

Adding Rozanski: A Roadmap to Implementation

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The report of the Task Force on Education Equality (the Rozanski Report) can claim the rare achievement of being hailed by critics of the Ontario Government's elementary and secondary education funding policies at the same time as it is apparently being embraced by that same Government.

As unusual as it may seem, there is some basis for both impressions.

Rozanski's math does indeed vindicate the funding formula's critics.

The report estimates under funding of formula benchmarks since the 1997 base year at a total of \$1.42 billion (including the recommended allocation for salary and benefit negotiations — subsequently announced as \$340 million). This compares with a finding in the Ontario Alternative Budget report, "Cutting Classes" in June 2002 that school boards had lost \$1.3 billion since 1997.¹

The report recommends new investments of at least \$689 million, for a total recommended increase in funding, in 2002-3 dollars, of \$2.1 billion. This compares with the OAB estimate in June 2002 that funding has been cut by \$2.5 billion, when enrolment and costs increases are taken into account, since the year before the Harris Government was elected.

In the wake of the Rozanski recommendations, it is unlikely that we will hear a rerun of the Government's insistence that funding had been improved since it was elected, or its argument that the fault for any problems with the education system lies with school boards that can't manage effectively.

At the same time, the speed with which the Government has moved to implement the Rozanski recommendations that were intended for implementation in the 2002-3 school year clearly adds weight to the impression that the Government has accepted the report.

After early suggestions from the Premier and others that the recommendations from the Task Force looked to be too rich for the Government's fiscal resources, the Government responded quickly and completely to the report's recommendations for immediate action. Within three days of the Rozanski report's release, the Government had committed itself to the report's recommended \$250 million to reduce special education waiting lists, released the \$20 million increase in funding for school transportation promised in the 2002-3 Budget.² And, most tellingly, the Government acknowledged that it had short-changed the system this year by adding \$340 million in funding to pay for salary and benefit increases for teachers and support staff.

Looking to the future, however, there is reason for some skepticism about the Government's apparent enthusiasm for the report.

To put it bluntly, there is a huge gap between the scale of future funding commitments that were under discussion in the Government before the report came out and the scale of commitment that would be required to implement the recommendations specified by Rozanski, much less to respond to the results of further reviews proposed in the report.



Rozanski himself is partially responsible for this confusion. When he released his report, he characterized it as calling for additional annual funding of \$1.8 billion. \$1.08 billion — for benchmark updating — would be phased in over a period of three years, beginning in the next school year (2003-4). The remainder — for new investments — would be split between the current school year (2002-3) and next year. The total cost of \$1.8 billion is spread over four years.

The total had the political merit of landing just under a large round number (\$2 billion). And the phase-in, linked to the Government's fiscal capacity, was clearly intended to lower the apparent financial stakes in accepting the report.

It also brought the apparent annual increases comfortably within the range of \$400 to \$500 million in annual increases for the next few years discussed in internal Government documents prior to the release of the report.

The problem is that while the \$1.8 billion discussed by Rozanski in his news releases is relatively close to the amounts under discussion in the fall of 2002, it is not even close to the total value, over the four-year phase-in period, of Rozanski's own specific recommendations for funding improvements.

To begin with, Rozanski's estimate does not measure the full cost of updating funding benchmarks from 1997 to 2002-3. In particular, it does not include the cost of his recommendation that the Government increase funding for salary and benefit negotiations for 2002-3, subsequently implemented by the Government at a cost of \$340 million.

So the cost of updating benchmarks from 1997 values to 2002-3 values is actually \$1.42 billion, not \$1.08 billion.

More important, the figure discussed by Rozanski does not take into account his recommendation that benchmarks be updated annually to reflect changes in costs.

As a result, in addition to the amount for 2002-3 salary increases, his estimate of \$1.8 billion leaves out three years of annual benchmark updates.

A comprehensive analysis of the recommendations in the Rozanski report — including the cost of keeping benchmarks current — shows that his specific, quantifiable recommendations would require increased annual funding of more than \$3.5 billion over the four-school-year implementation period.

Approximately \$3 billion of that amount is still to come, over the three school years beginning in September 2003:

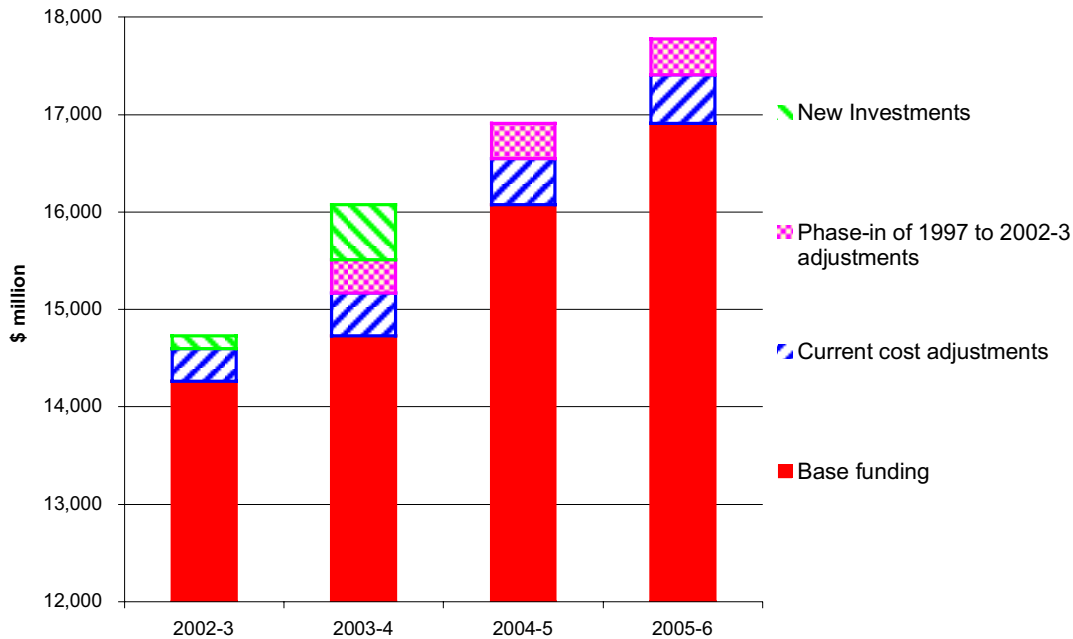
- \$1,270 million in 2003-4;
- \$835 million in 2004-5; and
- \$870 million in 2005-6.

The true measure of the Government's commitment to implementing the Rozanski Report will be contained in the announcement for school funding for 2003-4. Total funding of \$16.1 billion would be consistent with full implementation of Rozanski's recommendations. Less than that would be a retreat, signalling a return to the period of eroding benchmarks that was the hallmark of the formula's first five years.

The increases required are summarized in Chart 1.



Chart 1
Funding increases recommended in Rozanski Report



Adding Rozanski

When the Provincial Government assumed full control of elementary and secondary education funding in 1997, it changed the system from a hybrid of provincial grants and locally determined taxes to one in which all of the resources available to school boards were to be based on a formula common to all boards.

The formula for funding was based on measures of the various components of educational services, with dollar values attached to each component. For example, services such as classroom teachers, books and computers were broken down into per-student requirements, and funding levels for each component were established.

The components selected for funding, the way the components were specified, and the values attached to them for funding gener-

ated considerable controversy when they were introduced.³

For example, the benchmark for funding of school operations was based on an assumed number of square feet of space required for each student, with different numbers depending on whether the student was an elementary, secondary or adult student. Actual funding was based on the median cost per square foot for school operations in 1997 among the then 122 school boards, \$5.20 per square foot.

Every aspect of this approach generated controversy. Questions were raised about the wisdom of providing for a uniform number of square feet of space per student, without reference to the size or age of the actual school buildings.

The choice of the median rather than the average (approximately \$5.50 per square foot) as the benchmark amount, and the decision not to take account of regional differences in



costs such as labour and heating also generated controversy.

A further concern was that there was no provision in the funding formula for updating the benchmarks to reflect changing costs over time. When the funding formula was established, benchmark values were determined based on various measures of board costs in 1997.

In one way or another, Rozanski's report addresses all of these types of issues, although the main focus of his work was on updating benchmark values and initiating a process of reviewing benchmark selection and specification.

Rozanski's recommendations fall into four categories:

- Increases required to offset the decline in the real value of funding formula benchmarks from the base year of 1997 to 2002-3;

In dollar terms, the bulk of Rozanski's recommendations focus on the erosion in the values of the benchmarks.

The Rozanski report recommends increased funding of \$1.01 billion to update all benchmarks to 2001-2 costs, \$0.07 billion to reflect non-salary cost increases from 2001-2 to 2002-3, plus an additional allocation for salary and benefit increases in 2002-3. The Government's announcement of \$340 million in new funding for salary and benefit negotiations in December 2002 fixes the total cost of the update at \$1.42 billion.⁴

- New investments required to address the most obvious areas of the funding formula not addressed adequately in the original benchmarks;

Rozanski highlights a number of areas in which new investments are clearly required, including special education, programs which address the needs of students arising from demographic disadvantage, English as a second language instruction, and the repair and maintenance of physical facilities.

These new investments come to a total of \$689 million in 2002-3 dollars. The Government's December announcements commit an estimated \$205 million of that amount for 2002-3, leaving a further \$484 million in 2002-3 dollars for implementation in 2003-4.⁵

- Annual adjustments in benchmark values to reflect current costs to avoid a repeat in the future of the erosion of funding over the past five years;

When the funding formula was introduced, no commitment was made to keep the benchmark values current. Rozanski places particular emphasis on the need to maintain the funding formula, to monitor its effectiveness and to strengthen accountability for its adequacy on the part of the provincial government. He recommends that benchmarks be updated annually, to reflect current costs.

Based on projections for further growth in costs, we estimate that additional funding in current dollars will be required to keep benchmarks current, as follows:

- 2003-4 — \$436 million;
- 2004-5 — \$478 million; and
- 2005-6 — \$503 million.

This includes the cost of keeping current the value of the phased-in adjustments for the 1997 to 2002-3 period as well as of the 2002-3 and 2003-4 new investments.⁶



- Recommendations to review in detail major components of the funding formula which have raised questions that go beyond the deteriorating value of benchmarks to the specification of the formula itself.

The most important recommendations in this category call for: fundamental reviews of all aspects of early years funding, including: funding for services for children and families that are not defined as “education” in the funding formula; the design and funding of the learning opportunities grant; a reworking of the formula for transportation; and a re-consideration of the funding of school operations, maintenance, renewal and replacement.

Total funding required over the next three years to implement Rozanski recommendations.

It would have been difficult for the Rozanski recommendations to have been a more thorough repudiation of the policies

followed by the Harris-Eves Conservatives since they were elected in 1995.

As noted above, the report estimates underfunding of formula benchmarks since their 1997 base year at a total of \$1.42 billion.

The report also recommends new investments of at least \$689 million, for a total recommended increase in funding, in 2002-3 dollars, of \$2.1 billion.

Table 1 summarizes the additional funding required to implement Rozanski’s recommendations.

The Rozanski recommendations imply funding increases of more than \$1.3 billion for 2003-4, for a total of \$16.1 billion, and more than \$800 million in each of the next two years, for a total by the end of the phase-in period of \$17.8 billion.

This analysis provides a kind of road map for the future implementation of Rozanski’s recommendations, and quantifies levels of funding consistent with implementation of Rozanski’s recommendations, as he has proposed.

Table 1

Funding Required							
2002-3 Pre-Rozanski Total	14,260	2002-3 General Legislative Grants plus Budget adjustments.					
Special Education Allocation	205	Rozanski recommendation implemented December, 2002					
Salary & Benefits Allocation	340	Rozanski recommendation implemented December, 2002					
2002-3 after Rozanski / 2003-4 base	14,805						
New Investments	484	Remainder of \$689 million in Rozanski new investments					
1997 to 2002-3 adjustment phase-in	347	1/3 of \$1.08 billion, adjusted to reflect projected costs to 2003-4					
Current cost adjustment	436	Cost of adjusting 2002-3 base for 2003-4 cost increases					
2003-4 TOTAL / 2004-5 base	16,072						
Phase-in	357	1/3 of \$1.01 billion, adjusted to reflect projected costs to 2004-5					
Current cost adjustment	478	Cost of adjusting 2003-4 base for 2004-5 cost increases					
2004-5 TOTAL / 2005-6 base	16,907						
Phase-in	367	1/3 of \$1.01 billion, adjusted to reflect projected costs to 2005-6					
Current cost adjustment	503	Cost of adjusting 2004-5 base for 2005-6 cost increases					
2005-6 TOTAL / 2006-7 base	17,777						
Total New Funding							
2002-3 – Already Implemented	545						
2003-4	1,267						
2004-5	835						
2005-6	871						
3-year TOTAL	2,972						



Appendix I – Updating benchmarks from 1997 to 2002-3

Rozanski's report contains detailed benchmark-by-benchmark estimates of cost increases since the formula's 1997 base year. For some benchmark values — books and supplies, for example — the report uses the Consumer Price Index for Ontario. For other benchmarks, values are adjusted using components of the CPI for Ontario. For example, the report uses the utilities sub-component of the CPI to measure changes in fuel costs.

In other cases — teacher salaries and benefits, for example — the report measures actual school board costs and compares them with the funding provided for in the funding formula.

The report divided its analysis of the additional funding required to update benchmarks from 1997 to 2002-3 into three components. For the period from 1997 and 2001-2, the report provides detailed calculations of benchmark adjustments totalling \$1.01 billion.

For the period from 2001-2 to 2002-3, the report calculates a required adjustment for the non-salary components of the funding benchmarks of \$70 million.

Rather than provide a calculation for the salary components for 2001-2 to 2002-3, Rozanski simply recommended that the Government provide additional funding to enable boards to provide salary increases for employees for the 2002-3 school year. In response to the report, the Government provided additional funding of \$340 million for salary and benefit cost increases for 2002-3.

The total cost for benchmark updates from 1997 to 2002-3 recommended in the report is \$1.42 billion.

Of the \$1.42 billion, \$340 million has already been committed for 2002-3. The report recommends that the remaining \$1.08 billion be phased in over three school years, beginning in 2003-4.



Appendix II – Interim new investments and longer-term reviews

The benchmark update recommendations look only at how the financial drivers of the 1997 benchmarks have changed, and call for increased funding to bring them up to date.

In a number of key areas, the report looks behind the 1997 specification of the benchmarks and recommends further changes.

In special education, it recommends an increase to fund all approved intensive support amount claims, of \$250 million. It also recommends an increase in the special education per pupil amount for secondary schools of \$19 million. This reflects the fact that with the elimination of grade 13, total enrolment will decline more, proportionally, than special education needs.

For the longer term, the report recommends a revamping of the grants directed towards children at risk, including revisions of the Learning Opportunities Grant and the Language Grant, funding directed towards the special needs of aboriginal students and funding for integrated services for children and families.

As an interim measure, Rozanski recommends increases in funding for the Learning Opportunities Grant and the Language Grant of \$50 million and \$65 million, respectively.

The report recognizes the role that schools play in small communities in recommending

new funding of \$50 million to enable rural boards to keep small schools open in single-school communities.

The report raises the issue of grants tied to enrolment that are really intended to cover costs which are essentially fixed. It recommends a review of such grants in light of expected declining enrolment. As an interim measure, the report recommends that the declining enrolment grant allow five years to adjust to declining enrolment, rather than the current three, at an increased cost of \$5 million.

For school operations, the report expresses the view that the funding formula should reflect boards' actual costs. It also finds that the allocation for school renewal falls far short of what is required. As an interim measure, Rozanski recommends \$50 million in additional funding for school renewal and \$200 million annually to cover the costs of working off the backlog of deferred maintenance.

These interim new investments total \$689. Of that amount, \$130 million for cycle 3 special education claims and an estimated \$75 million for cycle 4 claims takes effect in 2002-3; the remainder would be implemented for 2003-4.



Appendix III – Keeping benchmarks current

In addition to recommending increased funding to update 1997 benchmarks to reflect 2002-3 costs, Rozanski's report stresses the need to provide annual funding increases to keep benchmarks current. He recommends an annual review of benchmark adequacy, and a more fundamental review of the funding system every five years.

Although Rozanski does not project future benchmark adjustments, future required adjustments can be projected using the methodology detailed in the appendices to his report and forecasts of key cost elements.

Rozanski's cost adjustments are based on five factors:

- Salary increases;
- Benefit cost increases;
- Changes in the Consumer Price Index for Ontario;
- Changes in the utilities subcomponent of the Consumer Price Index for Ontario; and
- A composite index of transportation costs derived from employee compensation, fuel, insurance, parts and maintenance and new bus acquisition costs.

Projections for this analysis are based on the following assumptions for costs over the next three years:

- Salaries, 3% per year;
- CPI for Ontario, 2% per year;
- Benefits, 2 times the increase in the CPI;
- Utilities, CPI plus 1% per year; and
- Transportation components other than fuel and salaries, 2% per year.

Each year's cost adjustment is projected by applying these assumed cost increases to the previous year's total funding. For example, the base for the cost adjustment for 2003-4 is total funding for 2002-3, including the adjustments to 2002-3 funding recommended by Rozanski.

In addition, the amount to be phased in each year from the 1997-to-2002-3 benchmark update is adjusted to reflect projected cost increases to the phase-in year. For example, the amount to be phased in for 2003-4 is one third of the \$1.08 billion recommended by Rozanski, adjusted to reflect increases in costs between 2002-3 and 2003-4.

Using this methodology, the benchmark adjustment for 2003-4 should be \$436 million; for 2004-5, \$478 million; for 2005-6, \$503 million. This compares with a total benchmark adjustment for 2002-3 recommended by Rozanski of \$430 million (including \$20 million for transportation announced in the 2002-3 Budget but only allocated to Boards in response to Rozanski's recommendations).⁷



Appendix IV – Technical Note on Projecting Cost Increases

Data provided in the appendices to the Rozanski Report reveal enough information about the cost elements that underlie Ontario’s system of grants for education to support projections of costs into the future using the Rozanski methodology and straightforward economic assumptions.

The first step in projecting cost increases is to determine a breakdown of total spending by benchmark.

Working from Table J.2: Estimated Cost of Updating Benchmarks — by Benchmark, 2002-3⁸ base year costs were estimated, for each benchmark. For some benchmarks, the base year cost appears directly in Table J.2. For example, current benchmark costs are reported for transportation, school renewal and new pupil places. For others, only the per-student formula amount in the base year appears in the Table. In these cases, the base year cost is estimated by multiplying the per-student amount by enrolment.

The second step is to associate a cost increase factor with each benchmark. In the Rozanski report, most benchmarks are associated with a single factor: salaries; benefits; the Consumer Price Index for Ontario; or the utilities subcomponent of the Consumer Price Index for Ontario.

Rozanski also uses two composite indices calculated specifically for his analysis: a school accommodation cost index; and a transportation cost index.

The accommodation cost index is derived from salaries, benefits, the Ontario CPI and the “water, fuel and electricity” subcomponent of the Ontario CPI.

The index weights break down as follows:

Table 2

Operations	
Salaries	48%
Benefits	9%
Utilities	20%
Other	23%

The transportation cost increase is derived from: new bus costs; licensing, inspections and insurance; wages and benefits; vehicle maintenance; and other components.

The weights for this index break down as follows:

Table 3

Transportation		
New bus		27%
Licensing		5%
Fuel		10%
Drivers	wage	23%
	benefits	4%
Maintenance		19%
Other		13%

Cost projections are based on assumptions structured as follows. Salary increases at 1% above the increase in the CPI; benefits increases at 2 times the increase in the CPI; utilities and fuel increasing at 1% above the increase in the CPI; and all other components increasing at the rate of increase of the CPI.

Projected increases the first year for each benchmark are calculated by multiplying the increase in the applicable index to each base year figure. That generates a new base year figure from which to calculate the benchmark increase for the next year, and so on.



Ontario Alternative Budget 2003

Phased-in adjustments for the period 1997 to 2002-3 are adjusted for projected cost increases from 2002-3 until the year of phase-in, assuming that 1/3 of the original shortfall is phased in each year. Those adjustments become part of base funding from which benchmark adjustments are calculated for the next year.

The new investments recommended by Rozanski are broken down into index components, as follows:

- The special education, learning opportunities and language increases are allocated entirely to salaries and benefits.
- The declining enrolment increase is allocated to school operations.
- The school renewal and deferred maintenance increases are indexed to the Ontario CPI.
- The new investments are built into base spending for the year in which they are made and indexed at these rates thereafter. The calculations are summarized in Table 4 (see pages 12 and 13).



Table 4

Projecting additional education costs
Phase-in %

	Estimated 2002-3 base	Rozanski increases for 2002-3	Revised base 2002-3	New investments 2003-4	Benchmark update 2003-4	2003-4 Estimated Total	Benchmark update 2004-5	2004-5 Estimated Total	2004-5 Estimated Total	Benchmark update 2005-6	2005-6 Estimated Total	Adjustment basis
Non-teachers												
Operations	60	2,070	-	-	62	2,164	65	2,262	2,262	68	2,364	Salaries
Teachers	21	716	-	21	753	791	23	791	791	24	831	Salaries
Benefits	10	965	-	39	1,033	1,105	41	1,105	1,105	44	1,181	Benefits
Non-teachers and operations	10	435	-	17	482	531	31	531	531	21	585	Benefits
Elementary	100	100	-	2	113	113	2	113	113	2	120	CPI
Secondary	68	68	-	1	76	76	3	76	76	2	80	CPI
Elementary	102	102	-	2	116	116	2	116	116	2	123	CPI
Secondary	117	117	-	2	124	131	5	131	131	3	139	CPI
Elementary	57	57	-	1	61	66	1	66	66	1	70	CPI
Secondary	38	38	-	1	40	43	2	43	43	1	45	CPI
In-school administration (supplies)	10	10	-	0	11	12	0	12	12	0	13	CPI
Board-level administration (supplies)	134	134	-	3	142	150	3	150	150	3	158	CPI
Utilities	281	281	-	8	316	354	9	354	354	11	393	Utilities
Other costs	311	311	-	6	328	345	7	345	345	7	364	CPI
Transportation	631	631	-	15	674	718	16	718	718	17	764	Transport
School renewal	172	172	-	3	184	196	4	196	196	4	209	CPI
New pupil places	243	243	-	5	261	280	5	280	280	6	299	CPI
NEW INVESTMENTS												
Special Education		172	172	38	210	216	6	216	216	6	223	Salaries
Special Education		33	33	7	40	42	2	42	42	2	44	Benefits
Special Education		-	-	17	17	17	1	17	17	1	18	Salaries
Special Education		-	-	2	2	2	0	2	2	0	2	Benefits
Special Education		-	-	57	57	59	2	59	59	2	61	Salaries
Special Education		-	-	8	8	8	0	8	8	0	8	Benefits
Special Education		-	-	50	50	51	1	51	51	1	53	Operations
Special Education		-	-	42	42	43	1	43	43	1	45	Salaries
Special Education		-	-	8	8	8	0	8	8	0	8	Benefits
Special Education		-	-	50	50	51	1	51	51	1	53	Operations
Special Education		-	-	42	42	43	1	43	43	1	45	Salaries
Special Education		-	-	8	8	8	0	8	8	0	8	Benefits
Special Education		-	-	50	50	51	1	51	51	1	53	Operations
Special Education		-	-	200	200	204	4	204	204	4	208	CPI
Special Education		-	-	80	80	80	-	80	80	-	80	CPI
Special Education		38	38	38	38	38	-	38	38	-	38	CPI
Special Education		14,260	14,805	484	16,072	16,907	478	16,907	16,907	503	17,777	
TOTAL	545	14,805	484	436	16,072	16,907	357	16,907	16,907	503	17,777	



Endnotes

- ¹ “Cutting Classes”, Hugh Mackenzie, Canadian Centre for Policy Alternatives, June 2002
- ² The \$20 million for transportation recommended by Rozanski and accepted by Minister Witmer was not “new” money. It was funding promised in the budget but not yet allocated to boards. In the analysis in this paper, the \$20 million promised in the 2002-3 Budget for transportation is included in base funding for 2002-3, and is not counted either as part of the Rozanski package or as part of the Government’s response to Rozanski.
- ³ See, for example, “Education Funding in Ontario: How the Government used its new funding formula to short-change our children’s future”, Hugh Mackenzie, Ontario Alternative Budget Working Group Technical Paper #5, November 1998.
- ⁴ See Appendix I.
- ⁵ See Appendix II.
- ⁶ See Appendix III.
- ⁷ The figure of \$430 million is for benchmark adjustments only. It does not include the new investment for special education.
- ⁸ *Investing in Public Education, The Report of the Education Equality Task Force 2002*, Appendix J, Page 100, 2002.



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