2.2	0.0	0.3	0.5	3.0	10.4%
Northwest Catholic DSB	0.2	1.7%	-1.9%	0.3	0.0	0.1	0.2	0.6	4.2%

	Financial pressures in 2007-8			Impact of general funding gaps					
	Estimated current year financial position (\$ million)	% of 2006-7 budget	Enrolment change	Operations and maintenance (\$ million)	Adult credit courses (\$ million)	Learning opportunities demographic (\$ million)	Local priorities (\$ million)	Estimated impact of funding shortfalls (\$ million)	% of 2007-8 budget
Ottawa-Carleton Catholic DSB	0.0	0.0%	-0.8%	3.0	5.9	4.1	7.6	20.6	6.1%
Ottawa-Carleton DSB	-4.4	-0.8%	-1.2%	12.2	4.2	9.1	13.2	38.7	6.7%
Peel DSB	31.4	3.0%	3.1%	16.4	7.1	11.9	28.3	63.7	5.7%
Peterborough Victoria Northumberland and Clarington Catholic DSB	0.8	0.7%	-0.1%	1.7	0.1	0.4	2.9	5.0	3.9%
Rainbow DSB	-0.3	-0.2%	-1.8%	2.3	0.7	1.3	2.9	7.3	5.1%
Rainy River DSB	-0.4	-1.3%	-4.5%	0.4	0.0	0.3	0.5	1.2	3.8%
Renfrew County Catholic DSB	-0.3	-0.6%	-2.5%	0.1	0.0	0.3	0.9	1.3	2.9%
Renfrew County DSB	-0.4	-0.4%	-2.5%	0.6	0.3	0.5	2.0	3.4	3.8%
Simcoe County DSB	-3.7	-0.9%	-2.7%	0.0	2.1	1.1	10.2	13.4	3.2%
Simcoe Muskoka Catholic DSB	1.4	0.8%	-0.5%	11.4	0.0	0.3	4.2	15.9	8.9%
St. Clair Catholic DSB	-1.8	-2.1%	-3.6%	1.8	0.0	0.4	2.0	4.2	4.7%
Sudbury Catholic DSB	-0.1	-0.2%	-1.2%	2.3	0.3	0.7	1.3	4.5	7.5%
Superior North Catholic DSB	0.3	2.9%	-3.3%	0.4	0.0	0.1	0.1	0.6	5.4%
Superior-Greenstone DSB	-0.7	-2.5%	-5.8%	1.3	0.1	0.3	0.4	2.1	7.2%
Thames Valley DSB	-6.4	-1.1%	-1.8%	2.6	5.2	6.0	14.7	28.5	4.6%
Thunder Bay Catholic DSB	-0.2	-0.3%	-1.9%	0.0	0.0	0.6	1.6	2.2	3.0%
Toronto Catholic DSB	-1.0	-0.1%	0.4%	16.6	9.7	30.6	17.4	74.3	9.5%
Toronto DSB	-19.0	-0.9%	-1.6%	124.9	31.9	83.3	48.9	289.1	12.9%
Trillium Lakelands DSB	-3.6	-2.2%	-3.9%	4.7	0.6	0.5	3.6	9.4	5.5%
Upper Canada DSB	-4.7	-1.7%	-3.3%	3.7	2.2	1.1	6.2	13.2	4.5%
Upper Grand DSB	0.1	0.0%	-0.4%	8.1	2.1	0.9	6.5	17.6	6.7%
Waterloo Catholic DSB	0.2	0.1%	-0.7%	0.0	2.5	1.4	4.5	8.4	4.5%
Waterloo Region DSB	-0.2	-0.0%	-0.1%	7.8	2.4	3.8	11.3	25.3	5.5%
Wellington Catholic DSB	0.2	0.3%	0.5%	2.9	0.0	0.3	1.6	4.8	7.2%
Windsor-Essex Catholic DSB	-1.3	-0.7%	-0.6%	4.9	0.6	2.5	5.0	13.1	6.3%
York Catholic DSB	3.8	0.9%	0.9%	11.1	2.9	3.1	10.3	27.4	6.5%
York Region DSB	12.0	1.5%	1.4%	38.6	5.4	6.9	20.8	71.8	8.4%





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