

RECOMMENDATION

SUMA must be involved in the design phase of the new permanent education funding program the Province has committed to implementing in 2011. The shift in responsibility for setting the education mill rate does have an impact on municipal governments. However, all the impacts identified can be addressed in the design phase of the new program.

BACKGROUND

Since 1905, Saskatchewan school divisions have taxed local property for the costs of education. Saskatchewan has been more reliant on property taxes to fund education than any other province in Canada. In the past thirty years, the Provincial Government has not provided more than 60 per cent of the operating costs of boards of education. In the 1990s, the provincial share was as low as 40 per cent.

Historically, the education portion of property tax varied greatly by municipality because the education mill rates were set at the discretion of the school division. This mill rate affects the total amount of taxes paid by property owners in a municipality and property taxes can effect a person's decision to move their residence or business to a community. In some instances, the education portion of property tax can account for more than 75% of the total tax bill.

Although municipal government does not have jurisdiction over K-12 education, properly funded, high quality education has an impact on municipal governments. Schools are an important component of quality of life and contribute to the sustainability of a community. Municipalities also have an interest in the level of funding provided to K-12 education by the provincial government. Under the current system, any portion of education not funded by the Province falls to municipal property tax owners. As well, the municipality is responsible for billing and collection the education portion of property taxes.

At the 2009-10 budget address, the Province introduced sweeping changes to the education property tax system. Saskatchewan is following suit of the majority of provinces across Canada, which set a province-wide uniform mill rate for the education portion of property taxes.

Effective April 1, 2009, the province is responsible for setting the property tax mill rates used to levy education taxes by all public school divisions. This new arrangement may also be used by some separate (non-public) school divisions. Under this new arrangement, the Province will cover 63% of the costs of education for 2009-10, and 66% in 2010-11. The Province will be implementing a permanent program for funding K-12 education in time for the 2011-12 fiscal year.

REVIEW OF REITER REPORT

In January 2009, MLA Jim Reiter presented Minister Ken Krawetz with a report entitled *A Decision for Our Future: Options for Long-Term Education Property Tax Relief*. Reiter was commissioned to complete this report as part of the Provincial's Governments commitments to:

- achieve a fairer balance for education funding;
- ensure K-12 education is properly funded; and
- ensure that the education portion of property tax is further reduced.

Reiter's report focused around achieving those commitments. In order to advise the Province on options to reduce reliance on property taxes to fund K-12 education, Reiter:

- Reviewed the current Saskatchewan K-12 education funding program and property tax regime;
- Consulted with interested groups and organizations and receive written briefs; and
- Reviewed the K-12 education funding programs in other provinces.

The following principles and considerations guided the review and chosen option:

- Provincial Responsibility
- Board of Education Autonomy
- Education Equity
- Taxation Fairness
- Funding Adequacy and Sustainability
- Government Commitments
- Provincial Fiscal and Taxpayer Impacts
- Ministry Administrative Capacity
- Statutory and Regulatory Amendments
- Major Risks

Implications for Municipal Governments

The impact of this shift in responsibility for setting the education mill rate will have a minimal impact on municipal governments. However, there are some impacts that municipalities will feel and SUMA must ensure that urban municipalities are represented in the development of the permanent K-12 education funding program slated for implementation in 2011. Each of the impacts that are noted can be addressed in the program development stage.

- Process

A new program must address the process the Province will use to set rates, collect taxes, and pay school divisions. The program must outline the following:

- Will municipalities be required to remit the collected taxes to the Province or directly to the school division?
- What type of payment will be required (Lump sum, quarterly, etc)?
- When will payment be due?
- Will payment come as an automatic withdrawal?

In order for municipal governments to adequately be prepared for collection and remittance procedures, these questions must all be addressed in the program

development phase. Remittance destination is not a crucial issue, but must be understood. Ideally, payments would be required multiple times over a fiscal year to allow a municipality sufficient time to collect taxes and not be required to rely on credit.

- Setting Mill Rates

A specific timeline must be used by the Province to deliver the annual education property tax mill rates. The commitment of the Province to announce rates in conjunction with the budget address must be written into regulation or policy to ensure that municipalities have enough time to finalize and pass their own budgets. Along with a commitment to an announcement on budget day, it would be beneficial to also provide a secondary commitment of March 31st, due to the annually fluctuating date of the budget address, to ensure rates are provided in a timely fashion.

- Taxes in Arrears

If the issue of taxes in arrears is not addressed in the development of a new education tax program, municipalities may incur additional costs which would be difficult to budget for. When a property has taxes in arrears and the municipality puts it up for sale in an attempt to recover the unpaid taxes, the price received often does not cover the unpaid taxes. When this occurs under the new funding program, who will be responsible for the education portion of the unpaid and uncollected taxes? Ideally, the new program would require the Province to cover the unpaid portion of the education tax, not the local municipality.

- Tax Abatements, Discounts, and Local Exemptions

Historically, municipalities and school divisions have maintained a cooperative relationship in providing tax abatements, discounts and exemptions for special properties. Both municipalities and school divisions were easily able to adjust mill rates for other properties by an insignificant amount in order to maintain the same tax revenues that would have been received without exemptions or discounts. With Provincial control over school division budgets, local tax discounts and exemptions may become more difficult. In the development of a permanent program, the Province must address this issue by creating province-wide discounts and exemptions to “eligible” properties (eligible to be defined in program development); or allow school divisions a budget line for abatements, discounts, and exemptions which would allow the school division to better address local need. Reiter suggests that there is a need for a thorough review of provincial and local property tax exemptions and its impacts on administration, as it has not yet been completed.

General Implications

This report identifies and infers a number of implications of this shift of responsibility in setting the local education mill rate. These implications are important to be aware of (and will be noted in point form); however, they require limited discussion in this paper because there is not a direct effect on municipal government.

- Uniform mill rates ensure the burden is shared equally by property tax payers – it should not be burdensome or dissimilar within tax classes among school divisions
- Potential for real or perceived loss of local autonomy for school divisions
- Should lead to more similar division expenditures on a per-student basis
- Property taxation affects the Province's ability to compete with other provinces for new business. Initiatives that reduce education property taxes on business have a positive stimulus effect.
- This uniform mill rate will remove the need for the operating grant to equalize fund availability and move the onus to the Province to ensure adequate funding
- When the province assumes some or the entire property tax base for education funding, limitations must be set on the provinces use of the tax base.
- Shortfalls in provincial education funding have historically been offset by increases in property taxes. Direct provincial reliance on the property tax base would limit the latitude and possibly set in motion a long term trend to rely increasingly on other provincial sources of revenue for funding
- Uniform mill rate will create a more fair playing ground in terms of intermunicipal competitiveness for business and investment
- Public disengagement from school boards may get worse
- The current perception of “lack of representation of local issues” due to the size of board districts, may compound with a perceived lack of local autonomy
- No ability to set special levies (by plebiscite) to seek elector approval for a uniform school division discretionary levy. In a similar approval process of budgets and financial statements (through the Ministry), special levies would provide greater flexibility of the school board to meet special and emerging school and community needs. BC and AB are currently able to conduct a plebiscite for a discretionary levy, with elector approval. AB government further limits the discretionary levy to a maximum of 3% of the budget.

General Implications to be Addressed once a Permanent Program is Implemented

Some other identified implications are listed below. These implications are listed separately from those above because each of these should be addressed in the design/development of a permanent program the Province has scheduled for implementation in 2011.

- Capacity of province to manage new responsibilities
- Ability to maintain “credit” or receive additional funding for unexpected costs
- Decreased reliance on property tax could decrease the flexibility school boards have to meet local and community needs
- Sufficient capital funding program must be developed by the Province
- Time, fairness and process to assess board budgets for approval
- Effect on ability to manipulate program delivery to local needs
- Better equity in funding distribution is expected
- Potential for delays in Ministry approval for capital projects.

LESSONS LEARNED FROM ALBERTA

Discussion with the Alberta Association of Municipal Districts and Counties (AAMDC) provided SUMA with some important issues to consider. Alberta has had a provincially-set uniform education property tax mill rate for approximately 15 years. The goal of this shift to the Province was to ensure that every school division had access to the same resources to teach in the same way – providing equal opportunity to equal quality education. Over those years, municipal councils and the AAMDC encounter some adverse implications of a provincially-set rate that could have implications in the Saskatchewan situation.

- Pay to Whom

In Alberta, municipalities used to collect the education portion of property tax and then remit the balance to the school division. When responsibility for setting education mill rates shifted to the Province, so did the remittance destination. Currently, the Province has an auto-pay system where automatic withdrawals are set up to pay the Province from municipalities' bank accounts. The implication here is that not all property owners pay their full tax bill in a lump sum at the beginning of the fiscal year. This means the municipality is responsible for footing the bill until the entire amount can be collected – sometimes forcing the municipality to rely on credit.

- Timing and amount of payment

The timing of the automatic withdrawal requires municipalities to ensure sufficient funds are available. Alberta has chosen to set up withdrawals on a quarterly basis. This better allows municipalities to collect the annual property taxes over time and has a more balanced impact on the bank account. It is important that municipalities know how much and when payments must be received.

- Setting the Mill Rate

When the Province began setting a uniform education mill rate, it was often a long process and municipalities were not provided the information in a timely fashion. In some cases, municipalities were unable to pass their budgets until July because of the slow rate-setting by the Province. AAMDC recommends that there be a cut off for when the mill rate will be announced. This could be addressed through provincial policy or regulation. (NOTE: The Saskatchewan government has committed to providing the mill rate at each budget day, which would address this issue).

- Taxes in Arrears

Any municipal and education property taxes in arrears fall on the shoulders of municipal councils. This issue is especially pertinent in Alberta, where the education portion is automatically withdrawn. So, a municipality is not only bearing the lost revenue for its portion of the property tax, it must also cover the shortfall in the education portion.

- Tax Abatements, Discounts, and Local Exemptions

AAMDC has suggested that any tax abatements, discounts or exemptions a municipality provides for certain properties (such as nonprofits) do not translate to the education portion of the property tax. It would be the municipality's responsibility to decrease the municipal portion even further or absorb the equivalent abatement/discount/exemption that the property would have received for the education portion. In Saskatchewan (prior to the shift to a uniform mill rate), the municipality and school board would often agree to both provide the abatement/discount/exemption. The school board and municipality were able to recover the amount by adjusting the mill rate by a miniscule amount. The school boards no longer have this ability.

WHERE DOES SUMA GO FROM HERE

While lacking jurisdiction over education, municipal governments will be effected by the changes the Province has made to the education property tax system. At this point, SUMA is unable to take a position on the specific impacts that have been identified. All of the impacts that have been recognized will not be addressed until the design and development stages of a permanent program have begun. Therefore, SUMA must be involved as a stakeholder in the development of the new program. This program must address the impacts stated: process, setting the mill rate, taxes in arrears, and tax abatements, discounts and exemptions. By being involved in the development of a new program, slated for implementation in 2011, SUMA will be able to address those specific issues. Once a proposed program has been developed, SUMA will be in a better position to provide a position on each of the identified impacts.