

## **Eliminating School Property Taxes in Manitoba**

School Based Management and Broader Government Efficiencies can Fund Tax Overhaul

### **Executive Summary**

- In the 2003/2004 year, \$1.43 billion was spent on K-S4 public education in Manitoba.
- Approximately 57% of public education costs are funded by the provincial government while 38% is covered by locally raised property taxes.
- Manitoba has two school-based property taxes in Manitoba—the Education Support Levy, which is set and collected by the provincial government and represents most of the remaining revenue, and the special levy, set and collected by local school boards.
- Property taxes have steadily increased in Manitoba to the point where Manitoba's property taxes are considerably higher than in other provincial jurisdictions.
- Farmers are particularly hard hit by education property taxes since they pay a levy on both their farmland and their residence.
- Property taxes are an inequitable way to fund education since they are not tied to income and are not uniform across the province.
- A significant number of organizations have called for the elimination or reduction of the special levy.
- Out of all the provinces, only Saskatchewan relies more heavily than Manitoba on property taxes as a means of funding public schools. Three provinces fund education exclusively through general provincial revenues.
- In order to make education funding more equitable, the special levy raised by school boards should be eliminated. The Province of Manitoba should assume total responsibility for public school spending.
- To compensate for the projected loss of \$523 million in revenue, the provincial government could explore a variety of options, all of them preferable to the current system.

### **Introduction**

Manitoba is one of only two provinces in Canada that still uses property taxes as a means of funding a significant proportion of education costs. Over the last 20 years, the proportion of revenue for public schools from property taxes has increased substantially, while the percentage funded directly by the provincial government has dropped dramatically. Most of the recent increases in property tax rates have been due to the rising costs of education.

Several organizations, including the Manitoba Chambers of Commerce, the Manitoba Association of School Trustees and the Winnipeg Real Estate Board have recently lobbied for eliminating or reducing school-based property taxes. During the 2003 provincial election, the Progressive Conservative Party included the elimination of residential school-based property taxes in its platform. While that party was defeated in the election, this

issue continues to dominate the debate over the future of public education in this province.

Public pressure for property tax relief has also been increasing, as school divisions seem incapable of containing costs. In school district after school district, increases in school taxes on property have become a regular winter ritual. This background paper will examine the sources of education funding in Manitoba and compare them with practices in other provinces. It will then suggest finding alternatives.

### **Current Status of Education Funding in Manitoba**

In the 2003/2004 FRAME Report, the Manitoba government projected that expenditures on public education (K-S4) would be approximately \$1.43 billion. Currently, the Manitoba government directly funds 56.7% of education costs while most of the remainder (38.1%) is covered by property taxes set by local school boards.<sup>i</sup> This proportion stands in stark contrast to just a generation ago, in 1981, when the Manitoba government covered 82.4% of public school operating costs.<sup>ii</sup> The provincial government's share of public-school financing has declined substantially over the past 25 years.

Manitoba uses two different types of school-based property taxes in Manitoba. The first, known as the Education Support Levy (ESL), is imposed and collected by the provincial government using a uniform mill rate across the province. The ESL is included as part of the provincial funding portion for education. It raises approximately \$183 million per year and has been gradually decreased by the government over the past three years.<sup>iii</sup>

The second type of school-based property taxes is the special levy, imposed by local school boards and collected by municipalities. It accounts for a total of \$523 million per year.<sup>iv</sup> Unlike the ESL, rates vary across the province. The special levy has increased significantly over the past few years and continues to rise. It is this portion of school-based property taxes that makes up 38.1% of public schools financing in Manitoba.

### **Problems with the Current System**

The current method of funding public education has caused some significant problems in Manitoba. One of the most notable of these is that the property taxes levied by local school boards have steadily increased. In many communities, the school portion makes up more than half of the property tax bills. While municipalities have generally decreased or kept their property tax rates stable, property owners have still faced increased property taxes as a result of school levies. As a result, Manitobans, and Winnipeg residents in particular, have some of the highest property taxes in the country.<sup>v</sup>

It is not only residential homeowners who are negatively affected by school-based property taxes. Commercial business owners and owners of farm property also pay a hefty amount in school tax. Farm owners are hit particularly hard since, in addition to paying residential property tax, they are also required to pay a special levy on their farmland. While farmers make up only 3% of the population in Manitoba, they are responsible for nearly 9% of the total education bill through the special levy.<sup>vi</sup> The provincial government has agreed to address this inequity and reduce the disproportionate burden on farm property.

Property taxes are not a progressive form of taxation. While income taxes are tied to annual incomes and sales taxes to levels of consumption, property taxes are related solely to the assessed value of property owned. They particularly impact people who on fixed incomes—most notably seniors. Under the current property tax structure, a senior who owns a \$100,000 home in Winnipeg and earns \$15,000 annually will be required to pay

approximately \$1,500 in school taxes<sup>vii</sup> <sup>viii</sup> while a young professional with an annual income of \$60,000 living in an apartment would pay much less.

Using property taxes to fund education are inequitable for another reason. Since property values are widely disparate across the province, mill rates necessarily vary since school boards attempt to provide a roughly equivalent level of education for their students. Residents of communities with little commercial property and low property values therefore shoulder a greater proportion of property taxes than residents from wealthier communities.<sup>ix</sup>

Finally, the current system of funding public education in Manitoba is not sustainable in the long-term. Property tax rates are already higher in Manitoba than in most other provinces and this significantly hurts the province's ability to be competitive with other jurisdictions. A significant number of prominent organizations in Manitoba have lobbied for the reduction or removal of the school portion of property taxes. Among these are the Manitoba Chambers of Commerce,<sup>x</sup> Keystone Agricultural Producers,<sup>xi</sup> the Winnipeg Real Estate Board,<sup>xii</sup> the Manitoba Association of School Trustees<sup>xiii</sup> and the Manitoba Teachers Society.<sup>xiv</sup>

### **Education Funding Across Canada**

Most other provinces use a very different approach. Three out of ten provinces (Newfoundland, Prince Edward Island and New Brunswick) fund 100% of public school costs out of general provincial revenues and do not use any property taxes at all for this purpose. An additional two provinces (British Columbia and Ontario) have a provincial property tax levy similar to the Manitoba ESL. Among the remaining five provinces, only Saskatchewan is more dependent than Manitoba on locally levied school-based property taxes. Nova Scotia, Alberta, and Quebec derive only 19.1%, 5%, and 22.9%, respectively, of their education funding from locally levied property taxes.<sup>xv</sup>

Approximately 62% of public school financing in Saskatchewan is raised at the local level. However, a recent government report indicates that this may be about to change. It recommended that the Saskatchewan government increase provincial funding by, among other things, increasing the PST by 1% so that school divisions can reduce their dependence on property taxes. That would mean the provincial government would provide at least 70% of funding for school divisions.<sup>xvi</sup> If this report's recommendations are adopted, Manitoba would become the province most heavily dependent on school-based property taxes in the country.

No province is considering reverting to the Manitoba or Saskatchewan models of financing public education. Provinces that fund all or the vast majority of their educational costs through general revenues appears to be satisfied with their fiscal frameworks.

### **Recommendations for Manitoba**

A recent report commissioned by the Minister of Education considered some funding reforms. It recommended increasing the provincial portion of education financing to 80% and reducing reliance on property taxes to 15%. The lost revenue would be partly replaced by increasing the Provincial Sales Tax to 8%.<sup>xvii</sup> Unfortunately, these ideas would not provide much relief for property taxpayers since the report simply recommends transferring tax authority over commercial and farm property to the Province.<sup>xviii</sup>

Should the Province of Manitoba assume total responsibility for school funding and shed the property tax mechanism entirely, how much would be required? Where might it be found?

Over the past three years, the government has gradually reduced the ESL's mill rates so that the total amount collected through this levy has declined from \$207 million to \$183 million. School property taxes collected by municipalities provide \$523 million. That would require the Province to replace \$706 million, if spending remained the same.

### **Rationalizing Revenue**

But the elimination of school divisions might in itself save money. Evidence of that is clearest in New Brunswick, which did that in 1996. Like Manitoba, that province was facing declining public school enrolments. Its government, unlike Manitoba's, responded to that by rationalizing the service and shedding excess teaching capacity. In Manitoba, in contrast, teaching ranks and average remuneration increased even while school populations were falling.<sup>xxix</sup> The amount of the possible savings is difficult to calculate as a static score under dynamic conditions of change. But if Manitoba spent just at the Canadian average for public schools, we would save \$43 million a year.

School-based management between individual schools and the provincial Ministry of Education would also add much more transparency to the school spending process, and therefore enable cost shifting away from services that school faculties may not want or need. In New Zealand, for instance, which abolished its school boards in 1989, spending shifted radically. The proportion of budget funds spent in activities directly supporting classrooms prior to the reform only amounted to about a third of total spending; post-reform, that ratio reversed itself, and two-thirds of total spending moved to the front line.<sup>xxx</sup> It is impossible to calculate the financial benefit of a reduction of superfluous overheads, but it will be considerable.

Nor can one quantify the economic stimulus from the termination of school-based property taxes. We do know that high property taxes cause a loss in property values and that, in the core area of Winnipeg especially, that loss has been substantial.<sup>xxxi</sup> Reversing that negative progression would conversely entail an expansion of value, which itself would enable more capitalization of the inner city. The Province would receive more revenue from its other tax tools to compensate in part for the loss of property-tax income.

### **Other Reforms**

But a directly related revenue source is available in the form of the Manitoba Education Property Tax Credit.

Intended to offset school property taxes,<sup>xxii</sup> it pays \$400 to all Manitobans who pay more than \$250 in property tax.<sup>xxiii</sup> Since the special levy raised by local school boards would be eliminated, there would no longer be any need for the tax credit. Eliminating it would result in an annual savings of \$176 million.<sup>xxiv</sup>

Like the public school system, the funding for the Province of Manitoba's healthcare system is more generous than the Canadian average.<sup>xxv</sup> If the spending on provincial healthcare were reduced just to the amount all other provinces are spending on average, the Province would recover about \$440 million. The total of the hard amounts identified so far amounts to \$659 million, almost the amount needed for a total provincial assumption of responsibility for public school costs.

If none of those alternatives is politically palatable or desirable, the Province is losing a great deal of money by underpricing electricity. If Manitoba Hydro sold its product at market rates, the amount of royalties coming into the provincial treasury would increase by \$900 million.<sup>xxvi</sup> If the Province allowed power prices to increase only part of the way

towards the market level in surrounding jurisdictions, it would recover a corresponding proportion in increased revenue.

## **Conclusion**

In other words, the elimination of school-based property taxes is affordable, by any combination of these policy reforms. Education is an important responsibility of the province. In order to have high quality public schools, the provincial government needs to provide adequate funding. For too long, school boards have been forced to rely upon special levies which are inequitable and burdensome on ratepayers. If nothing is done about this situation, property taxes will reach even higher levels—straining our education system and making Manitoba even less competitive with other provinces.

Out of all other provinces, only Saskatchewan has a heavier reliance on property taxes to fund education. Clearly, the status quo is not acceptable. Eliminating them levy would be an important first step towards creating a better education financing system in Manitoba.

### **About the Author:**

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