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The Boughen Report's Hidden Agenda

— by J.F. Conway

The Commission on Financing Kindergarten to Grade 12 Education released its report in January. The recent provincial budget did not adopt Boughen's recommendations; though some fear the 1% increase in the PST could be a small first step in the direction proposed by Boughen. Doubtless intense pressure from the restaurant lobby gave the government some pause, since key to Boughen's solution was both increasing the PST by 1% and extending it to now-exempt restaurant and fast food meals. Inevitably, the anti-tax lobby and the conservative business lobby have been very active in denouncing this aspect of the Boughen Report.

Reaction among educators has not been enthusiastic since the report fails to propose a workable and progressive solution to financing public education that seriously addresses a shift in the burden away from local property taxes to the province's general revenues. Rather, the Commission cobbled together a report to deal with a rural political crisis while taking steps to attack local taxing powers and to continue the shift in the overall burden of property taxation for education funding from businesses to residences. The report also increases rather than decreases the cross-subsidization of rural education on the backs of urban property taxpayers.

The Rural Political Crisis

There is a rural tax revolt over funding education from property taxes. Urban taxpayers, with the notable and predictable exception of the conservative business lobby, have been largely willing to pay the taxes necessary to fund public education. Granted, urban taxpayers would like to see a shift in the burden for paying for education from the property tax base to the province. Property taxes are regressive and the province has the powers to use its more progressive tax system based on incomes, profits, and resource royalties and taxes to impose the burden more fairly. But rural Saskatchewan has been aflame with demands to remove education funding from property taxes altogether. In the past, the government has responded by providing some temporary rebate relief for the farm sector while providing no such relief for urban residents. Further, through lower provincial percentages of assessment, the taxable assessments for agricultural properties are much lower than they are for urban properties. For example, range land is taxed at 50% of value, while other agricultural land is taxed at 55% of value. Meanwhile, residential properties are taxed at 70% of value, most commercial properties at 100% of value, and railways, pipelines, and elevators are taxed at 75% of value. The fact is that many urban residents pay a higher property tax on their homes than many farmers pay on three or four sections of land.

Urban property taxpayers already cross-subsidize rural education in a variety of ways. The provincial government pays school divisions in Regina and Saskatoon a significantly lower per pupil grant than other school divisions. Additionally, rural boards get boosts from provincial funding to provide them more funding per student for technology and transportation. Further, historically, rural boards have obtained boosts in their shares of the provincial grant pool based on small schools and sparse populations on the grounds that urban school divisions face lower costs per student due to larger, more concentrated populations.

No one should quarrel with the need to subsidize rural education. But this subsidization should come clearly and transparently from provincial revenues in a way that does not jeopardize the fair sharing of the provincial grant pool. In the present situation, the provincial government massages the rules governing the distribution of the total pool of provincial revenues for K to 12 education in such a way that rural subsidies are disguised and occur by taking funds away from the pool available for all school divisions. This means that as the amount siphoned off from the general pool to rural school divisions increases, urban school divisions are compelled to offset this cross-subsidization by raising additional revenues from urban property taxpayers.

The Boughen Commission's proposal to decrease the burden on property taxes by raising the sales tax by 1% will in fact shift more of the costs for education from rural residents to residential property taxpayers in the cities. We will all pay this 1% tax increase—an even more regressive tax than the property tax (see Appendix I)—but the primary benefits will accrue to rural residents, most notably to farmers. Why? Because the report links this to commercial and grants-in-lieu provincial pooling.

Commercial and Grants-in-lieu Pooling

The Boughen Report proposes to take the power to tax business properties of all kinds away from local boards of education and to impose a provincial mill rate set and collected by the provincial government. The grants-in-lieu received by local boards for crown and government properties in their jurisdictions will also be taken over by the province. All such funds would be pooled and divided up fairly among all boards of education. In 2003, for example, it was estimated that the Regina Public School Board would collect $29 million in taxes from businesses and grants-in-lieu properties (11.6% of the province's total of $250 million). The Regina Public School Board will lose this money to the provincial pool and then get a "fair share" back. Given the need to fund poorer school divisions and rural education, it is extremely unlikely that the Regina Public School Board will receive the full amount collected previously. Thus Regina Public Schools will likely lose funds, perhaps some millions, to provincial pooling and at the end of the day face a revenue crunch. The same will undoubtedly be true for Saskatoon as well, and perhaps for all cities in the province.

To deal with this loss in revenues, these urban boards will have to turn exclusively to the residential property taxpayer, since the power to tax businesses will have been lost. Hence the province will be solving the rural political crisis over education funding on the backs of urban residential property owners. Urban residents will pay the provincial sales tax increase, urban school divisions will lose funding to commercial pooling, and to offset this loss urban school divisions will have to tax urban residential properties more heavily. The farmers will be happy, since there will be a dramatic fall in rural property taxes for education. The business community will be happy since it is unlikely that the provincial government will tax businesses aggressively and thus, over time, the share businesses pay to support local education will continue to decline relative to that taken from the residential property taxpayers as desperate urban school divisions are forced to turn to them as their sole source of revenue. At the end of the day, residential property owners in the cities will pay a lot more relative to their rural counterparts, or they will see their education systems face serious problems of underfunding.

Even if the provincial government initially ensures that urban school divisions get their "historic" shares of the commercial and grants-in-lieu pool, in the long run the burden for financing education will shift from commercial properties to residential property owners. Urban school divisions will be forced in future to rely exclusively on residential property taxes to offset any failure by a provincial government to provide adequate funding for K to 12 education. The provincial government will be under considerable pressure from the powerful provincial business lobby to keep the provincial education mill rate on commercial properties as low as possible for competitive reasons. Further, the provincial government will increasingly view the provincial mill rate for education funding as another economic development tool and may make decisions based on the province's economic development plans rather than on the basis of school divisions' revenue requirements for K to 12 education. In the present situation, local school divisions impose a uniform mill rate on residential and commercial properties, i.e., if the tax on a home goes up 5%, it also goes up 5% on all commercial properties. Inevitably, over time, the relative burden for funding education through property taxes would shift from commercial to residential, a pattern that has already accelerated due to cuts in local business taxes.

The Problem of "Zero Grant" School Divisions

This is not the first time the provincial government has tried to move to commercial pooling, thus dramatically reducing local taxing powers. Back in 2001 the provincial government made a similar proposal which urban school divisions rejected out of hand since the provincial proposal would have, for example, lost the two Regina school divisions (Public and Catholic) $5.5 million a year. (The same order of magnitude of loss undoubtedly would have affected Saskatoon, and perhaps the smaller cities as well.) The rationale provided by the provincial government had to do with the problem of "negative grant" or "zero grant" school divisions. Such school divisions have such a large tax base—due to things like pipelines, railways, mines, oil wells, etc.—that they are able to impose very low mill rates and are so "rich" that they receive no funds from the provincial K to 12 pool. Given the large tax base, and often very small school populations, this leads to an unfair situation since the commercial properties in such divisions pay very low taxes compared to similar commercial properties in other school divisions. Hence, such commercial properties are not paying a "fair share" of the provincial costs of education, nor indeed are the local agricultural and residential property taxpayers in such divisions who benefit from comparatively low taxes. In 2003 there were eighteen "zero grant" school divisions. The provincial government argued in 2001 that provincial commercial pooling was the best way to rectify the situation, imposing a uniform mill rate on all categories of commercial properties across the province. At the time, representatives of urban school divisions argued that a more sensible approach was to target the "zero grant" divisions by imposing an additional provincial mill rate to bring the tax burden up to the provincial average and to apportion these additional funds through the provincial grant formula. In other words, the argument was made that the government should deal with the specific issue of "zero grant" divisions in a separate and targeted manner, rather than taking the power to tax commercial properties away from all school divisions, particularly given the evidence that such pooling would result in huge losses in the tax revenues available to urban school divisions.

At the time, the provincial government backed off. But given this background, it is perhaps not surprising that the provincial government's determination to proceed to impose commercial pooling has found its way into the Boughen Report. This is perhaps the most important part of the report's hidden agenda. Ken Horsman, former Associate Deputy Minister of Learning, served as chief staff officer of the Boughen Commission and, when in government, was an advocate of the commercial pooling proposal. The cynical among us may be forgiven if we assume that a rough draft of the Boughen Report might well have been in Horsman's back pocket from the outset.

There is one unanswered question that springs instantly to mind. If we are going to have commercial pooling, why not include everything, including farmland? In this way, the farmer could pay property tax on the home quarter to the local school division, and a commercial tax to the provincial pool on the land as a productive and commercial asset. Having been assigned the task to help deal with a rural political crisis, the Boughen Commission evaded this issue. It seems that agricultural activities for profit are not commercial in the fantasy world of the Commission.

An Attack on Local Taxing Powers

The Boughen Report also proposes not only to take away forever local school divisions' power to tax commercial properties, but also to limit any power to tax for a 3-year implementation period. In this way local divisions will be restricted in their use of diminished taxing powers (now on residential properties only) to make up for any losses resulting from commercial pooling. This would be temporary—i.e., it would not be a permanent loss. But the effect would be serious in the short and medium term. For example, if Regina's school divisions lost the $5.5 million that would have resulted from the province's 2001 pooling proposal, they could not offset this loss by turning to the local residential property taxpayer. Even if local residential property taxpayers were willing and eager to offset those losses in order to sustain education excellence, the divisions' hands would be tied. Thus any lost revenue could only be made up, during this 3-year period of restricted taxing powers, by program and staff cuts and/or school closures.

This is another element of the Boughen Report's hidden agenda—an attack on the local taxing power of school divisions. Most provinces have already taken away taxing powers from local school divisions. This provincial government, through the Boughen Report, appears to be on track to do the same thing in a sneaky fashion, piece by piece (commercial taxing power gone forever, residential taxing powers restricted for 3 years), and by the back door.

Locally elected school boards must continue to have access to residential and commercial property taxing powers in order to give local communities real power as an actor in the education system. With this taxing power, democratically elected local school boards, with the support of their communities, are able to raise additional revenues to enhance and to enrich the education of their children. Further, when a provincial government refuses to fund education adequately, as was the case during the Devine and Romanow regimes, local boards, with the support of their communities, are able to "back-fill" provincial under funding, as in the case of the Devine years, or outright cuts in funding, as in the case of the first 3 years of the Romanow government. Local property taxes, however, should not be the major source of K to 12 funding, as is the case now (see Appendix II). Rather, local school boards, through locally imposed property taxes on residences and businesses, should contribute a fair share, say 25 to 35%, with the balance coming from the general revenues of the province and raised through the imposition of progressive taxes on incomes, profits, and resources on the entire province. Stripping local boards of taxing powers would transform them into the administrative agents of the provincial government of the day with the duty to enhance or to cut local education programs in accordance with the budget allotted by the provincial government.

The Boughen Report has no redeeming features and deserves to be shelved permanently. Its implementation would be disastrous for publicly funded K to 12 education, particularly in the urban centres.

Appendix I: __Property versus sales taxes__

Property taxes, when fairly based on property values, are only marginally progressive because higher value properties pay higher taxes. Nevertheless, when the costs of property taxes are computed as a proportion of income, lower income homeowners pay a much higher share of their incomes on property taxes than higher income homeowners. The same is true for commercial properties. One possible solution is to give school boards the power to impose variable rather than uniform mill rates and to exempt certain categories of homeowners and small businesses (e.g., senior citizens, those in poverty, small home-based businesses, small businesses under a certain value of annual activity, etc.).

Sales taxes, indeed all consumption taxes except those on luxury goods, are among the most regressive forms of taxation, even when certain things are exempted to protect the poor, as in the case of Saskatchewan's PST. Low-income people typically spend their entire incomes on consumption activities and the exemption of certain items from such a tax (e.g., groceries, children's clothing, etc.) only provides marginal relief. Low-income people inevitably bear a heavier burden of sales taxation when measured as a proportion of total income captured by the consumption tax than those in higher income categories.

In short, both forms of taxation are regressive, but consumption taxes are significantly more regressive. As regressive taxes, neither should be relied upon as a significant means to raise the province's general revenues for public services when there are more progressive and equitable tax tools at the province's disposal.

Appendix II: Basic facts about funding K to 12 education in Saskatchewan

Expenditures per student

	1999-2000	2000-2001
Sask	$ 5865	$ 6051
Man	6269	n/a
Alta	6217	6495
BC	6673	6864
Ont	6552	6290

2003 Provincial and Local Government Expenditures on K to 12 Education

	Per capita	%GDP	Prov only	Prov %GDP
Sask	$1191	3.5%	$ 587	1.7%
Can	1141	3.1	904	2.5
Man	1231	3.9	839	2.6
Alta	1288	2.7	1219	2.5
BC	1084	3.3	1077	3.3
Ont	1170	3.0	745	1.9
Nfld	1217	4.0	1240	4.1

Funding Shares—K to 12 Education, 2002

	Local property tax	Prov Govt Revenues
Sask	58%	42%
Man	34.9	60.6 (73.7)
Alta	36	64
BC	28	72
Ont	38.8	61.2
NS	16.9	83.1

Note: Only Saskatchewan, Manitoba, Quebec, and Nova Scotia still have a locally levied property tax for education. British Columbia, Alberta, and Ontario have a provincially levied property tax for education funding pooling. New Brunswick, Prince Edward Island, and Newfoundland directly raise no education funding from property taxes. Manitoba has a mixed situation, both a locally and a provincially levied property tax are imposed to raise education funding.

Source: Commission on Financing Kindergarten to Grade 12 Education, Interim Report, Saskatchewan, October 2003.

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